

CALIFORNIA GAMBLING CONTROL COMMISSION
INITIAL STATEMENT OF REASONS
2026 UPDATE TO ANNUAL FEES
CGCC-GCA-2025-05-R

HEARING DATE: None Scheduled

SUBJECT MATTER OF PROPOSED REGULATIONS: Update to Annual Fees

SECTIONS AFFECTED: California Code of Regulations, Title 4, Division 18:
Sections 12092 and 12094

SPECIFIC PURPOSE OF REGULATORY PROPOSAL:

INTRODUCTION:

The California Gambling Control Commission (Commission) is the state agency charged with the administration and implementation of the Gambling Control Act (Act).¹ The Commission is authorized to adopt regulations as necessary to implement the Act.

In 2022 and 2023, the Commission adopted annual fee amounts for Third-Party Proposition Player Services (TPPPS) business licensees² and cardroom business licensees.³ Those annual fee amounts were based on a cost and fee analysis that utilized point-in-time workload data and fiscal information from the Commission and the Department of Justice (DOJ), and information collected from the industry. However, that analysis was based on available data through fiscal year 2021-22, and during the rulemaking process, the Commission acknowledged that over time, that data may no longer reflect the most accurate annual fee amounts. The Commission also committed to conducting annual cost and fee analyses to ensure its fees appropriately reflect workload-based costs incurred, and attribute costs appropriately to cardroom business licensees and TPPPS business licensees, based on workload attributable to each portion of the industry. As the result of the most recent cost and fee analysis, the Commission is proposing to update the amounts for the 2027 annual fees, which will be invoiced in October 2026, utilizing the latest available data through fiscal year 2024-25. The Commission has utilized the same calculation methods, detailed below, as were utilized to determine the annual fee amounts in the current regulations.

¹ Business and Professions Code, Division 8, Chapter 5, section 19800 et seq.

² OAL Matter Number 2022-1021-06

³ OAL Matter Number 2023-0306-03

PROBLEM ADDRESSED:

California State Auditor Report

As directed by the Joint Legislative Audit Committee, the California Bureau of State Audits (State Auditor) began conducting an audit of the Commission and the DOJ Bureau of Gambling Control (Bureau) in 2018. The audit focused on each entity's regulatory duties supported by the Gambling Control Fund (GCF)⁴, which includes the licensing of individuals who own or work in cardrooms, including TPPPS. The State Auditor's Report (Audit Report)⁵ released on May 16, 2019, found that to varying degrees, the fees charged resulted in unequal treatment of license applicants and did not align with the costs of providing regulatory oversight and related services. This situation resulted in an excessive surplus in the GCF.

To better align the revenue in the GCF with the costs of the activities that the fund supports, the Audit Report recommended the Commission and the Bureau conduct cost analyses of those activities by July 2020, assessing at a minimum, the following:

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

Further, the Audit Report recommended that the Commission and the Bureau should use this information to reset their regulatory fees to reflect their actual costs.

Cost and Fee Study

Pursuant to the State Auditor's recommendation, in July 2019, the Commission and the Bureau contracted with MGT Consulting Group (MGT), a third-party consulting company, to complete a cost and fee study. The study's primary objective was to conduct a cost analysis to determine if the revenue collected and deposited into the GCF aligned with the costs of the activities that the fund supports. The study detailed the full costs necessary to regulate the industry and presented full-cost fee adjustments, including their fiscal impact. Specifically, the study provided fee recommendations to align the revenue collected and deposited into the GCF with the costs of the activities conducted by the Commission and the DOJ that the fund supports.

MGT issued their report in June 2021, representing the culmination of an extensive analysis conducted by MGT in collaboration with both the Bureau and the Commission's management and staff. The Commission submitted copies of the MGT report to the Department of Finance and the State Auditor. Subsequently, the Commission promulgated several regulatory amendments to implement fee changes resulting from the Audit Report's recommendations and findings of the cost and fee study.

PURPOSE:

This proposed action updates the annual fee amounts for cardroom business licensees and TPPPS business licensees, based upon the calculation method recommended by MGT in response to the Audit Report, as discussed above.

⁴ Gambling Control Fund (0567)

⁵ State Audit Report 2018-132

ANTICIPATED BENEFITS OF PROPOSED REGULATION:

This proposed action will have the benefit of requiring cardroom business licensees and TPPPS business licensees to pay total annual fees in an amount necessary for the Commission and Bureau to maintain proper funding levels, while aligning the annual fees paid by each portion of the industry (cardrooms and TPPPS) with the costs associated with workload attributable to that portion of the industry.

