



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #135

Overview of Tribal Gaming Appropriations and General Fund Revenue (DOA -- Division of Gaming)

[LFB 2009-11 Budget Summary: Page 58, #1]

Tribal payments to the state, required under the state-tribal gaming compacts, fund programs in various state agencies and provide revenue to the general fund. The appropriations of tribal gaming revenue to state agencies are approved in each biennial budget process. General fund revenue from tribal gaming is identified in the state's general fund condition statement and must be estimated in each fiscal year based on projected tribal payments to the state and the amounts appropriated to state agencies. This paper examines the general fund revenue projections for 2009-10 and 2010-11 under the bill and provides an overview of the appropriations of tribal gaming revenue to state agencies under 2009 Assembly Bill 75 (AB 75). A reestimate of general fund revenue in 2009-10 and 2010-11 is also provided.

Indian gaming receipts are statutorily defined as moneys received by the state from any of the following: (a) tribal reimbursement for state costs of regulation of Indian gaming under Indian gaming compacts; (b) payments by Indian gaming vendors and persons proposing to be Indian gaming vendors as reimbursement for state costs of certification and background investigations; (c) tribal reimbursement for state costs of gaming services and assistance provided by the state at the request of a tribe; and (d) other tribal payments pursuant to an Indian gaming compact.

The first draw on Indian gaming receipts is to the following appropriations: (a) a Department of Administration (DOA) Indian gaming receipts appropriation in the amount necessary to make all of the transfers specified under the appropriation to other state programs (in 2008-09 these transfers total \$27,063,200 PR); (b) a DOA general program operations appropriation relating to Indian gaming regulation under the compacts (\$1,942,800 PR); and (c) a Department of Justice (DOJ) Indian gaming law enforcement appropriation (\$131,600 PR).

ASSEMBLY BILL 75

Assembly Bill 75 would appropriate \$27,900,200 in 2009-10 and \$27,874,900 in 2010-11 in tribal gaming revenue paid to the state under the tribal gaming compacts. The appropriations include: (a) allocations totaling \$25,871,000 in 2009-10 and \$25,845,700 in 2010-11 to various state agencies for programs unrelated to tribal gaming regulation or law enforcement; and (b) appropriations for the regulation of tribal gaming in DOA (\$1,884,700 annually), and tribal gaming law enforcement in the Department of Justice (DOJ) (\$144,500 annually).

Under the bill, tribal gaming revenues paid to the state in the 2009-11 biennium are projected to total \$54,671,300 in 2009-10 and \$59,306,100 in 2010-11. Table 1 shows the estimated 2009-11 tribal payments, tribal gaming appropriations, and the amounts deposited in the general fund.

TABLE 1
2009-11 Tribal Gaming General Fund Revenue
AB 75

	<u>2009-10</u>	<u>2010-11</u>
Estimated Tribal Payments in 2009-11	\$54,671,300	\$59,306,100
Tribal Gaming Appropriations under AB 75	<u>27,900,200</u>	<u>27,874,900</u>
General Fund Revenue under AB 75	\$26,771,100	\$31,431,200

TRIBAL REVENUES

Tribal revenues paid to the state are based on provisions in the amended state-tribal gaming compacts. Under the amended compacts, tribes are scheduled to make payments to the state based on a percentage of net casino revenue, or "net win" (gross revenue minus winnings). The percentages used to calculate state payments vary by tribe and, in some cases, vary by year for the same tribe.

Under recent amendments for the Ho-Chunk (September, 2008) and Lac du Flambeau (April, 2009), certain lump-sum payments were scheduled. The Ho-Chunk made a \$60.0 million payment following the signing of its 2008 compact amendment and the Lac du Flambeau made a payment of \$2,952,000 following the signing of its 2009 compact amendment. The Lac du Flambeau will also make another lump-sum payment of \$738,000 before June 30, 2009, and another \$738,000 payment prior to July 30, 2009. Future annual payments from these tribes will be based on a percentage of net win.

Under the amended compacts, some tribal payments are due to the state at various times through the state fiscal year, but most of the payments are due by June 30th, of each year. Tribal fiscal years generally vary from the state's fiscal year (July 1, to June 30). A tribe's payment to the

state in a given state fiscal year is calculated as a percent of net win for that tribe's most recent fiscal year ending prior to the due date for the state payment.

Annual net casino revenues have generally increased each year since tribal casino operations began in 1992. Based on data from the Legislative Audit Bureau (LAB), the annual net revenue for the last eight years for which data is available is shown in Table 2.

