

- 4) Requires, with respect to fees, the regulations to include a prescribed manner and method for the collection and payment of fees and issuance of licenses.

This bill:

- 1) Requires, upon adoption or adjustment of a fee that is deposited in the Fund, the Commission or the DOJ to do both of the following:
 - a) Adopt and maintain a regulation that states the authorized purpose and use of the fee, including the program activities funded and the categories of costs covered, including shared administrative or support costs. The cost allocation methodology may be incorporated by reference to materials in the rulemaking record.
 - b) Post on its public internet website the purpose and use statement and a brief cost basis summary related to that fee.
- 2) Prohibits a fee or adjustment to take effect until the regulation required by this bill is adopted or amended.
- 3) Provides that unless otherwise authorized by statute and identified by regulation, fees established for licensing activities shall not be used to fund nonlicensing activities.
- 4) Provides that fees subject to this bill shall only be expended for the activities and purposes stated for that fee in the applicable regulation adopted pursuant to this section.
- 5) Provides that the provisions of this bill do not apply to any fee adopted or amended prior to the effective date of this bill.

Background

Author Statement. According to the author's office, "SB 920 will ensure that all fees collected under the [Act] are clearly tied to their specified regulatory purposes and that stakeholders – including licensees, public officials, and the public – can readily understand how fee revenues are used to support the oversight responsibilities of the [Commission] and the [DOJ]. Under current law, when fees are set or adjusted, the purpose and cost basis aren't consistently laid out in regulation. This makes budgeting opaque, invites cross-subsidies, and fuels friction in rulemaking. An audit report on Fund fees completed in 2018 identified

this as an issue and recommended that the Legislature take action. SB 920 implements that recommendation and ensures transparency surrounding Act fees.”

California's Cardrooms. California's cardrooms have operated in some capacity since the Gold rush era. Currently, there are approximately 83 cardrooms that operate in 32 counties in California. There are approximately 2,203 tables licensed for play statewide, many of which are located in Los Angeles, the Central Coast, the Bay Area, and the Central Valley. A small percentage are large in scale, the rest are smaller operations, sometimes as small as one table, scattered throughout the state. The industry generates roughly \$850 million in revenue after winnings. Cardrooms and their owners are subject to state business and income taxes. Additionally, about \$24 million in fees are projected to be collected annually from the industry to support state regulatory and problem gaming costs.

The Act provides the Commission with jurisdiction over the operation of gambling establishments in California. The Act requires every owner, lessee, or employee of a gambling establishment to obtain and maintain a valid state gambling license and assigns the Commission with responsibility of assuring that gambling licenses are not issued to, or held by, unqualified or disqualified persons, or by persons whose operations are conducted in a manner that is harmful to the public health, safety, or welfare. The Act directs the Commission to issue licenses only to those persons of good character, honesty and integrity; whose prior activities, criminal record, if any, reputation, habits, and associations do not pose a threat to the public interest of this state.

The DOJ, through the Bureau, monitors the conduct of gaming operations to ensure compliance with state gambling laws and conducts extensive background investigations of applicants seeking a state gambling license. The Bureau also conducts background checks for all key employees and state gambling licensees and vendor applications. The Bureau also inspects premises where gambling is conducted, examines gambling equipment, audits papers, books, and records of the gambling establishment, investigates suspected violations of gambling laws, and is ultimately responsible for enforcing compliance with all state laws pertaining to gambling.

Existing law establishes the Fund in the State Treasury and provides that funds should be used, upon appropriation by the Legislature, for expenditure by DOJ and the Commission exclusively for the support of DOJ and the Commission in carrying out their duties and responsibilities under the Act.

State Auditor Report. In May 2019, the California State Auditor (Auditor) released a report titled, *Bureau of Gambling Control and California Gambling Control*

Commission: Their Licensing Processes are Inefficient and Foster Unequal Treatment of Applicants. The audit examined how the DOJ's and the Commission's process licenses for individuals and businesses working in California's cardroom gaming industry.

The audit concluded that both agencies have implemented fee structures that result in unequal treatment of license applicants. Although the audit did not find evidence of discrimination by either entity based on applicants' ethnicity or other protected characteristics, it determined that the DOJ's incomplete and inconsistent procedures led to disparities in the level of scrutiny applied to different applicants. Relevant to this bill, the audit also found that neither the DOJ nor the Commission has addressed the misalignment between the fees they collect and the actual costs of providing regulatory oversight. The audit noted that this misalignment has contributed to a substantial surplus in the Fund and may raise questions regarding the legality of certain fees.

In order to ensure that all fees that generate revenue for the Fund have a clear, stated purpose limiting their use, the Auditor recommend that, "the Legislature should require that when updating fee amounts, the commission and the bureau must also update their regulations to include clear statements about the need for an appropriate use of each type of fee." Based on that recommendation, this bill would require that, when adopting or adjusting any fee deposited into the Fund, the Commission and the DOJ must adopt and maintain a regulation specifying the authorized purpose and use of the fee. The bill also requires the Commission and DOJ to post on its public websites the fee's purpose and use statement along with a brief summary of the cost basis supporting the fee. The bill makes it clear that the requirements of this bill do not apply to any fee adopted or amended prior to the effective date of this bill.

Prior/Related Legislation

SB 451 (Archuleta, Chapter 584, Statutes of 2025) clarifies the DOJ's authority to investigate suspected violations of illegal gambling activities conducted outside of licensed cardrooms, irrespective of whether the suspected violation involves licensees.

AB 553 (Ramos, Chapter 533, Statutes of 2023) requires DOJ to develop and implement a policy and procedure for employees assigned to the Bureau to formally track those house and other expenses that can be charged to the Indian Gaming Special Distribution Fund, as specified.

AB 1268 (Patterson, 2022) would have required the Commission and DOJ, when increasing a fee amount, to include a clear statement justifying the need for the fee increase and explaining how the funds will be used in the regulation updating the fee. (Never Heard in the Assembly Governmental Organization Committee)

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

SUPPORT:

Communities of the Communities for California Cardrooms (Source)

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: According to the Communities for California Cardrooms, “this provision is an important step toward ensuring that all fees collected under the [Act] are clearly tied to their specified regulatory purposes and that stakeholders – including licensees, public officials, and the public – can readily understand how fee revenues are used to support the oversight responsibilities of the [Commission] and the [Bureau]. By requiring published statements of purpose and cost basis summaries, SB 920 advances good governance practices and promote greater transparency in fee adoption and expenditure and protect the integrity of regulatory funding mechanisms.”