



GAMBLING CONTROL COMMISSION

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September 22, 2021

To: All Stakeholders

Re: COST AND FEE ANALYSIS: FEE STUDY REPORT OF FINDINGS

Dear Stakeholders:

During Fiscal Year 2018-2019, at the request of the California Legislature's Joint Legislative Audit Committee, the California State Auditor (CSA) conducted an audit on the California Gambling Control Commission (Commission) and the Department of Justice's (DOJ) Bureau of Gambling Control (Bureau). The CSA released their findings and recommendations on May 16, 2019 in the published report [2018-132](#) (Report). As outlined in the Report, the CSA made the following recommendations to both the Commission and the Bureau:

To better align the revenue in the Gambling [Control] Fund with the costs of the activities that the fund supports, the bureau and the commission should conduct cost analyses of those activities by July 2020. At a minimum, these cost analyses should include the following:

- *The entities' personnel costs, operating costs, and any program overhead costs.*
- *Updated time estimates for their core and support activities, such as background investigations.*
- *The cost of their enforcement activities.*

Using this information, the bureau and commission should reset their regulatory fees to reflect their actual costs. Before conducting its fee study, the bureau should implement our recommendations to improve its processes for assigning applications, ensuring the completeness of applications, and developing time-reporting protocols.

In May 2019, the Commission began the State contracting process of soliciting bids to identify qualified vendors who specialize in cost and fee analyses. In July 2019, the Commission awarded and began working with MGT Consulting Group (MGT). Since awarding the contract, MGT, the Commission, and the Bureau have contributed significant efforts and resources toward conducting a thorough cost analysis and fee restructuring plan. The findings of such efforts are summarized in MGT's '[Department of Justice's Bureau of Gambling Control and the California Gambling Control Commission Fee Study Report of Findings](#)' (MGT Report), which can be found on the Commission's webpage.

Once completed, the MGT Report was submitted to the California Department of Finance (DOF) for review and approval. On September 16, 2021, the DOF approved the MGT Report, which includes a cost analysis and fee restructuring plan.

Once you have completed your review of the MGT Report, your feedback via a quick MGT survey regarding the cost and fee analysis and MGT Report findings is greatly appreciated. The survey will be open through Friday, October 15, 2021. You can access the survey by clicking [HERE](#).

The Commission and Bureau have committed to conducting the cost and fee analysis on an annual basis and the fee restructuring analysis on a biennial basis once the initial fee changes are finalized. As such, when reviewing the MGT Report, the focus should be on the methodologies utilized rather than the figures as they may change once each analysis is finalized.

While the completion, release, and the DOF approval of the MGT Report marks important milestones, several steps and approvals need to occur prior to all the proposed fee changes being implemented, such as:

- Emergency Regulations to Reduce Fees – On Friday, September 17, 2021, the Commission formally noticed its [Commission Fees Modernization Project Emergency Regulations Package](#). If approved by the Commissioners and the Office of Administrative Law (OAL), this emergency rulemaking package will temporarily reduce those fees identified in the MGT Report for reduction that the Commission has regulatory authority to adjust. The Commission meeting to consider this package is set for Monday, September 27, 2021, at 10 a.m.

Although this step is not required, the Commission felt it was crucial to minimize the impact to initial cardroom industry applicants. Currently, the due dates for initial application and associated background fees have been extended through September 30, 2021 via [Executive Order N-08-21](#). However, the collection of fees associated with initial applications and associated backgrounds will resume on October 1, 2021. If this emergency regulation package is approved by the Commissioners and the OAL, it will significantly reduce the application fee. As such, unless required to by statute or regulation, initial applicants should delay submitting their application pending the outcome of this emergency regulation package.

As a reminder, initial applicant associated fees were not included in the cardroom waiver provided via [AB 137, Chapter 77, Statutes of 2021](#).

- Regular Rulemaking Package – The Commission is diligently working on a regular permanent rulemaking package that will incorporate all proposed fee changes, outlined in the MGT Report, that the Commission has regulatory authority to adjust. It is anticipated this package will be formally noticed prior to the year-end of 2021.
- Statutory Fee Changes – The Cardroom Annual Fee is set in statute and, therefore, the Commission does not have the authority to adjust this fee solely through regulations without legislative action. The Commission has submitted a request for

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the necessary statutory changes; however, approval will likely not be provided until mid-2022.

- Additional Regular Rulemaking Changes – If the Cardroom Annual Fee statutory changes are made, the Commission will need to submit a regular rulemaking file outlining the necessary corresponding regulations to the Cardroom Annual Fee structure.

As you can see, the complete process to conduct the cost and fee analysis and modify all necessary fees has not been, nor will it continue to be, a quick and simple process. The industry's patience and understanding during the process thus far has been greatly appreciated. With that, as evident by the notice of the Commission's Emergency Regulation this past week, the Commission is committed to completing all necessary steps within our control as soon as possible.

Thank you to the Bureau, Commission staff, and MGT consultants for the hard work put forth to get us to this point today. Your dedication, collaboration, and efforts have been greatly appreciated.

As a reminder, once your review of the MGT Report is complete, please take a few minutes to complete the [MGT survey](#) related to the MGT Report and findings.

Sincerely,



STACEY LUNA BAXTER
Executive Director

cc: Stephanie Shimazu, Acting Assistant Chief, DOJ, Division of Law Enforcement
Nathan DaValle, Acting Director, Bureau of Gambling Control
Yolanda Morrow, Assistant Director, Bureau of Gambling Control