



REPORT TO LAW & LEGISLATION COMMITTEE City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www.CityofSacramento.org

STAFF REPORT
August 4, 2011

Honorable Members of the
Law and Legislation Committee

Title: Cardroom Ordinance Changes

Location: All

Recommendation: 1) Review ordinance changes to City Code Chapter 5.32 relating to cardroom licenses; and 2) provide direction for allowing cardrooms to co-locate; and 3) forward a recommendation of approval of the Ordinance to City Council; and 4) provide direction on modifying City Code to allow a fifth cardroom license.

Contact: Brad Wasson, Revenue Manager, Finance Department (916) 808-5844

Presenters: Brad Wasson, Revenue Manager, Finance Department (916) 808-5844

Department: Finance

Division: Revenue Administration

Dept ID: 06001211

Description/Analysis

Issue: On September 15, 2010, a request was made by Council Member Sheedy to review the cardroom regulations that prohibit a person's association with more than one cardroom.

Under current City Code, City of Sacramento cardroom owners can only have a financial interest in one cardroom. The State of California Gaming Commission, as well as most other surrounding jurisdictions, allow for multiple ownership. This restriction limits the cardroom operators' ability to be competitive with surrounding jurisdictions. Should multiple ownerships be allowed, then the co-location of cardrooms becomes an issue.

Cardroom owners have also brought up other areas of concern regarding Chapter 5.32. This includes some derogatory references to cardroom operators, limitation on the number of tables, and Sacramento's low betting limits.

Additionally, the Gaming Commission approved regulations allowing reactivation of expired State gambling licenses. There is a very narrow set of circumstances in which a State license could be reactivated. In the City of Sacramento, the Old Traven fits the criteria creating an opportunity for the City of Sacramento to bring back a 5th cardroom. However, current City Code would not allow reactivation of the City license.

Policy Considerations: City Code restricts the number of cardrooms in the City of Sacramento to four. The State of California has a moratorium on new cardroom licenses until 2015. It is likely that the State will extend this moratorium until 2020. The cardroom industry is heavily regulated by the Gaming Commission and the Gaming Commission performs extensive background checks on cardroom owners. The State allows individuals to have an interest in more than one cardroom license.

The City of Sacramento also places numerous regulations on cardrooms, owners, and employees to ensure the public's safety and to prevent nuisances in neighborhoods and includes necessary limits and controls on cardroom operations. However, the Code needs to be updated and cleaned up to reflect current conditions in the City of Sacramento.

The cardroom operators are concerned about competition within the region and between themselves. Allowing co-location of cardrooms in the City of Sacramento can give the City an advantage in the region, but it may create a disadvantage to stand alone cardrooms.

The City of Sacramento set policy to limit the number of cardrooms to four in 1995 in an attempt to reduce the number of cardrooms over time. However, at the time of the 1995 ordinance, there were six cardroom licensees, and the ordinance allowed them to continue operating so long as they met code requirements. The current cardrooms have been operating without major incidents or concerns for many years. The City Council has a unique opportunity to allow the reactivation of the Old Traven cardroom license. Should the Council desire this reactivation, then the policy of a maximum of four cardrooms needs to be addressed and City Code updated.

Environmental Considerations: California Environmental Quality Act (CEQA): Under the CEQA guidelines, continuing administrative activities do not constitute a "project" as defined in Section 15378 of the CEQA Guidelines and are therefore exempt from review.

Sustainability: None

Commission/Committee Action: None

Rationale for Recommendation: Due to the State's extensive background checks of cardroom owners and the State's willingness to allow ownership interest in more than one cardroom, it makes sense for the City of Sacramento to follow suit and adjust its Code accordingly to allow for regional competition. With the limitation of four cardrooms in the City of Sacramento and fifteen tables per cardroom, this change will not lead to an individual creating a gambling empire in the City of Sacramento. However, it will allow cardroom ownership to combine to achieve efficiencies and become competitive within the region.

The cardroom owners in the City of Sacramento have been operating their business in a professional manner. Consequently the rationale for the need of cardroom regulations in the ordinance should be stated in a positive manner.

The State limits the maximum number of tables per cardroom. The City limit is duplicative. However, the City should retain its authority to approve the number of tables for each license and clean up language referring to the State's limit.

Should the City Council desire the reactivation of an expired cardroom license then staff needs to be directed to modify City Code.

Financial Considerations: At this time there is not a fiscal impact to the City.

