



STATE OF CALIFORNIA

Gavin Newsom, Governor

GAMBLING CONTROL COMMISSION

2399 Gateway Oaks Drive, Suite 220
Sacramento, CA 95833-4231
(916) 263-0700 Phone
(916) 263-0499 Fax
www.cgcc.ca.gov

PAULA LABRIE, CHAIR
CATHLEEN GALGIANI
ERIC C. HEINS
WILLIAM LIU
EDWARD YEE

January 19, 2023

Honorable Bill Dodd, Chair
Senate Committee on Governmental Organization
Attention: Felipe Lopez, Chief Consultant

Honorable Miguel Santiago, Chair
Assembly Committee on Governmental Organization
Attention: Eric Johnson, Chief Consultant

Honorable Steve Padilla, Chair
Senate Budget and Fiscal Review, Subcommittee No. 4 on State Administration
Attention: Diego Emilio J. Lopez, Subcommittee Consultant

Honorable Wendy Carrillo, Chair
Assembly Committee on Budget, Subcommittee No. 4 on State Administration
Attention: Patrick Le, Subcommittee Consultant

Subject: Mandated Legislative Report re: Cardroom and Third-Party Proposition Player Services (TPPPS) Annual Fees

Pursuant to subdivision (f) of Business and Professions Code Section 19951, the California Gambling Control Commission (Commission) submits the initial report providing the description and calculation of gambling license annual fees for cardrooms and TPPPS.

Subdivision (f) of Business and Professions Code Section 19951 requires the California Gambling Control Commission (Commission) to provide a report to the appropriate budget and policy committees of the Legislature, beginning January 1, 2023 and every two years thereafter, detailing the fee levels established by the Commission's regulations. Statute also requires the report to describe how fees for each licensing category were calculated, including how licensee gross revenues and state regulatory costs were used in the calculation. Additionally, the Commission must include a breakdown of the personnel cost, operating cost, and overhead cost figures used to determine fee levels, if a workload-based methodology was used to establish fees.

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Background

In response to audit findings and recommendations published by the California State Auditor on May 16, 2019 ([2018-132](#)), the Commission and the California Department of Justice Bureau of Gambling Control (Bureau) contracted with MGT Consulting Group (MGT), a third-party consulting company, to complete a cost and fee study. The [study](#), dated June 9, 2021, provided fee recommendations to better align the fee revenue collected and deposited into the Gambling Control Fund (GCF) with the costs of the activities the fund supports. The Commission and Bureau committed to conducting a cost and fee analysis on an annual basis, and a fee restructuring analysis on a biennial basis, once the initial fee changes are finalized.

Annual Fee Levels Established by Commission Regulations

As a result of the calculations described below, the Commission established the following annual fee amounts for each licensing category.

TPPPS Business License Annual Fee Amounts (California Code of Regulations, Title 4, Division 18, Chapter 3, Article 1, Section 12252.2):

Type of TPPPS Business Licensee	Annual Fee
Surrendered or Revoked Licensee	\$0
Non-Operational Licensee	\$2,035
Active Licensee – 3-Year Average Gross Revenue Under \$1.5 Million	\$4,069
Active Licensee – 3-Year Average Gross Revenue of \$1.5 Million or More	1.54% of the 3-Year Average Gross Revenue

Cardroom Business License Annual Fee Amounts (California Code of Regulations, Title 4, Division 18, Chapter 7, Article 1, Section 12368.2):

Type of Cardroom Business Licensee	Annual Fee
Surrendered or Revoked Licensee	\$0
Non-Operational Licensee	\$5,237
Active Licensee – 3-Year Average Gross Revenue Under \$1.5 Million	\$10,473
Active Licensee – 3-Year Average Gross Revenue of \$1.5 Million or More	1.29% of the 3-Year Average Gross Revenue

Calculation of Annual Fees

The first annual fee analysis included the review of all cardroom and TPPPS functions and related state regulatory costs within the Commission and the Bureau, which were then divided into “cost pools” to identify which part of the industry, the Cardroom and/or TPPPS, was driving the workload. The sum of the cost pools represents the total statewide annual fee necessary to adequately cover state regulatory costs. A review of each business licensee’s three-year average gross revenue was used to identify each licensee (cardroom or TPPPS) as licensed, but non-operational; operational with a three-year average gross revenue under \$1.5 million; or operational with a three-year average gross revenue of \$1.5 million or more. A base annual fee amount was determined by identifying the total annual fee costs attributed to the cardrooms and TPPPS, divided by their respective three-year average