TABLE 2
Tribal Casino Net Gaming Revenue - 2001-2008
(In Millions)

<u>Year</u>	<u>Net Revenue</u>	<u>Percent Change</u>
2001	\$902.0	
2002	970.4	7.6%
2003	993.6	2.4
2004	1,117.9	12.5
2005	1,150.6	2.9
2006	1,182.6	2.8
2007	1,199.3	1.4
2008	1,203.8	0.4

Tribal casino revenue growth has been slowing in recent years and the 2008 economic downturn is not fully reflected in these overall statistics. While total net revenue increased by 0.4% between 2007 and 2008, a majority of the 11 tribes actually experienced a decline in casino revenue in 2008. Net revenue for 2009 will indicate the real effect of the recession for casino revenues.

The DOA projections for state payments in 2009-10 and 2010-11, are based on projected net win in tribal fiscal years ending in 2009 and 2010. The administration's approach to revenue projections was based on the most recent four years of data available (2004-05 to 2007-08). A weighted average of annual changes in revenue was calculated for each tribe, weighing the change between the most recent two years more heavily. This weighted factor was then used to project future net revenue. This method projected overall increases in net tribal casino revenues of approximately 3% a year. While this approach may be reasonable under normal conditions, the severity of the current economic situation requires a reassessment of tribal gaming revenues.

Press accounts have widely reported declines in casino gaming nationally, affecting both tribal and non-tribal gambling operations. A recent report from Arizona indicates that state payments from its tribal casino operations declined by 9.4% in the quarter ending March 31, 2009, as compared to the same quarter in 2008. Arizona has a scaled payment system that may exacerbate the effect on state payments when casino revenue declines. Therefore, the same magnitude of effect may not occur in Wisconsin. However, it does appear to be possible that Wisconsin casino revenue will also decline for the tribes' current fiscal years, resulting in lower state payments.

One local indicator of this trend may be the Wisconsin lottery. Lottery sales in 2007-08 totaled \$494.7 million. It appears that 2008-09 sales, barring a large Powerball jackpot generating a spike in sales, may come in at about \$471.2 million, a 4.8% decline from 2007-08 sales. Lottery sales typically vary from year-to-year and the lottery's market is different than a casino's. However, the decline in lottery sales may reflect, in part, the effects of the recession on gambling behavior.

While casino revenues in 2009 and, therefore, tribal payments to the state in 2009-10 would be expected to decline, economic indicators for the following year are somewhat more encouraging. According to some recent estimates, real gross domestic product and personal income is projected to again show positive growth in 2010 and 2011.

Based on these trends, the following estimates assume an overall decrease in casino revenues of 4.8% in 2009 (which provides the basis for payments to the state in 2009-10) and a 3% increase in casino revenue in 2010 (which provides the basis for payments to the state in 2010-11). With these assumptions for tribal casino revenues, state payments would be projected at approximately \$46.7 million in 2009-10 and \$50.0 million in 2010-11.

General fund revenues for the 2009-11 biennium are reestimated on the basis of these revised state payment projections. In addition, an adjustment is required to reflect certain miscellaneous revenue relating to tribal gaming, the estimated return of unspent tribal gaming revenue allocated to state agencies in the prior fiscal year, and certain health care and other reserves. Reestimated general fund revenue is projected at \$19,493,400 in 2009-10 and \$22,813,800 in 2010-11. These reestimates are \$7.3 million in 2009-10 and \$8.6 million in 2010-11 lower than the estimates under the bill. The reestimated amounts are summarized in Table 3.

TABLE 3

**2009-11 Tribal Gaming General Fund Revenue
Reestimate**

	<u>2009-10</u>	<u>2010-11</u>
Reestimated Tribal Payments	\$46,704,800	\$50,030,600
Appropriations of Tribal Revenue	\$27,900,200	\$27,874,900
Revenue and Expense Adjustments	\$688,800	\$658,100
Reestimated General Fund Revenue*	\$19,493,400	\$22,813,800
General Fund Revenue under AB 75	\$26,771,100	\$31,431,200
Change to Bill	-\$7,277,700	-\$8,617,400

*Reestimated general fund revenue = reestimated payments - appropriations + adjustments.

Under the bill, the Governor recommends the appropriation of tribal gaming revenue to 17 state agencies, in 44 program areas, including the DOA regulation and DOJ enforcement

appropriations. Each of these program areas is listed and briefly described in the attached table.

Of these 44 programs areas, 42 appropriation accounts are authorized under current law. The two new appropriations from tribal gaming revenue include an allocation to the Department of Public Instruction (Item #29 in the table, at \$247,500 annually) for tribal language revitalization grants, and the Department of Transportation (Item #34, at \$247,500 annually) for elderly transportation grants. Four program areas identified in the table [Items # 30, 31, 35, and 40] are not appropriated funding in the 2009-11 biennium, but are existing appropriation accounts under current law that can only be funded with tribal gaming revenue.

