



Memorandum

TO: City Council
SUBJECT: Card Clubs

FROM: Mayor Chuck Reed
DATE: October 9, 2009

APPROVED:

Chuck Reed

DATE:

10/9/09

RECOMMENDATIONS

Accept staff's recommendation in the Supplemental Memo dated 10-5-09 to develop a work plan and return in November with a recommendation regarding funding sources and direct staff to implement the following:

1. Incorporate into the municipal code an appeal process for the Chief of Police to review revocation of temporary licenses.
2. Amend the municipal code to specify that, if approval of the application for a license takes longer than 180 days, the gaming administrator must give a written explanation of the reasons for the delay and an estimated date for completion of the review, which will be updated every two months until the application has been issued, withdrawn or denied.
3. Streamline the license renewal process and allow the gaming administrator to grant extensions of existing licenses so that staff can focus efforts on reducing the backlog of pending licenses.
4. Direct the City Manager to develop performance measures for timely issuance of work permits and licenses and make quarterly reports to the Community and Economic Development Committee on the status of all pending permits and licenses starting in January 2010 and continuing until such time as permitting and licensing are meeting performance measures.
5. Incorporate into the pending audit of cardroom regulatory oversight efficiency and effectiveness: 1) a comparison of the scope and cost of background investigations for licenses for owners, key employees, and third party proposition players with the state and other California jurisdictions with at least 20 tables, 2) a comparison of the cost of oversight by the state and other California jurisdictions with at least 20 tables, and 3) an evaluation of whether we have the appropriate levels of staffing of police officers and auditors for the work that needs to be done, unless that analysis is completed in the Police Sworn/Non-sworn Staffing audit due out in November.

6. Whether or not fees are modified in November, bring back to the City Council recommendations for changes in table fees and license fees at appropriate cost recovery levels based on the City Auditor's assessment of the efficiency and effectiveness of the regulatory function.
7. Amend the municipal code to add a review and approval of new administrative regulations by the Chief of Police before they become final.
8. Streamline the process for approval of substitute permissible games if the game and its rules have been approved for cardrooms by the California Gambling Control Commission.
9. Amend our conflict of interest rules to increase the gaming administrator's financial disclosure requirements to include sources of income from entities doing business in California.
10. Compare city codes and regulations to state law and regulations and bring back for Council consideration changes to our municipal code to eliminate duplication, redundancies and inefficiencies.

BACKGROUND

San Jose's two cardrooms generate more revenues to our General Fund (\$13.5 million per year) than all of our auto dealers combined. This major revenue source is at risk, and we need to take action to protect our General Fund.

San Jose's regulation of cardrooms is substantially more expensive to comply with than the state regulations that govern over 90 cardrooms throughout the state.

Our annual table fees, which pay for the cost of regulation, are eight times higher than the table fees charged by the state. Our combined table fees and tax on revenues at almost \$200,000 per table per year are the highest in the state, nearly twice that of the next highest city and several times more than most other cities. At the same time, we have a substantial backlog of license applications (more than 40) and some people have been working on temporary licenses for years.

These disparities have gotten attention from members of the state legislature and two bills, SB 213, which would preempt our licensing process, and SB 610, which would allow the cardrooms to move out of San Jose, have been introduced in the state Senate. Details of those bills are covered in the Supplemental Staff Report.

I have met with Senator Dean Florez (SB 213) and Senator Ellen Corbett (SB 610), who are carrying the two bills to understand their concerns and explain the city's position. I have asked them to delay pursuing legislative action to give the city some time to deal with the concerns that have been raised about our regulatory system. It is important that we take action to deal with their concerns before the legislature reconvenes in January.

The recommendations in this memo will eliminate some of the problems and begin a process to address the remaining issues so that we can have a cost effective regulatory system, maintain our local oversight, and preserve this significant funding source.