



BUREAU OF GAMBLING CONTROL
P. O. Box 168024
Sacramento, CA 95816-8024

September 25, 2015

Tina Littleton, Manager
California Gambling Control Commission
Regulatory Actions Unit
2399 Gateway Oaks Drive, Suite 220
Sacramento, CA 95833

RE: Third-Party Provider of Proposition Player Services Contract Regulations – August 18, 2015 Hearing Follow Up

Dear Ms. Littleton:

At the Commission's third-party provider of proposition player services (TPPPS) contract regulations hearing on August 18, 2015, Chairman Evans requested that the Bureau of Gambling Control (Bureau) provide information to the Commission concerning the Bureau's review of TPPPS contracts. In addition, in a follow up email on the same date, Commission Analyst Joshua Rosenstein provided a bulleted list of what was requested. The following information is in response to this request.

- *What items are being included in the contracts, broken down by the four categories (facilities, services, advertising, and equipment)?*

Services

- Wages/Payroll of Positions that Benefit TP
- Security
- Cage
- Surveillance
- Food and Beverage
- Accounting

Facilities

- Parking
- Internet
- Repairs and Maintenance
- Office and Operating Supplies for Casino, Security, etc.
- Alarm Monitoring
- Cleaning/Janitorial/Housekeeping/Maintenance
- Podiums
- TP Office/Workspace

- Rent
- Utilities/Telephone

Advertising

- Player Vouchers
- Food/Beverage Promotions
- Billboards
- Signage
- Flyers
- Radio and Print Advertisements
- Giveaways
- Internet/Social Media Advertisements

Equipment

- Cards
 - Shuffle Machines Leases
 - Surveillance Equipment (e.g. Cameras, etc.)
- *What, if any, justification is being provided by the TPPPS/Cardroom to currently justify those items? What are the Bureau's processes for verifying the included items to make sure they are not "substantially disproportionate?"*

Currently, virtually no documentation is initially submitted to the Bureau to justify the fees included in these contracts. The Bureau requests information from the TPPPS or Cardroom as necessary to substantiate the fees proposed in the contract. If the requested information does not provide enough detail, the Bureau works with the TPPPS company or the Cardroom to provide invoices and additional expense/financial information. In addition, we may do the following:

Services and Facilities

- Request the square footage of any TPPPS specific workspace. If necessary, the Bureau will also request supporting documentation (e.g., leases, floor plans, etc.).
- Review contracts for outside services if applicable (e.g., security, consultants, etc.).
- Use the internet to attempt to find comparable commercial property rents.

Advertising

- Depending on what the fees are determined to be, the Bureau may request samples of the advertisements, invoices, and receipts to ensure the advertising is related to the games in which the TPPPS company provides services.

Equipment

- Request statements, invoices, and receipts and verify that the equipment is used for California games.
- Compare the costs to other Cardrooms.
- *Identify or comment on any specific items currently allowed that provide the highest level of concern.*

There are currently no specific expenses that are prohibited. As currently written, the regulations allow for nearly all expenses that can be categorized as services, facilities, advertising, or equipment to be paid for by the TPPPS company. The largest issue for the Bureau is the debate with the industry as to what can be placed in these categories. If the Bureau determines that an item is of no value to the TPPPS company, the Bureau believes that any payment for the item is disproportionate. The Bureau may also determine that an item is not requested by or provided to the TPPPS company. However, there are arguments from the industry about whether or not the Bureau has the authority to make these determinations.

Advertising is another issue. The industry has argued that any advertisement of the Cardroom benefits the TPPPS company and they should therefore share that expense (this would include poker advertisements). The Bureau believes, as per the regulations, that the TPPPS company should only share in the cost of advertisements for games in which the TPPPS company participates. However, Cardrooms rarely separate this expense and the Bureau has a difficult time discerning the TPPPS company's reasonable share.

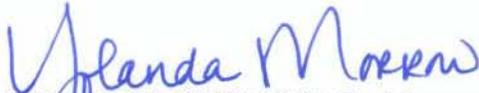
- There are several types of items that the Bureau does not feel have a value to the TPPPS company or create a conflict that the Bureau believes enhances the dangers of unsuitable practices. The Bureau cannot approve a contract if the Bureau is not satisfied that the contract will not create or enhance the dangers of unsuitable, unfair or illegal practices in the conduct of controlled gambling or in the carrying on of the business and related financial relationships and that the contract does not undermine public trust that gambling will be conducted honestly, by reason or existence or perception of collusion. Following are examples of categories that have not been justified by the industry. However, the industry believes that payments for these types of items should be allowed.
 - Game Royalties/Game Licensing Agreements
 - Legal Fees
 - Cardroom Regulatory Compliance Fees
 - Poker Advertising/Promotions
 - Uniforms

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- Payroll Processing Fees
- Membership/Dues
- Subscriptions
- Commission/Bureau Licensing Fees (e.g., Annual Fees, Background Fees, etc.)
- Taxes (e.g., Property, City, etc.)
- Insurance Related Expenses
- Hotel Promotions
- Cardroom Charitable Donations
- Cardroom Employee Recruiting and Hiring
- Other Expenses Relating Specifically to Poker

The Bureau appreciates the opportunity to provide additional information for the revision of these regulations. If you have any questions or need additional information, please contact me at (916) 227-2651 or by email at yolanda.morrow@doj.ca.gov.

Sincerely,



YOLANDA MORROW, Sr. Manager
Licensing Section

For KAMALA D. HARRIS
Attorney General

cc: Stacey Luna Baxter, Assistant Bureau Chief