

Assembly Appropriations Committee Amendments

AB 2863 June 15, 2016

The Committee suggests a number of substantive amendments to ensure that the state as a whole benefits from Internet poker and that the market is competitive and fair. Specifically, the Committee recommends amendments to:

- a) **Ensure that the General Fund receives funds in all years.** The current version of AB 2863 requires the first \$60 million in tax revenue collected on gross gaming revenues and license deposits from operators be allocated to the California Horse Racing Board (\$57 million) and the Fair and Exposition Fund (\$3 million). Collected revenue in excess of this \$60 million will be left in the General Fund.

The current structure does not guarantee that Internet poker will benefit the state's General Fund. With a 15% tax rate, annual gross gaming revenues would need to be in excess of \$400 million annually for the General Fund to receive any revenue. Industry projections suggest this threshold will be met, but some contend that legalized online poker has often underperformed projections, especially in initial years of operation. Therefore, the Committee recommends an amendment that keeps 10% of tax revenue from gross gaming revenues in the General Fund, no matter what annual gross gaming revenues are in any given year. The remaining 90% will go to horseracing and fairs until the previously discussed \$60 million is reached. After that, all revenue will go to the General Fund, similar to the provisions in the current version of the bill.

- b) **Allow some of the license deposit to be offset by reduced taxes on gaming revenues.** AB 2863, prior to the June 9, 2016 amendments, included a provision that the license deposit could be offset by reduced taxes on gross gaming revenues. That provision has since been removed. Opponents to the current version of the bill argue that this upfront deposit is prohibitive. The Committee recommends that half of the \$12.5 million deposit (\$6.25 million) be offset by reduced taxes on gaming revenues. This would ensure that more operators are given the opportunity to participate in the market while still providing an upfront infusion of revenue as a result of new applicants joining the market.

Modify suitability requirements and the use of prior assets. The Committee recommends two amendments to address ongoing concerns around suitability and unfair competition from those operating in the online gambling market between 2006 and 2011. Specifically, the Committee recommends:

- I. **A requirement that regulators impose limitations on the use of accrued assets.** The Committee recommends that the CGCC impose limitations and conditions on how assets, such as customer lists, databases, or any other assets deemed to provide the applicant an unfair competitive advantage, are utilized. This requirement applies to any applicant that accepted wages from online gambling without an appropriate license prior to the enactment of the bill. Specific limitations would be left up to the CGCC to develop.

II. **Delay when some service providers can be provided a license.** The Committee recommends that service providers that operated in the period between January 1, 2006 and December 31, 2011 not be provided a license until January 1, 2021. This does not preclude the applicants from starting the process of applying prior to this date. Alternatively, such applicants could pay a one-time fee of \$20 million, to be deposited into the General Fund, to obtain a license before January 1, 2021.