



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Councilmember Bien Doan
Councilmember Pamela Campos
Councilmember George Casey

SUBJECT: See Below

DATE: June 6, 2025

Approved

Date:

SUBJECT: Revision of the Police Department's Card Room Regulatory Fee and Alignment of Title 16 with State Gaming Regulations

RECOMMENDATION

1. Instruct the City Manager to work with the casinos and the Police Department to return in Fall 2025 with recommended amendments to Title 16 that remove municipal regulations already addressed by the California Gambling Control Commission and the State Attorney General's Office, while retaining:
 - a. The City Manager's authority to issue registrations and regulations;
 - b. Existing limits on the number of gaming tables; and
 - c. Provisions enabling enforcement against illegal gaming.
2. Reduce 2.0 non-sworn positions in the division of gaming and coincide this with an equal reduction in Card Room Regulatory Fees charged to the casinos on an ongoing basis.
 - a. Transfer the positions to other departments if possible.
3. Convene Bay 101 and Casino M8trix and for stakeholder engagement and to allocate a portion of the Card Room Regulatory Fee, as described above, (not to exceed 15 percent) dedicated to:
 - a. Targeted enforcement against unlicensed gaming;
 - b. Community education and treatment for gambling disorder, with emphasis on disproportionately impacted minority communities.

BACKGROUND

The City of San José has a long history with its two local cardrooms. Bay101 (originally known as Sutter's) has been open since 1929, and Casino M8trix (founded as the Garden City Casino) has been operating since 1946. In the 2025-2026 City of San Jose Proposed Operating Budget, the two cardrooms would deliver \$30 million to the General Fund- the single largest category of business tax revenue generation for the City of San José. Without the two cardrooms, the City would be financially strained to deliver upon our stated goal of addressing homelessness, housing affordability, repaving streets, and more.

Measure H & Business Fairness

During the November 2020 election, nearly 73% of San José voters approved of Measure H. The ballot measure increased cardroom taxes by 1.5% and enacted a new tax on the gross revenues of Third-Party Proposition Player Services in exchange for 30 new gaming tables citywide. It is estimated that the Third-Party taxes alone will bring in \$8 million annually in new monies that the City has not realized in decades past, while the 1.5% increase in the cardroom taxes will bring an estimated \$2 million annually to the City.

While San José voters overwhelmingly passed Measure H, the California Gambling Control Commission ruled in 2021 that Measure H was not compliant with state law and rejected the expansion of gaming tables. Despite losing the gaming tables, which is one of the central pillars of the ballot measure, the City enacted Measure H taxes nonetheless. The City's cardrooms are stuck paying more taxes without the tables approved by the voters and the corresponding revenue increase.

The cardroom businesses and their operators agreed to higher and new taxes in exchange for gaming tables that never materialized. When businesses make new investments in the City of San José, which has a chronic job to housing imbalance, it is essential we act fairly and strike a balance between being pro-business and securing money to fund critical city services.

It is not our recommendation to suspend Measure H, which the City Council has the power to do per the City Attorney's Impartial Analysis of Measure H: "If approved, the cardroom tax rate increase and the new tax on [Third Party Proposition Player Services] would be effective on January 1, 2021 and would continue until repealed by the voters or suspended in whole or in part by the City Council."

It would not be financially responsible to deplete the General Fund during projected deficits. Instead, we propose to eliminate duplicative regulations between the City and the State and take one step towards fixing this unfair circumstance. We are not ready to trade vital city services that we are obligated to provide our citizens to benefit business, but fairness must be an underlying principle in all policy enacted here at City Hall. To that end we must look to other sources that accomplish fairness without reducing essential services.

Cardroom Regulations

For the 2025-2026 Fiscal Year, the Cardroom Regulation Fee is proposed to be \$1,012,184 per cardroom per year. The Fee funds civilian staff services related to the administration of Gaming Control, which issues regulations (Title 16.06.040) related to:

1. Fingerprints, photographs, releases for criminal arrest, conviction, and releases for financial/credit/business/employment history related to the scope of information required for licensing and permitting;
2. Audits and reviews of cardroom operations;
3. Investigations related to work permit cases involving granting, renewal, suspension, revocation, etc.
4. Minimum security and surveillance controls;
5. Financial and Compliance audits and reporting; and more.

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Overall, the purpose of Title 16 of the San José Municipal Code is to have civilian staff monitor gaming activity at cardrooms. The Division of Gaming Control does not enforce actions on illegal gaming and does not conduct criminal investigations of illicit activities. The Division is duplicating the state regulatory framework. No other city in the State has a similar regulatory structure or burdensome fee.

The City Council has consistently reviewed "cleaning up" and removing unnecessary, duplicative regulations to be more aligned with the state. The policy recommendations in this Memorandum would be consistent with past City Council directions to align more with state regulations and eliminate redundant and burdensome regulations on businesses.

Finally, we propose that staff coordinate with cardroom businesses to create a mutually agreed upon and appropriate fee not to exceed 15% of the current Cardroom Regulation Fee charged. Such an agreement would establish a fund that would take enforcement actions against illegal gaming to educate minority communities on the negative social ills of problem gaming. While this work is underway, staff should also evaluate the effectiveness of funding allocated to non-profit organizations working to address problem gaming and whether the funds could have a greater impact elsewhere.

The proposed \$800,000 annual assessment maintains sufficient staffing for local coordination and public safety oversight while acknowledging the State's primary regulatory role. Aligning City regulations with State law eliminates unnecessary costs, focuses local resources on illicit gaming enforcement, and advances Council's ongoing effort to streamline business regulation.

In conclusion, updating the Card Room Regulatory Fee and modernizing Title 16 will:

- Sustain a reliable revenue source for essential City services;
- Reduce duplicative bureaucracy;
- Continue enforcement against illegal gaming; and
- Demonstrate San José's commitment to a fair, business friendly regulatory environment.

The signers of this memorandum have not had, and will not have, any private conversation with any other member of the City Council, or that member's staff, concerning any action discussed in the memorandum; and each signer's staff members have not had, and have been instructed not to have, any such conversation with any other member of the City Council or that member's staff.