



REPORT TO LAW & LEGISLATION COMMITTEE City of Sacramento

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

STAFF REPORT
August 16, 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) forward the draft amendments of City Code to the State of California Gaming Commission for review and comment; and 3) bring forward a policy discussion of the recommended ordinance changes to City Council.

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. Along with co-location, the code needs to be clarified regarding the city's ability to place conditions on a cardroom license.

Additional clarifying language to address derogatory references directed at cardroom operators, as well as extraneous language regarding the limitation on the number of tables should also be addressed.

This item has been continued twice, creating a delay with updating the ordinance. The Law and Legislation Committee has directed staff to bring the draft language back to the committee for approval and to bring the policy issues before the full Council.

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, including necessary limits and controls on cardroom operations. However, the Code needs to be updated 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 Law and Legislative Committee reviews draft ordinances and works out technical and policy issues before submittal to the Mayor and full Council for consideration. Thus, the Mayor and Council members have an opportunity to weigh in on code changes. The State of California Gaming Commission also regulates cardrooms. State law requires local jurisdictions to submit draft amendments of local ordinances for state review and approval before adoption. Consequently, if the Mayor and Council make any changes to the ordinance, it would need to be resubmitted to the Gaming Commission.

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. However, to eliminate the possibility of multiple cardrooms in one location, staff is recommending limiting ownership interest to a maximum of two cardrooms, and co-location to a limit of two. This will allow for a couple of cardrooms to combine, 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.

In order to expedite the proposed ordinance changes, it would be most efficient for the Mayor and full council to weigh in on the policy changes before submitting to the State for approval. With policy consensus from the Mayor and Council before review by the State, the item could return to City council on the consent calendar after State approval.

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: Dee W. Knuff for
Brad Wasson, Revenue Manager

Approved by: Dee W. Knuff for
Leyne Milstein, Finance Director

Recommendation Approved:

Cassandra H. B. Jerning
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 the 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 by implementing conditions

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.

On August 4, 2011 the Law and Legislation Committee heard this item. The Committee directed staff to:

- Remove negative language regarding cardroom owners from the ordinance.
- Remove extraneous language regarding the number of card tables allowed.
- Modify the code to allow multiple ownership of up to two cardrooms.
- Add language to allow two cardrooms to operate next to each other, but include a proximity requirement to prohibit more than two operating in close proximity.
- Add the ability to approve the physical location, obtain feedback from the public, and place conditions on the license.
- Separate the policy question regarding the possibility of reactivating a fifth cardroom.
- Bring the specific ordinance changes back to the committee for approval, and bring the policy issues before the Mayor and Council the same day.

The draft ordinance in this report incorporates the committee's direction.

Pursuant to the Recommendation of the Law and Legislation Committee, all proposed cardroom changes will be forwarded to the Bureau of Gambling Control, State of California Department of Justice for review before the City Council's final adoption.

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. ~~found in the Business and Professions Code commencing with Section 19800, et seq. Although many operators are highly reputable, some are not. Gaming can bring enjoyment and entertainment for patrons, but also undesirable elements such as compulsive gambling, cheating, dishonesty, criminal violations and peace disturbances.~~

~~If all licensees were reputable and vigilant, very little supervision would be necessary. However, the city has found that some licensees require exhaustive monitoring and enforcement. Thorough screening of applicants prior to licensure is desirable. 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 5.32.060 of the Sacramento City Code is amended to read as follows:

A. An application for a cardroom license shall be investigated by the city manager who shall obtain recommendations and reports from the chief of police concerning the character of the applicant or any individual listed in Section 5.32.040(A), and any law enforcement problems which the issuance of the license might tend to create, from the planning director concerning the compatibility of the proposed use of the premises with existing zoning regulations and with neighborhood land uses, and from such other sources, including residents and businesses in the area, as the city manager may deem appropriate.

B. The city manager may deny an application for a cardroom license if, in the city manager's opinion, the cardroom is to be located in an area of the city where, or operated under circumstances in which it might tend to create a public nuisance, where the granting of the license would be contrary to the public interest, or issuance of a license to the applicant is, in the opinion of the city manager, contrary to the interests and health, safety and welfare of the city.

C. In granting a cardroom license, the city manager may impose conditions on the license. Violations of license conditions shall be grounds for suspension or revocation of the license pursuant to Section 5.32.100(A).

SECTION 3. 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 4. 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. No person shall be permitted to hold or be associated with more than ~~one~~two cardroom licenses issued by the city. For purposes of this section, "associated with" means and includes, but is not limited to, having any financial interest whatsoever in any other cardroom premises (for example, lessor or owner); being a partner; affiliated with the cardroom business in any manner; and/or being an officer, director, stockholder, or otherwise associated with a corporation holding a cardroom license.

B. Not more than ~~fifteen (15)~~ nine card tables shall be permitted in any cardroom. ~~However, 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 the current number of tables without voter approval, the maximum number of tables shall be increased up to the amount such judicial or legislative action allows, not to exceed a maximum of fifteen (15) tables.~~

C. Not more than one cardroom shall be located at any one address. For purposes of this subsection, different commercial suite numbers shall be considered separate addresses if the suite numbering has been previously approved in compliance with the city council's adopted addressing standards. If any two cardrooms are located within 500 feet of each other, no other cardroom may be located within 1000 feet of either of the first two cardrooms.

D. 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.

E. Cardrooms shall be located on the ground floor of the premises.

F. 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.

G. All cardrooms shall be open to police inspection during all hours of operation.

H. 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.

I. Each cardroom shall be separated from other activities on the premises.

J. 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.

_K. 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.

L. 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.

M. 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.

N. Cardrooms may operate twenty-four (24) hours a day, seven days a week.

O. 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.

P. No cardroom shall extend credit to any patron in order for the patron to participate in a card game.

Q. 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 _____ by the following vote:

Ayes:

Noes:

Abstain:

Absent:

MAYOR

Attest:

City Clerk

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Q. 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 _____ by the following vote:

Ayes:

Noes:

Abstain:

Absent:

MAYOR

Attest:

City Clerk

Passed for Publication:

Published:

Effective: