



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lee Wilcox

**SUBJECT: RESOLUTION TO JOIN
CALIFORNIA CITIES GAMING
AUTHORITY**

DATE: December 14, 2020

Approved

Date

12/17/20

RECOMMENDATION

- (a) Adopt a resolution to authorize the City Manager to execute the Amendment to the Joint Exercise of Powers Agreement to join the California Cities Gaming Authority on behalf of the City of San José; and
- (b) Approve up to \$30,000 annually as the City's share of the costs of the California Cities Gaming Authority, subject to appropriation.

OUTCOME

Joining the California Cities Gaming Authority will provide additional state legislative and regulatory resources to protect cardroom funding to the City.

BACKGROUND

Two permitted cardrooms operate in San José: Sutter's Place, dba Bay 101 Cardroom and Garden City, Inc., dba Casino M8trix. The City levies a Cardroom Business Tax on these two establishments which generated annual revenues of approximately \$18.8 million in 2018-2019 and 2017-2018. In 2019-2020, however, the shelter-in-place mandate required cardrooms to cease operations, which significantly impacted revenue collections (collections totaled \$13.5 million). This revenue goes into the City's General Fund and is used to support City services.

In November 2020, voters approved Measure H. Measure H increased the rate of the cardroom tax from 15 percent to 16.5 percent, and added a new tax on the gross revenues of third-party providers of proposition player services. The measure also increased the total number of allowed tables in the City from 98 to 128.

The California Cities Gaming Authority is a Joint Powers Authority that advocates for the interest of cities that have medium-sized cardrooms. The current membership includes the Town of Colma and the cities of Inglewood and Gardena. The membership dues are \$30,000 annually. The dues for 2020-2021 have been prorated to \$15,000 (six months).

ANALYSIS

California cardrooms are facing two major issues pending at the Bureau of Gaming Control that threaten cardroom operations and revenue:

Player-Dealer Rotation Changes

Under current California law, banked card games – games where the casino has a stake in the outcome – are not allowed outside of tribal casinos. That includes popular games like blackjack, three-card poker, baccarat, and pai gow poker. Instead, cardrooms offer “California games,” which are a version of banked card games where the dealer role is rotated between the players at the table. The casino can contract for dealers to step into the position if a player refuses their turn to deal. For decades this has been a state-approved alternative to offering traditional, banked card games.

The State Bureau of Gaming Control regulates the gambling industry in California. The Bureau of Gaming Control is working on new regulations for player-dealer rotation rules. Under a proposed draft, all players at a card table must take turns serving as the dealer. If a player does not want to deal, the game must stop and the player would have to leave. The cardroom industry contends that the new rules would put cardrooms out of business.

Blackjack

The Bureau of Gaming Control has also indicated its intent to withdraw game approvals for games that are “too similar to 21/Blackjack” games. These potential changes arise from concern that some versions of blackjack offered in cardrooms are too similar to games that are exclusive to Tribal Casinos under state law. The two cardrooms in San José, Casino M8trix and Bay 101, estimated a loss of \$25.7 million in annual gaming revenue as well as over 150 jobs if cardrooms were not allowed to offer their version of blackjack games.

The Administration expects the Bureau of Gaming Control to start rulemaking efforts on both the player-dealer rotation and blackjack approvals in 2021. Additionally, there may be efforts in the legislature, like the 2020 effort on SCA 6 (Dodd), to address these issues through legislative action.

By joining the California Cities Gaming Authority, the City would have additional advocacy support to monitor and engage in cardroom regulations and legislation. The Authority specializes in cardroom issues and has close relationships with the major cardroom stakeholders

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including legislative leaders on cardroom issues and the State Administration. Joining the Authority would also allow the City to work more formally with other jurisdictions that share cardroom interests.

CONCLUSION

Additional advocacy support from the California Cities Gaming Authority will help the City protect revenues from the City's two cardrooms.

EVALUATION AND FOLLOW-UP

The City Manager's Office of Administration, Policy and Intergovernmental Relations will continue to report out on positions on legislation and provide regulatory updates, including on cardroom issues, during regular reports to Council.

CLIMATE SMART SAN JOSE

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

The Administration will post this memorandum to the City's Council Agenda website for the January 5, 2021 Council Meeting.

COORDINATION

The Administration coordinated this memo with the City Attorney's Office and the City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

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COST SUMMARY/IMPLICATIONS

The 2020-2021 membership dues of \$15,000 will be absorbed by the City Manager's Office 2020-2021 budget. The 2021-2022 Proposed Budget may include a recommendation to allocate ongoing funding for membership dues.

CEQA

Not a Project, File No. PP17-010, City Organizational and Administrative Activities resulting in no changes to the physical environment.

/s/

LEE WILCOX

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Director of City Manager's Office of
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For questions, please contact Bena Chang, Assistant to the City Manager/Director of Intergovernmental Relations, at (408) 975-3240.