Emerging Small Business Development (ESBD): No goods or services are being purchased under this report.

Respectfully Submitted by: 
Brad Wasson, Revenue Manager

Approved by: 
Leyne Milstein, Finance Director

Recommendation Approved:

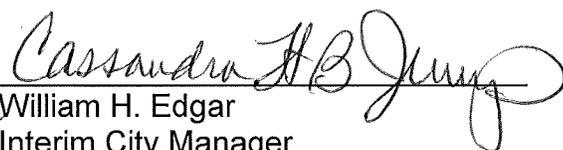
for 
William H. Edgar
Interim City Manager

Table of Contents:

Report

Attachments:

- 1 – Background
- 2 – Ordinance
- 3 – Ordinance

Background

Attachment 1

On September 15, 2010, a request was made by Council Member Sheedy to review the cardroom regulations that restrict a person's ownership or other financial interest to one (1) cardroom. Staff has surveyed other local jurisdictions and checked with the State of California Gaming Commission on ownership restrictions. Staff confirmed that the state does not restrict the ownership of cardrooms to one (1) establishment. Rancho Cordova has two (2) cardrooms and does not allow multiple ownership. Citrus Heights allows multiple ownership, but restricts it to minority share owners. The County of Sacramento does not restrict ownership.

A stakeholder meeting was conducted on October 19, 2010, with the four (4) cardroom owners regarding this issue. All cardroom owners agreed that the ownership should not be restricted to one (1) cardroom.

During the stakeholder meeting the cardroom owners brought up other issues regarding Chapter 5.32. The owners were asked to put their concerns and suggestions in writing. Below is a summary of the items brought forth by the owners:

- Language in the code referring to the industry in a negative manner
- Dollar amount limits on individual betting not consistent with surrounding jurisdictions
- Require a minimum physical distance between cardrooms
- Remove the restriction of fifteen tables per cardroom and let the State's limit dictate the maximum
- Remove the restriction that requires the gaming activities to be separated from other activities such as restaurant or bar

On February 1, 2011 the card room issues were brought before the Law and Legislative committee for direction. The committee directed staff to return with draft code changes for consideration.

Staff has reviewed all these suggestions and is bringing forward draft code to address:

- Negative language in the code
- Maximum number of tables per cardroom
- Ownership limitations

Staff recommends leaving the restriction that separates restaurant and bar activities from Gaming activities. It is much easier to monitor, control and regulate gaming activities with this separation.

Staff has looked into the betting limits and requests additional time to analyze it further before deciding to return with a recommendation. Additionally, the cardroom operators indicate the current wager limit does not put them at an unfair competitive disadvantage.

On April 14, 2011, staff met with the cardroom operators again to discuss proposed changes for the upcoming Law and Legislation meeting. The four operators continue to agree that ownership should not be limited to one cardroom. However, they split on whether they should be able to co-locate. The cardroom owners that are looking at combining ownership would like to be able to co-locate. The other two claim that their situation does not allow them to combine, creating an unfair advantage.

Staff has looked into the issue of co-location and anticipates some potential outcomes:

- Efficiencies created with sharing non-gambling activities (bar, restaurant, security and advertising)
- Increased competitiveness within the region for City of Sacramento
- Decreased competitiveness within the City limits
- Increase in crime due to concentration of cash in a co-location
- Mitigation of crime with increased security through special use permit process

On April 13, 2011 staff met with State Gaming Commission and Department of Justice representatives. The State indicated that two cardrooms could co-locate, but that their gaming operations must be clearly separated. They further indicated that they would audit co-locations thoroughly. Presently, no two cardrooms in the State share the same address or are located at side-by-side addresses.

Should the committee wish to prevent co-location of cardrooms, staff can be directed to add proximity requirements in the code specifying a minimum distance between cardrooms.

Should the Committee wish to allow co-location then staff should be directed to remove section 5.32.180C that only allows one cardroom per address.

Gaming commission staff has also discussed the reactivation of the Old Tavern state gambling license. In order for the state to proceed, the applicant needs the following local approval by January 2012:

- Documentation of City Ordinance allowing the cardroom
- Opinion from City Attorney that the reopening is authorized by ordinance
- Proof that the Chief of Police supports the reopening
- Proof that the City Council supports the reopening

Current City Code does not allow the reactivation of an expired cardroom license. Should the Committee like to pursue reactivation and effectively add back a fifth cardroom, then staff should be directed to modify City Code accordingly.