PROPOSED ACTION:

This proposed action will make changes within the California Code of Regulations, Title 4, Division 18 as follows:

CHAPTER 1. GENERAL PROVISION

ARTICLE 1. FEES

Amend Section 12092. Annual Fee.

Section 12092 provides the process and timelines for a TPPPS business licensee to submit their annual fee.

Subsection (c) provides the timeline and standard for disapproval by the Bureau of a request for installment payments and specifies annual fee payment deadlines for cardroom business licensees and TPPPS business licensees. Cardroom business licensees and TPPPS business licensees must make the final installment payment by June 30 of the payment year. This provision is amended to change the final installment payment deadline to June 5. This amendment is necessary because submittal of the payment on June 30, which is the end of the State's fiscal year, has created a burden on the DOJ. By receiving the payments slightly earlier, the DOJ will be able more easily integrate the receipt of payments into their fiscal processes without conflicting with the end of the fiscal year.

Amend Section 12094. Annual Fee Amounts.

Section 12094 provides the annual fee amounts required of cardroom business licensees and TPPPS business licensees.

Section 12094 specifies that the annual fee amounts for cardroom business licensees and business licensees include:

TPPPS Annual Fee Amounts

- \$0 for surrendered or revoked licensees;
- \$2,326 for non-operational licensees;
- \$13.21 daily rate;
- \$4,653 for active licensees with a three-year average gross revenue under \$1,500,000; or,
- 1.29% of the three-year average gross revenue for active licensees with a three-year average gross revenue of \$1,500,000 or more.

Cardroom Annual Fee Amounts

- \$0 for surrendered or revoked licensees;
- \$7,575 for non-operational licensees;

- \$34.16 daily rate;
- \$15,150 for active licensees with a three-year average gross revenue under \$1,500,000; or,
- 1.18% of the three-year average gross revenue for active licensees with a three-year average gross revenue of \$1,500,000 or more.

To determine the current annual fees, the Commission used a step-by-step calculation method that began with the Commission's and Bureau's operational costs that are not directly related to any direct fees or deposits—which are charged directly to an applicant, cardroom or TPPPS—following the MGT cost and fee study. The Commission used this same calculation method to determine the proposed annual fees for this action, which are:

TPPPS Annual Fee Amounts

- \$0 for surrendered or revoked licensees;
- \$2,170 for non-operational licensees;
- \$11.89 daily rate;
- \$4,340 for active licensees with a three-year average gross revenue under \$1,500,000; or,
- 1.49% of the three-year average gross revenue for active licensees with a three-year average gross revenue of \$1,500,000 or more.

Cardroom Annual Fee Amounts

- \$0 for surrendered or revoked licensees;
- \$6,895 for non-operational licensees;
- \$37.78 daily rate;
- \$13,791 for active licensees with a three-year average gross revenue under \$1,500,000; or,
- 1.09% of the three-year average gross revenue for active licensees with a three-year average gross revenue of \$1,500,000 or more.

The process was as follows:

As outlined in the Commission's process flow charts included in this rulemaking record, the Commission collected budget information and workload-based cost and volume data from the Commission and DOJ. The Commission analyzed the data and removed any costs related to an industry other than cardrooms or TPPPS businesses, such as Tribal-related costs. The remaining costs, all related to either cardrooms or TPPPS businesses, were analyzed to determine which costs were not related to any direct fee or deposit, and any costs related to a direct fee or deposit were removed from the data set. The remaining cost data was examined and divided into one of six categories, or "cost pools," based on the associated workload function:

Cost Pool 1. Non-application costs that are not directly attributed to an application fee or deposit. This includes costs associated with administration, information technology, and legislative and regulatory workload that affects both cardrooms and TPPPS.

Cost Pool 2. Non-application costs that have a connection to the application process for the controlled gambling industry, but are not charged to a direct fee or deposit

because the costs are not specific to a submitted application. This includes costs associated with responding to general phone calls, and the processing of electronic and regular mail.

Cost Pool 3. Non-application costs generated by non-Commission actions. This includes costs associated with compliance and enforcement, financial audits, calls for service, and incident reports borne separately amongst TPPPS business licensees and cardroom business licensees.