Commission actions. The base annual fee amount was charged to the operational entities with a three-year average gross revenue under \$1.5 million. An amount equal to half of the base annual fee was charged to those entities that remain licensed, but are non-operational. The total three-year average gross revenue of those business licensees identified as operational entities with \$1.5 million or more in three-year average gross revenue was used to equitably distribute the total remaining annual costs to be recovered. Specifically, the remaining total statewide annual fee necessary to adequately cover state regulatory costs (after accounting for the base annual fee amounts paid by non-operational entities and operational entities with a three-year average gross revenue under \$1.5 million) was divided by the total three-year average gross revenue of all entities with \$1.5 million or more in three-year average gross revenue, to determine an equitable percentage of gross revenue to be paid by entities with \$1.5 million or more in three-year average gross revenue.

Calculations of fees for each business licensing category, which reflect how business licensee gross revenues and state regulatory costs were used in the calculation, are reflected in Exhibit A. A breakdown of the personnel cost, operating cost, and overhead cost figures used to determine fee levels is reflected in Exhibit B.

Detailed Descriptions of Cost Pool Categories

Cost Pool 1 – Also known as “Even Across All,” this is a cost allocation for all non-application costs that are not directly attributed to an application fee or deposit, and allocated as a cost to all TPPPS business licensees and cardroom business licensees equally. This includes all costs associated with, but not necessarily limited to, administration, information technology, and legislative and regulatory workload. This describes the portion of the Commission and Bureau’s operational costs, as well as other costs that are not linked to the payment of a fee or deposit, such as the review of an application. These costs are related to the Commission and Bureau’s general work related to the oversight of the controlled gambling industry.

Cost Pool 2 – Also known as “Application Split,” this is a cost allocation for all non-application costs on a per-application basis that relate to both TPPPS business licensees and cardroom business licensees that have a direct connection to the processing of applications for the controlled gambling industry, and are not directly attributed to an application fee or deposit. This includes such costs associated with, but not necessarily limited to, responding to general phone calls, and the processing of electronic and regular mail. This describes costs generally associated with the processing of applications, but that cannot be directly linked to the fee or deposit associated with the review of an application.

Cost Pool 3 – Also known as “Entity Split,” this is a cost allocation for all non-application costs generated by non-Commission actions that relate to both TPPPS business licensees and cardroom business licensees. This includes costs associated with, but not necessarily limited to, compliance and enforcement, financial audits, calls for service, and incident reports born separately amongst TPPPS business licensees and cardroom business licensees.

Cost Pool 4 – Also known as “Commission Actions,” this is a cost allocation for all non-application costs generated by matters requiring Commission action that relates to TPPPS business licensees or cardroom business licensees. This includes such costs associated with, but not necessarily limited to, administrative hearings and decisions, and Commission meetings.

Cost Pool 5 – Also known as “Cardroom Only,” this is a cost allocation for all non-application costs that are specific to cardroom business licensees but not directly linked to a Commission approval, such as,

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but not necessarily limited to, compliance reviews of games, reviews of reports, and local ordinance reviews.

Cost Pool 6 – Also known as “TPPPS Only,” this is a cost allocation for all non-application costs that are specific to TPPPS business licensees but not directly linked to a Commission approval, such as, but not necessarily limited to, contract renewal notices and non-investigation industry inquiries or correspondence.

If you have questions or need additional information, please contact Alana Carter, Deputy Director of the Operations Services Division, at acarter@cgcc.ca.gov.

