



Memorandum

TO: PUBLIC SAFETY, FINANCE AND
STRATEGIC SUPPORT COMMITTEE

FROM: Edgardo Garcia

SUBJECT: SEE BELOW

DATE: September 5, 2018

Approved

Date

9-10-18

**SUBJECT: CARDROOM COMPLIANCE WITH TITLE 16 OF THE SAN JOSÉ
MUNICIPAL CODE (GAMING CONTROL REGULATORY PROGRAM)
ANNUAL REPORT**

RECOMMENDATION

Accept the annual report on cardroom compliance with Title 16 of the San José Municipal Code.

BACKGROUND

Since the adoption of Title 16 of the San José Municipal Code on November 23, 1999, the Chief of Police has been required to prepare an annual report evaluating the impact of cardroom gambling on crime in the San José metropolitan area. The City Council amended Title 16 on April 7, 2009, providing the Chief of Police an opportunity report on regulatory issues pertaining to cardroom gambling in San José.

From 2009 through 2013, the Police Department's annual crime report focused on the impact of cardroom gambling on crime and was presented to the Public Safety, Finance and Strategic Support (PSFSS) Committee. In response to requests for additional information regarding cardroom operations and compliance with the Municipal Code, the Department in 2015 began to present an annual report to the Committee summarizing work permitting and licensing issues, compliance issues relating to each cardroom, and other regulatory matters surrounding the gaming operations in San José.

The first compliance report, presented to the PSFSS committee on February 5, 2015, covered fiscal periods 2012-2013 and 2013-2014. The compliance report is now presented at the same meeting as the annual crime report. This compliance report covers fiscal year 2017-2018.

ANALYSIS

The Regulatory Program (Title 16 of the Municipal Code)

The Division of Gaming Control is charged with providing comprehensive oversight of two large gambling establishments in the City of San José which together generate annual gaming revenue exceeding \$100 million. The City, in addition to the State of California, has established regulatory controls over these gambling operations to protect the public interest.

Regulation includes the following:

- Thorough vetting of cardroom stockowners, landowners, funding sources, key and gambling enterprise employees;
- On-going audits and financial reviews to assure that the cardrooms have sufficient cash on hand to satisfy their gaming chip float liabilities;
- Daily verification that cardroom revenues subject to the City's gross receipts taxes are properly recorded;
- Thorough investigation of any potential violation of Title 16 of the San José Municipal Code, the State Gambling Control Act and other gaming laws and regulations; and
- Taking action when a cardroom (including its owners, licensees, and/or work permittees) is involved in regulatory violations to ensure that public health, safety, and welfare are protected.

Work Permits

During Fiscal Year 2017-2018, the Division processed and issued 621 work permits, including new employees, renewals of existing permits, name changes, and job changes.

Additionally, the Division denied four work permits and allowed two work permit applicants to withdraw their applications in lieu of denial.

The Division used the Salesforce time-keeping system to ensure its compliance with the 20 working day timeline set forth in Title 16. During 2017-2018, all work permits were issued within the required timeline.

Licensing

During Fiscal Year 2017-2018, the Division issued the following 40 Licenses:

- The City issued 24 City Key Employee licenses to individuals who held a regular State portable license. Of these, 11 were issued to Casino M8trix and 13 to Bay 101.
- One City Temporary Key Employee license was issued to an individual who had a State Interim Key Employee License at Casino M8trix.

- Two City-designated Key Employee licenses were issued to those whom the State does not require a State Key Employee license. Both licenses were issued to Casino M8trix.
- Three gaming licenses were issued to the funding source owners of Blackstone, LLC. at Casino M8trix. A funding source (also known as a Third Party Provider of Propositional Player Services) operates within the cardroom, is required to be licensed, and acts as a banker (i.e., to take all losers and pay all winners) at the California-style games. Blackstone, LLC. is the funding source operating at Casino M8trix. Gaming Fund Group Inc. (and its financial source Game Source, LLC) is the funding source operating at Bay 101.
- Five background investigations on stockowner license applicants were completed. The Division issued three stockowner licenses to applicants at Casino M8trix, who received a stockowner interest percentage as a gift from parents, Pete and Jeanine Lunardi, who currently own 70% of Casino M8trix, and two licenses to spouses of current owners of Bay 101 Casino.
- One landowner background investigation was conducted for Bay 101 Casino's new location, and the Division issued five city-designated Landowner licenses to business entity SJ Bayshore Development and to four individuals.

The Division disallowed:

- Casino M8trix's General Counsel to act also as a Chief Operating Officer due to segregation of duties concerns.

Internal Control Documents Review and Approval

The Division reviewed and approved:

- Casino M8trix's corporate re-organization to include a new organizational chart, sub-charts, revised reporting lines, and 25 job compendiums.
- Bay 101 Casino's revised table game drop box removal procedures.

Compliance Review of Cardroom Operations

In 2017-2018, the Gaming Division was fully staffed on the civilian side and Division auditors met the Division's goals related to financial compliance reviews. The Chief of Police believes additional investigatory and compliance review work can be done on the sworn side and will be evaluating these needs as the Department rebuilds its staffing from recent shortages.

Other Regulatory Matters

None

HONORABLE MAYOR AND CITY COUNCIL

September 5, 2018

Subject: Cardroom Compliance with Title 16 of the San José Municipal Code Annual Report

Page 4

Non-Cardroom Location

None

CONCLUSION

Based on the above, Casino M8trix and Bay 101 are, in all material respects, in compliance with Title 16 of the San José Municipal Code and the regulations promulgated thereunder. The Chief of Police will continue to present to the Council a Cardroom Compliance with Title 16 of the San José Municipal Code Report to complement the Annual Crime Report.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office.

/s/

Edgardo Garcia
Chief of Police

EG:KY

For questions, please contact Kirill Yermanov, Interim Gaming Administrator, in the Division of Gaming Control at 408-794-1474.