Cost Pool 4. Non-application costs generated by matters requiring Commission action. This includes costs associated with administrative hearings and decisions, and Commission meetings.

Cost Pool 5. Non-application costs that are specific to cardroom business licensees but not directly linked to a Commission approval, such as compliance reviews of games, reviews of reports, local ordinance reviews, and legislative and regulatory workload that affects only cardrooms.

Cost Pool 6. Non-application costs that are specific to TPPPS business licensees but not directly linked to a Commission approval, such as contract renewal notices, non-investigation industry inquiries or correspondence, and legislative and regulatory workload that affects only TPPPS.

The cost data in each cost pool was then separated into two portions: those costs associated with TPPPS business licensees and those costs associated with cardroom business licensees. The cost pools were separated as follows:

Cost Pool 1. The Commission split this cost pool evenly between cardrooms and TPPPS.

Cost Pool 2. The Commission calculated the percentages of total applications for cardroom business licensees and TPPPS business licensees using the average number of applications submitted over the previous five fiscal years.⁶ This percentage was applied to Cost Pool 2.

Cost Pool 3. The Commission determined the percentage of active and non-operational cardroom business licensees compared to the total of all active and non-operational TPPPS business licensees and cardroom business licensees. This percentage was applied to Cost Pool 3.

Cost Pool 4. The Commission determined the percentages of total Commission actions for TPPPS business licensees and cardroom business licensees using the average number of applicable Commission actions over the previous three fiscal years. This percentage was applied to Cost Pool 4.

Cost Pool 5. The entirety of this cost pool is associated with cardroom business licensees.

Cost Pool 6. The entirety of this cost pool is associated with TPPPS business licensees.

To determine the total annual fee to be paid by all cardroom business licensees and TPPPS business licensees, the Commission totaled the amounts from each cost pool that were attributable to each group. To determine the amounts owed by each individual cardroom business licensee or TPPPS business licensee, the Commission did the following:

⁶ If application submittal data was available for fewer than the previous five fiscal years, the Commission used an annual average of available application data within that timeframe.

- The Commission set the annual fee amount for surrendered or revoked licensees at \$0, as these persons are no longer licensees with the Commission.
- To determine the amount owed by each active licensee whose three-year average gross revenue was under \$1,500,000, the Commission divided the total annual fee amount owed by cardroom business licensees or TPPPS business licensees by the three-year average number of Commission actions associated with that group.
- To determine the amount owed by each non-operational licensee, the Commission divided by half the amount owed by each active licensee of that group whose three-year average gross revenue was under \$1,500,000.
- To determine the percentage owed by licensees with a three-year average gross revenue of \$1,500,000 or more, the Commission determined the remaining annual fee owed as follows:
 - Subtracting the amounts determined for active licensees whose three-year average gross revenue was under \$1,500,000 and non-operational licensees from the total amount owed by all cardroom business licensees or TPPPS business licensees.
 - Dividing the result by the total three-year average gross revenue of all cardroom business licensees or TPPPS business licensees with a three-year average gross revenue of \$1,500,000 or more.
 - The resulting percentage is what is provided in the regulation and will be applied to each cardroom business licensee's or TPPPS business licensee's three-year average gross revenue amount to determine the amount owed.

This distribution, as provided in the MGT Cost and Fee Study, provides that larger cardroom business licensees and TPPPS business licensees, who generally require more non-application administrative costs because they have more employees/licensees, generate more compliance and enforcement regulatory activity, and/or generate more Commission actions than smaller entities, pay a larger portion of the required total fee amount as their annual fee. By splitting up the remainder of the total fee amongst these licensees and utilizing their three-year average gross revenue, each cardroom business licensee or TPPPS business licensee is required to pay a proportional percentage of the total fee while still ensuring that the Commission and Bureau receive all fees required to cover the costs of these necessary services.

Additionally, the Daily Rate amount is updated. The number for this rate is calculated by dividing the group's Active Licensee – 3-Year Average Gross Revenue Under \$1.5 million by 365.

REQUIRED DETERMINATIONS:

LOCAL MANDATE:

A mandate is not imposed on local agencies or school districts.

UNDERLYING DATA:

Technical, theoretical, or empirical studies or reports relied upon:

1. MGT Consulting. 2021. Department of Justice's Bureau of Gambling Control and California Gambling Control Commission Fee Study Report of Findings.

