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Commission Releases Review of Card Club Ownership Rules

The Little Hoover Commission on Monday released a report concluding that two historic limitations on the ownership of card clubs are no longer necessary to protect the public against criminal activity.

The Commission, at the request of the Governor and the Legislature, reviewed two statutory limits on the ownership of card clubs: The first provision effectively excludes casino operators in other states from having an interest in a California card club. The second prohibition effectively prevents publicly traded companies from operating card clubs.

The limits were placed in the law before California enacted the Gambling Control Act of 1997, which created an independent Gambling Control Commission and a Division of Gambling Control within the Department of Justice. The limitations were largely intended to prevent organized criminals from becoming involved in the ownership or operation of card clubs at a time when local government regulated those establishments, to the extent that they were regulated at all.

The law currently requires every owner of a card club to be licensed, effectively excluding publicly traded companies from ownership because of the large number and frequent change among shareholders, particularly those owning a small percentage of the company. The law also prevents anyone involved in gambling operations that are legal in other states, but illegal in California, from becoming licensed.

Some exceptions to these prohibitions already exist in law and the Legislature in recent years has passed bills that would expand those exemptions. Governor Davis, in vetoing a bill last year that would have broadened the exemptions, requested that the Little Hoover Commission review the ownership laws. The Commission was subsequently urged by the legislative leaders to review the existing law.

The Commission was told by regulators in California – as well as those in New Jersey and Nevada – that the comprehensive licensing of owners and employees that takes place now can effectively prevent criminal elements from becoming involved in the operation of card clubs. Both New Jersey and Nevada also have extensive experience licensing publicly traded casino companies; regulators in those states believe that pressure from investors and the scrutiny of federal securities regulators provide additional incentives for those corporations to comply with the law.

Some of California's 100-plus card clubs have sought the rule change so they can raise more capital. At least one corporation that has operated under an exemption in the law lost its ability to directly operate a card club when it sold the adjacent horseracing track; it sought a change in the law so it could directly operate two card clubs it owns in Southern California. A few cities that receive substantial fees from the state's largest card clubs also support the rule changes.

While the Commission was not persuaded that the rules should be eased so that the card clubs can survive or grow, it did conclude that the existing limits were an anachronistic attempt to protect the public safety.

Opponents to the proposed changes are concerned about expansion – some because they oppose gambling and some, including at least one card club and many casino-owning tribes, because they oppose the competition that capitalized card clubs could present in both the marketplace and in policy venues.

The Commission noted that state law prohibits the expansion of card clubs through 2007. The Commission also noted that policy-makers could ease the ownership limitations, and if they choose, fortify the existing moratorium.

The Commission's report is available on the Commission's Web site: www.lhc.ca.gov. The Commission is a bipartisan panel comprised of public and legislative members charged with reviewing state policies for efficiency and effectiveness and making recommendations for improvement to the Governor and Legislature.