



Memorandum

TO: PUBLIC SAFETY, FINANCE AND
STRATEGIC SUPPORT COMMITTEE

FROM: Edgardo Garcia

SUBJECT: SEE BELOW

DATE: September 9, 2020

Approved

Edgardo Garcia

Date

9-9-20

**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 (Gaming Regulatory Program) for 2019-2020.

BACKGROUND

Since the adoption of Title 16 of the San Jose Municipal Code (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 (“annual crime report”) in the San Jose metropolitan area. Title 16 was further amended on April 7, 2009 to provide the Chief of Police an opportunity to also report on regulatory issues pertaining to cardroom gambling in San Jose.

From 2009 through 2013, the 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. On April 10, 2014, in his annual crime report, the Chief of Police indicated that he had directed the Gaming Administrator to return to the PSFSS Committee with a separate report [“Cardroom Compliance with Title 16 of the San Jose Municipal Code Report” or “Compliance Report”] summarizing work permitting and licensing issues, compliance issues relating to each cardroom and other regulatory matters surrounding gaming operations in San Jose. The first compliance report covering the 2012-2013 and 2013-2014 Fiscal Years was presented to the PSFSS committee on February 5, 2015. This Compliance Report covers the 2019-2020 Fiscal Year.

ANALYSIS

The Regulatory Program (Title 16 of the Municipal Code)

The Division of Gaming Control is charged with the responsibilities of providing comprehensive oversight of two large gambling establishments in the City of San Jose. The City, in addition to the State, has established regulatory controls over these gambling operations to protect the public interest. Regulation include the following:

- Thorough vetting process of cardroom stock owners, 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 its gaming chip float liabilities;
- Daily verification of cardroom revenues that are subject to the City's gross receipts taxes are properly recorded;
- Thorough investigation of any potential violation of Title 16 of the San Jose 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 the 2019-2020 Fiscal Year, the Division processed and issued five hundred seventy-six (576) work permits, including new, renewal, name change, and job change work permits.

Additionally, the Division denied five (5) work permits and allowed one (1) work permit applicant to withdraw the application instead of being denied.

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

Licensing

During this reporting period, the Division issued a total of thirty-seven (37) Licenses and the breakdown is as follows:

- Twenty-two (22) City Key Employee licenses were issued to those individuals who had a regular State portable license. Of which, eight (8) were issued to Casino M8trix and fourteen (14) were issued to Bay 101 Casino.
- Two (2) City Temporary Key Employee licenses were issued to individuals who had a State Interim Key Employee License.

- One (1) City Temporary Key Employee License was issued.
- Four (4) City-designated Key Employee licenses were issued to those whom the State does not require a State Key Employee license.
- Four (4) Stock-owner Licenses were issued.
- Four (4) temporary gaming licenses were issued to the funding source owners and managers at Bay 101 Casino. A funding source is also known as “Third Party Provider of Propositional Player Services,” and it 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. PT Gaming, LLC is the funding source operating at Bay 101 Casino; and Blackstone, LLC is funding source operating at Casino M8trix.
- Casino M8trix’s General Counsel surrendered his Key Employee license.

Internal Control Documents Review and Approval

Casino M8trix:

- The Division reviewed and approved seven (7) of the permissible game modification requests. The Division approved poker tournament registration procedures. The Division reviewed a request for use of Non-Gaming Enterprise Employees working off the gaming floor as Parking Lot Attendants while applying for Security Officer work permits.

Bay 101 Casino:

- The Division reviewed and approved eight (8) of the permissible game modification requests.

Compliance and Financial Review of Cardroom Operations

Financial and operational reviews were conducted by the Division auditors and sworn personnel. During this fiscal year, the Division conducted several chip float liability audits at both cardrooms to ensure that each had sufficient cash on hand to cover their float liabilities. The Division did not discover any violations in these audits. The Division reviewed daily table fee collection accountability to ensure that both cardrooms were reporting their respective gaming revenue and related 15% tax to the City accurately. The Division did not discover any inaccuracies and/or violations.

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Other Regulatory Matters

Due to the impact of the Coronavirus (COVID-19) pandemic, both cardrooms ceased table games operations in mid-March for an indefinite period of time. On September 1, 2020, the San José City Council approved a resolution designating cardrooms as a permissible use for outdoor operations. Cardrooms will reopen indoor gaming operations once allowed by California Gambling Control Commission and Santa Clara County Health officials. In recognizing the unprecedented nature of the current emergency, the Division exercised administrative discretion for this limited purpose to assist cardrooms with topics including Title 16 reporting requirements, work permit and license renewals/expiration extensions, and others.

Non-Cardroom Location

No Fundraiser's Permit applications were submitted to the Division during this reporting period.

CONCLUSION

Based on all the foregoing, Casino M8trix and Bay 101 Casino were, in all material respects, in compliance with Title 16 of the San Jose Municipal Code and the regulations promulgated thereunder for 2019-2020. The Chief of Police will continue to present to the Council a Cardroom Compliance with Title 16 of the San Jose 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
By Acting Chief of Police
DAVE KNOFF

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