2. Commission Process Flowcharts.
3. *Cost Pools, Summaries, and Cost Calculations; Exhibit A.* 2026. California Gambling Control Commission.
4. *Cost Pool Breakdown by Department (Salaries, Overhead, Administrative Costs); Exhibit B.* 2026. California Gambling Control Commission.

BUSINESS IMPACT:

The Commission has determined that the proposed regulatory action will not have a significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states. This determination is based on the following facts or evidence/documents/testimony:

This proposed action imposes no new mandatory requirements on businesses.

The Commission anticipates a statewide cost of approximately \$1,374,234 in TPPPS annual fees. This cost would directly impact TPPPS business licensees. This is reflected as an average cost of approximately \$295,095 in annual fees for a typical business and approximately \$10,770 for a small business. These estimates were calculated based on the difference between 2026 annual fees invoiced to TPPPS business licensees in October 2025 based on the annual fee amounts in the current regulations, compared to the 2026 annual fees that would have been invoiced to TPPPS business licensees based on the proposed amendments to the annual fee amounts. As previously described, the calculation method was weighed to ensure that those businesses whose three-year average gross revenue is under \$1,500,000 per year pay a lower proportion of the total fees necessary to ensure that no TPPPS business licensee is significantly impacted.

The Commission anticipates an additional statewide savings of approximately \$1,200,885 in cardroom annual fees. These savings would directly impact cardroom business licensees. This is reflected in an average savings of approximately \$82,163 in annual fees for a typical business and approximately \$5,643 for a small business. These estimates were calculated based on the difference between 2026 annual fees invoiced to cardroom business licensees in October 2025 based on the annual fee amounts in the current regulations, compared to the 2026 annual fees that would have been invoiced to cardroom business licensees based on the proposed amendments to the annual fee amounts. As previously described, the calculation method was weighed to ensure that those businesses whose three-year average gross revenue is under \$1,500,000 per year pay a lower proportion of the total fees necessary to ensure that no cardroom business licensee is significantly impacted.

For purposes of estimating the impact on typical businesses and small businesses, the Commission utilized federal Small Business Administration (SBA) definitions of a small business for casinos and other gambling industries. An average annual gross gaming revenue of \$34 million was used as the threshold for small business cardrooms, as specified in the North American Industry Classification System (NAICS) Code section 713210 and referenced by the SBA in Section 121.201 of Title 13, Part 121 of the Electronic Code of Federal Regulations. Cardroom business licensees having a three-year average gross revenue of no more than \$34 million were identified as small businesses. An average annual gross gaming revenue of \$40 million was used as the threshold for small business TPPPS, as specified in the North American

Industry Classification System (NAICS) Code section 713290 and referenced by the SBA in Section 121.201 of Title 13, Part 121 of the Electronic Code of Federal Regulations. TPPPS business licensees having a three-year average gross revenue of no more than \$40 million were identified as small businesses.

SPECIFIC TECHNOLOGIES OR EQUIPMENT:

The proposed action does not mandate the use of specific technologies or equipment.

ECONOMIC IMPACT ASSESSMENT/ANALYSIS:

IMPACT ON JOBS/NEW BUSINESSES:

The Commission has determined that this regulatory proposal will not have a significant impact on the creation of new jobs or businesses, the elimination of jobs or existing businesses, or the expansion of businesses in California.

The basis for this determination is that this proposed action only adjusts TPPPS business licensees' and cardroom business licensees' annual fees to better align with costs incurred by the Commission and Bureau, which is unlikely to result in additional or reduced industry participation or performance.

HEALTH AND WELFARE OF CALIFORNIA RESIDENTS:

It has been determined that the proposed action will protect the health, safety, and general welfare of California residents by aiding and preserving the integrity of controlled gambling.

WORKER SAFETY:

It has been determined that the proposed action will not affect worker safety because it does not pertain to working conditions or worker safety issues.

STATE'S ENVIRONMENT:

It has been determined that the proposed action will not affect the state's environment because it does not pertain to environmental issues.

CONSIDERATION OF ALTERNATIVES:

No reasonable alternative to the regulations would be more effective in carrying out the purpose for which the action is proposed. No reasonable alternative would be as effective as and less burdensome to affected private persons than the proposed action, nor would it be more cost-effective to affected private persons and equally effective in implementing the statutory policy or other provision of law.

Set forth below are the alternatives that were considered and the reasons each alternative was rejected: No reasonable alternative has been developed or otherwise identified and brought to the attention of the Commission.