CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Paul Joseph
Jim Shannon

SUBJECT: **Cardroom Regulation Fee**

DATE: July 28, 2025

Approved

Date: 8/6/2025

COUNCIL DISTRICT: Citywide

RECOMMENDATION

(a) Adopt a resolution amending the 2025-2026 Schedule of Fees and Charges (Resolution No. 72737, as amended) to reduce the annual Cardroom Regulation Fee to $857,216 per Cardroom per year.

(b) Approve the elimination of the following positions in the Police Department, effective August 31, 2025:
    (1) Delete 1.0 Senior Auditor; and
    (2) Delete 1.0 Staff Specialist.

SUMMARY AND OUTCOME

Approval of these recommendations will reduce the current annual Cardroom Regulation Fee from $1,077,536 to $857,216 per Cardroom per year and delete two civilian positions in the Police Department's Division of Gaming Control. These actions align with previous direction by the City Council to streamline Title 16 of the San José Municipal Code regarding cardroom regulations. Actions to amend Title 16 are anticipated to be brought forward in fall 2025 and the corresponding General Fund revenue and expenditure adjustments will be included in the 2024-2025 Annual Report scheduled for City Council consideration on October 21, 2025.

BACKGROUND

Along with the approval of the 2025-2026 Proposed Fees and Charges Report as part of Item 3.9 at its meeting on June 10, 2025, the City Council also approved a memorandum from Councilmembers Doan, Campos, and Casey directing the Administration to return to the City Council in fall 2025 with recommended amendments to Title 16 of the San José Municipal Code that remove municipal regulations already

addressed by the California Gambling Control Commission and the State Attorney General's Office, while retaining the City Manager's authority to issue registrations and regulations, existing limits on the number of gaming tables, and provisions enabling enforcement against illegal gaming; return to the City Council in summer 2025 to reduce the Police Department's Gaming Division by 2.0 non-sworn positions offset by a reduction in regulatory fees; and to coordinate with Bay 101 and Casino M8trix and return to the City Council at a later date to allow for a payment from the cardrooms to support targeted enforcement against unlicensed gaming, and community education and treatment of gambling disorder, with an emphasis on disproportionately impacted minority communities.

This memorandum addresses the elimination of two non-sworn positions offset by a reduction in regulatory fees; fulfillment of the remaining direction will be addressed in fall 2025.

ANALYSIS

The Cardroom Regulatory Fee Program supports 6.0 positions in the Police Department and 0.16 positions in the City Attorney's Office. These staff implement the regulation of the City's cardrooms to carefully monitor and maintain public confidence in the integrity of cardroom operations and nonprofit gaming fundraisers by providing comprehensive oversight through licensing, permitting, inspections, audits, and enforcement actions, including the authority to impose penalties, suspend or revoke licenses, and ensure ongoing compliance with all applicable laws and regulations. This regulatory oversight is a 100% cost-recovery program supported by the fees paid by the City's two cardrooms, the largest of which is the Cardroom Regulation Fee currently set at $1,077,536 per cardroom.

Though a comprehensive review of Title 16 regulations by the Police Department and the City Attorney's Office is ongoing, an initial assessment of the regulatory streamlining directed by the City Council will allow for the reduction in the scope and scale of auditing functions and the corresponding administrative support and documentation and processing functions.

The Police Department is focusing on reducing services associated with regulatory provisions that are duplicative of state law with no added value, outdated, or unnecessary. The Police Department is also reviewing regulations that impose a disproportionate administrative burden for monitoring and enforcement; in these cases, the cost and effort required to administer the rule may outweigh its public benefit.

Examples under review include certain requirements related to observed patron monitoring, betting limitations, certain stimulation of play provisions, and others. These rules were originally created to serve the public's best interest, but can potentially be simplified without reducing the City's essential oversight.

As a result, reducing regulatory requirements will lead to a corresponding reduction in the services and administrative support associated with their implementation. The Police Department recommends the deletion of the two positions below from the Gaming Division.

- **Senior Auditor.**
  This position, which will be vacant by August 31 following the completion of the hiring/recruitment of the Supervising Auditor position, is primarily responsible for performing advanced financial and compliance audits of cardroom operations and is expected to no longer be needed after accounting for likely duplicative oversight conducted by the state. The remaining auditing staff of 1.0 Supervising Auditor and 2.0 Senior Auditor positions will continue to carry out regulatory oversight pending changes to Title 16.

- **Staff Specialist.**
  This position, which will be vacant by August 31 following the redeployment of the staff within the department, provides administrative support to the Gaming Division, including processing license renewals, maintaining cardroom employee records, updating internal databases, entering revenue data, compiling audit summaries, and performing general housekeeping tasks. With the anticipated reduction in regulatory scope due to pending Title 16 revisions, this workload is expected to decline and be absorbed amongst the remaining auditing staff.

Elimination of these positions will result in a reduction to the Cardroom Regulation Fee of $220,320 per cardroom.

EVALUATION AND FOLLOW-UP

In coordination with the City Attorney's Office, the Police Department will continue its focused review of Title 16. The objective is to prioritize regulatory provisions that remain essential to the City's oversight responsibilities while removing provisions that have become redundant or ineffective. The recommendations for amendment or repeal will be informed by both operational insight and consultation with stakeholders. The revised framework will align with the foundational goals of Title 16, which include maintaining public confidence in cardroom operations, protecting the health and safety of residents, and ensuring accurate tax reporting and revenue collection.

The Police Department anticipates returning to the City Council with revisions to Title 16 in fall 2025 subsequent to the State Gaming Commission's approval. Budget adjustments related to the fee modification will be included in the 2024-2025 Annual Report, scheduled for City Council review and approval on October 21, 2025.

COST SUMMARY/IMPLICATIONS

The recommended actions would reduce the Cardroom Regulation Fee for each cardroom by $220,320, from $1,077,536 to $857,216, for a total revenue reduction of $440,640.

Actions will be included in the 2024-2025 Annual Report to reduce the General Fund revenue estimate for Licenses and Permits by $440,640, and reduce the Police Department's Personal Services appropriation by $310,043 to account for the deletion of the two Police Department positions. The remaining revenue loss of $130,597 that corresponds to the overhead costs assigned to the two positions will be rebalanced as part of the other actions incorporated into the 2024-2025 Annual Report.

COORDINATION

This memorandum was coordinated with the City Attorney's Office.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the August 19, 2025 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/
PAUL JOSEPH
Chief of Police

JIM SHANNON
Budget Director

For questions, please contact Kirill Yermanov, Gaming Administrator, Division of Gaming Control, San José Police Department, at Kirill.yermanov@sanjoseca.gov or (408) 794-1474.