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Attachment

ATTACHMENT

2009-11 Tribal Gaming Revenue Appropriations Governor

<u>Agency</u>	<u>Program Revenue</u>		<u>Purpose</u>
	<u>2009-10</u>	<u>2010-11</u>	
1 Administration	\$594,000	\$594,000	County management assistance grant program.
2 Administration	247,500	247,500	UW-Green Bay and Oneida Tribe programs.
3 Arts Board	24,900	24,900	State aid for American Indian arts.
4. Children and Families	495,000	495,000	Indian child high-cost out-of-home care placements.
5 Commerce	110,100	110,100	American Indian economic liaison and gaming grants specialist and program marketing.
6 Commerce	93,100	93,100	American Indian economic development technical assistance grants.
7 Commerce	1,191,800	1,191,800	Gaming economic development and diversification grants and loans.
8 Health Services	495,000	495,000	Elderly nutrition; home-delivered and congregate meals.
9 Health Services	118,800	118,800	American Indian health projects.
10 Health Services	268,900	268,900	Indian aids for social and mental hygiene services.
11 Health Services	495,000	495,000	Indian substance abuse prevention education.
12 Health Services	1,059,300	1,059,300	Medical assistance matching funds for tribal outreach positions and federally qualified health centers (FQHC).
13 Health Services	792,000	792,000	Health services: tribal medical relief block grants.
14 Health Services	148,500	148,500	Minority health program and public information campaign grants.
15 Higher Education Aids Board	779,700	779,700	Indian student assistance grant program for American Indian undergraduate or graduate students.
16 Higher Education Aids Board	428,300	437,000	Wisconsin Higher Education Grant (WHEG) program for tribal college students.
17 Historical Society	259,300	259,300	Northern Great Lakes Center operations funding.
18 Historical Society	248,800	213,900	Collection preservation storage facility.
19 Justice	701,300	701,300	County-tribal law enforcement programs: local assistance.

<u>Agency</u>	<u>Program Revenue</u>		<u>Purpose</u>
	<u>2009-10</u>	<u>2010-11</u>	
20 Justice	\$94,400	\$94,400	County-tribal law enforcement programs: state operations.
21 Justice	544,500	544,500	County law enforcement grant program.
22 Justice	772,200	772,200	Tribal law enforcement grant program.
23 Natural Resources	3,000,000	3,000,000	Transfer to the fish and wildlife account of the conservation fund.
24 Natural Resources	104,800	104,800	Management of an elk reintroduction program.
25 Natural Resources	170,900	170,900	Management of state fishery resources in off-reservation areas where tribes have treaty-based rights to fish.
26 Natural Resources	99,000	99,000	Payment to the Lac du Flambeau Band relating to certain fishing and sports licenses.
27 Natural Resources	1,276,300	1,276,300	State snowmobile enforcement program, safety training and fatality reporting.
28 Natural Resources	64,900	64,900	Reintroduction of whooping cranes.
29 Public Instruction	247,500	247,500	Tribal language revitalization grants.
30 Shared Revenue	0	0	Farmland tax relief credit payments by tribes with casinos associated with certain pari-mutuel racetracks. (No allocations are made in the 2009-11 biennium.)
31 Tourism	0	0	Limited-term employees to operate or staff Wisconsin travel information centers. (No allocations are made in the 2009-11 biennium.)
32 Tourism	8,683,400	8,683,400	General tourism marketing, including grants to nonprofit tourism promotion organizations and specific earmarks.
33 Tourism	32,000	32,000	Law enforcement services at the Kickapoo Valley Reserve.
34 Transportation	247,500	247,500	Elderly transportation grants.
35 University of Wisconsin System	0	0	Ashland full-scale aquaculture demonstration facility debt service payments. (No allocations are made in the 2009-11 biennium.)
36 University of Wisconsin System	404,500	404,500	Ashland full-scale aquaculture demonstration facility operational costs.
37 University of Wisconsin System	483,800	483,800	Physician and health care provider loan assistance.
38 Veterans Affairs	67,400	67,400	Grants to assist American Indians in obtaining federal and state veterans benefits.

<u>Agency</u>	<u>Program Revenue</u>		<u>Purpose</u>
	<u>2009-10</u>	<u>2010-11</u>	
39 Veterans Affairs	86,100	87,000	American Indian services veterans benefits coordinator position.
40 Veterans Affairs	\$0	\$0	Operation of Wisconsin Veterans Museum. (No allocations are made in the 2009-11 biennium.)
41 Wisconsin Technical College System Board	594,000	594,000	Grants for work-based learning programs.
42 Workforce Development	<u>346,500</u>	<u>346,500</u>	Vocational rehabilitation services for Native American individuals and American Indian tribes or bands.
Subtotal (Non-Regulatory Items)	\$25,871,000	\$25,845,700	
43 Administration	\$1,884,700	\$1,884,700	General program operations for Indian gaming regulation under the compacts.
44 Justice	<u>144,500</u>	<u>144,500</u>	Investigative services for Indian gaming law enforcement.
Subtotal (Regulation/Enforcement)	\$2,029,200	\$2,029,200	
Total Appropriations	\$27,900,200	\$27,874,900	