Pursuant to the Recommendation of the Law and Legislation Committee, all proposed cardroom changes are forwarded to the Bureau of Gambling Control, State of California Department of Justice, for review and approval prior to submitting the ordinance to the full Council.

ORDINANCE NO.

Adopted by the Sacramento City Council

Date Adopted

**AN ORDINANCE AMENDING CHAPTER 5.32 OF THE SACRAMENTO CITY CODE RELATING TO
CARDROOMS**

BE IT ENACTED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

SECTION 1. Section 5.32.030 of the Sacramento City Code is amended to read as follows:

The regulatory provisions of this title are necessary to ensure that cardrooms are operated reasonably for the protection of public health, safety, and welfare and to conform to state-mandated requirements set by the Gambling Control Act.

The City endeavors to ensure that gambling is conducted honestly, competitively, and free of criminal and corruptive elements. Pursuant to Section 5.32.060 of this chapter, the city manager, with the assistance of the chief of police, will conduct a thorough investigation into the background of applicants in order to assure that potential licensees will not foster criminal activity, will not be detrimental to the health, safety, and welfare of the city, are of sound moral character, and that licensure is in the public interest.

Section 5.32.070 of this chapter limits the number of cardroom licenses issued to one for each one hundred thousand (100,000) residents of the city, with a maximum of four. The purpose of this limitation is to limit the gambling within this community to a level which will be a source of entertainment and recreation for local citizens while preventing a casino-like atmosphere in this community. A casino-like atmosphere, where gambling becomes a major industry or attraction and the community a center for gamblers from other jurisdictions, is detrimental to the development of this community. Increased and unrestrained gambling creates greater law enforcement problems, thereby compromising the ability of law enforcement to control the criminal and peace-disturbing effects thereof and diverting police resources from other law enforcement activity. Limiting the number of licenses and cardrooms to one for each one hundred thousand (100,000) residents, with a maximum of four, assists in the accomplishment of these goals as opposed to permitting a greater number of licensed cardrooms.

Accordingly, the chief of police has determined, and the city council finds, that a limitation of one cardroom per one hundred thousand (100,000) residents of the city, with a maximum of four, will minimize many of the abovementioned problems without undue burden on stable and reputable cardrooms. The purpose of this title is to protect the health, safety, and welfare of the citizens of the community, to assure that city law enforcement resources are efficiently allocated, and to provide cardrooms where citizens of this city can safely enjoy the entertainment provided by reputable cardrooms.

SECTION 2. Section 5.32.070 of the Sacramento City Code is amended to read as follows:

5.32.070 Limitation on the number of cardroom licenses.

No cardroom license shall be granted when the number of cardroom licenses in the city exceeds the ratio of one cardroom for every one hundred thousand (100,000) population of the city according to the latest population figures from the California Department of Finance; provided, however, that the maximum number of cardroom licenses which may be issued shall not exceed four.

The number of cardroom licenses shall be reduced whenever any cardroom license is revoked, surrendered, expires without renewal or the licensee is no longer licensed by the state of California. No current licensee whose license is hereafter revoked or surrendered, or expires without renewal shall be eligible for a new license until the number of cardroom licenses in the city is fewer than four and he or she is selected according to the procedure described in this title for selection of new licensees.

SECTION 3. Section 5.32.180 of the Sacramento City Code is amended to read as follows:

Except as hereinafter provided, no person shall operate a cardroom in violation of any of the following regulations:

- A. Not more than fifteen (15) card tables shall be permitted in any cardroom.
- B. Not more than one (1) cardroom shall be located at any one address.
- C. Not more than twelve (12) players may participate at any one card table. All participating players and dealers must be seated at the table. The only exception to this is when the chief of police approves a card game whose stated rules include provisions allowing "back-line betting." This approved game may allow an additional twelve (12) players who may be unseated. These additional players shall not stand more than one behind each seated player. A back line bettor may place a wager without all seats being occupied.
- F. Cardrooms shall be located on the ground floor of the premises.
- G. No minor shall be permitted at any card table or to participate in any game played thereat, nor shall any card table be exposed to viewing from other areas of the premises which are open to and frequented by minors.
- H. All cardrooms shall be open to police inspection during all hours of operation.
- I. Each cardroom licensee or licensees shall post in a conspicuous place on the premises a copy of the house rules, regulations and authorized card game rules, and give notice that all persons will be required to comply with them.
- J. Each cardroom shall be separated from other activities on the premises.
- K. Cardrooms licensed to conduct gaming in the city shall be permitted to conduct all card games lawful in the state of California subject to the following provisions:
 - 1. The rules of all authorized card games shall be on file with the chief of police;