Sincerely,



STACEY LUNA BAXTER
Executive Director

Attachments

**2023 ANNUAL FEE CALCULATION
COST POOLS, SUMMARIES, AND BASE COST CALCULATIONS
EXHIBIT A**

Cost Pool	Cost Pool Name	Description of Methodology	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
			Total Amount to Allocate	# of Active Cardrooms, Average Applications, & Commission Actions	# of Active TPPPS Average Applications, & Commission Actions	% of Total Allocate Charged to Cardroom	% of Total Allocate Charged to TPPPS	Cardroom Amount	TPPPS Amount	Total
			<i>(From Exhibit B)</i>					<i>(A x D)</i>	<i>(A x C)</i>	<i>(F + G)</i>
Cost Pool 1	Even Across All	Even cost to Cardroom and TPPPS, Active and Non-Op. <i>Split evenly 50/50</i>	\$4,773,517	84	26	50%	50%	\$2,386,759	\$2,386,759	\$4,773,517
Cost Pool 2	Application Split	Workload based on average # of applications. <i>(B or C / Total of B+C to arrive at % in D or E)</i>	\$1,685,951	1,011	4,427	19%	81%	\$313,341	\$1,372,610	\$1,685,951
Cost Pool 3	Entity Split	Workload based on # of Entities <i>(B or C / Total of B+C to arrive at % in D or E)</i>	\$9,168,737	84	26	76%	24%	\$7,001,581	\$2,167,156	\$9,168,737
Cost Pool 4	Commission Actions	Workload based on # of Commission Actions. <i>(B or C / Total of B+C to arrive at % in D or E)</i>	\$960,501	1,074	1,948	36%	64%	\$341,356	\$619,145	\$960,501
Cost Pool 5	Cardroom Only Costs	Allocate to Active and Non-Op evenly.	\$1,205,218	1	0	100%	0%	\$1,205,218	\$0	\$1,205,218
Cost Pool 6	TPPPS Only Costs	Allocate to Active and Non-Op evenly.	\$1,380,970	0	1	0%	100%	\$0	\$1,380,970	\$1,380,970
TOTAL			\$19,174,894					\$11,248,254	\$7,926,640	\$19,174,894

Entity Type	(I)	(J)	(K)	(L)	(M)	(N)	(O)
	Cost Pool 1 Even Across All	Cost Pool 2 Application Split	Cost Pool 3 Entity Split	Cost Pool 4 Commission Actions	Cost Pool 5 Cardroom Only Costs	Cost Pool 6 TPPPS Only Costs	TOTAL All Cost Pools
							<i>(I + J + K + L + M + N)</i>
Cardroom <i>(From column G)</i>	\$2,386,759	\$313,341	\$7,001,581	\$341,356	\$1,205,218	\$0	\$11,248,254
TPPPS <i>(From column H)</i>	\$2,386,759	\$1,372,610	\$2,167,156	\$619,145	\$0	\$1,380,970	\$7,926,640
TOTAL	\$4,773,517	\$1,685,951	\$9,168,737	\$960,501	\$1,205,218	\$1,380,970	\$19,174,894

Entity Type	(P)	(Q)	(R)	(S)	(T)	(U)
	3-Year Avg Commission Actions (Cost Pool 4)	Total Annual Fee Cost per Industry (Sum of Cost Pools)	Base Cost per Active Entity Under \$1.5M in Avg. Gross Revenue (GR)	Base Cost for Non-Ops (1/2 Base Cost)	# of Entities Under \$1.5M	# of Entities Non-Op
	<i>(B or C)</i>	<i>(O)</i>	<i>(Q/P)</i>	<i>((Q/P)/2)</i>		
Cardroom	1,074	\$11,248,254	\$10,473	\$5,237	13	32
TPPPS	1,948	\$7,926,640	\$4,069	\$2,035	7	4
TOTAL	3,022	\$19,174,894				

Entity Type	(V)	(W)	(X)	(Y)	(Z)	Percentage of GR to be paid by Entities w/\$1.5M or more in 3-Yr Average GR
	Total Amount of Annual Fee Owed	Amount to be Paid by Active Non-Ops Entities	Amount to be Paid by Active < \$1.5M Entities	Remaining Amount to be Paid by Active > \$1.5M Entities	Total Avg GR of Entities w/\$1.5M or more in Revenue (does not include Inactive, Non-Op or >\$1.5M Entities)	
	<i>(O)</i>	<i>(U x S)</i>	<i>(T x R)</i>	<i>(V-W-X)</i>		<i>(Y/Z)</i>
Cardroom	\$11,248,254	\$167,572	\$136,152	\$10,944,531	\$849,651,623	1.29%
TPPPS	\$7,926,640	\$8,138	\$28,484	\$7,890,018	\$512,601,347	1.54%
TOTAL	\$19,174,894	\$175,710	\$164,636	\$18,834,548	\$1,362,252,970	

PLEASE NOTE, CALCULATION OF FIGURES MAY BE OFF DUE TO ROUNDING.