2. If the game is patented the licensee shall obtain written permission from the patent owner prior to offering the game to patrons and prior to acquiring the approval of the chief of police to conduct the game;
 3. Written rules for each card game offered by a cardroom shall be provided to any patron upon request;
 4. All other gaming (including but not limited to gaming played with dice or any device for money) not otherwise prohibited by California law is prohibited. Nothing contained in this chapter shall be construed to permit the licensing of any gambling declared illegal in the state of California. The only exception to this is when the chief of police approves a card game whose stated rules include provisions allowing for the use of dice for the express purpose of positioning the first hand dealt.
- L. Any deviation or change in the rules of any card game or any new card game from that on file with the chief of police shall adhere to all provisions in this title and require the following:
1. A written set of game rules;
 2. A letter from the California Division of Gambling Control advising that the game/rules have been reviewed and are legal in the state of California;
 3. Upon receipt of these documents, the chief of police shall review any deviation or change and within ninety (90) days approve the request so long as the rules are in compliance with state law and this chapter.
- M. No person shall operate more card tables than the maximum amount specified on his or her cardroom license except during promotional or tournament play as set forth in Section 5.32.050 of this chapter and upon full compliance with the notification provision contained therein. In no event shall the number of tables operated at one time exceed that as provided in subsection B of this section, including during promotional or tournament play.
- N. No person shall operate, at any time, a cardroom without having paid all fees, including the quarterly table operation fee and business operations taxes currently due.
- O. Cardrooms may operate twenty-four (24) hours a day, seven days a week.
- P. Provisions allowing "back-line betting" as noted in subsection D of this section. No player shall be permitted to bet with cash money, markers, or anything other than poker chips. Notice of all the provisions and restrictions provided in this section shall be posted in a conspicuous place in the cardroom. A player in a card game that allows multiple betting spots may, consistent with the rules of the card game, take those multiple bets and before placing them individually may consolidate them into one stack and move the stack forward of the betting spots.
- Q. No cardroom shall extend credit to any patron in order for the patron to participate in a card game.

R. No person shall employ a cardroom employee, or work as a cardroom employee, as defined in Section 5.32.080 of this chapter, who does not have a valid work permit as required by Section 5.32.080 of this chapter issued by the chief of police.

Adopted by the City of Sacramento City Council on August 4, 2011 by the following vote:

Ayes:

Noes:

Abstain:

Absent:

MAYOR

Attest:

City Clerk

Passed for Publication:

Published:

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- L. Any deviation or change in the rules of any card game or any new card game from that on file with the chief of police shall adhere to all provisions in this title and require the following:
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- N. No person shall operate, at any time, a cardroom without having paid all fees, including the quarterly table operation fee and business operations taxes currently due.
- O. Cardrooms may operate twenty-four (24) hours a day, seven days a week.

- P. No player shall be permitted to wager or raise a wager more than forty-nine dollars (\$49.00). Should judicial or legislative action alter the restrictions or limitations in the Gambling Control Act, Business and Professions Code section 19800 et seq., to allow for an increase in this wager limit without voter approval, the wager limit shall be increased up to the amount such judicial or legislative action allows, not to exceed one thousand dollars (\$1000.00) per wager, provided, however, that no cardroom may increase its wager limit until it has received from the chief of police prior approval of the cardroom's security plan. No person other than seated players actively participating in the game shall be permitted to place a wager on any card game, and a player shall only place a wager on his or her own card hand. Back-line betting or side-betting is prohibited. The only exception to this is when the chief of police approves a card game whose stated rules include provisions allowing "back-line betting" as noted in subsection D of this section. No player shall be permitted to bet with cash money, markers, or anything other than poker chips. Notice of all the provisions and restrictions provided in this section shall be posted in a conspicuous place in the cardroom. A player in a card game that allows multiple betting spots may, consistent with the rules of the card game, take those multiple bets and before placing them individually may consolidate them into one stack and move the stack forward of the betting spots.
- Q. No cardroom shall extend credit to any patron in order for the patron to participate in a card game.
- R. No person shall employ a cardroom employee, or work as a cardroom employee, as defined in Section 5.32.080 of this chapter, who does not have a valid work permit as required by Section 5.32.080 of this chapter issued by the chief of police.

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Ayes:

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Abstain:

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