STATE OF CALIFORNIA — DEPARTMENT OF FINANCE

MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

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1. Statement of the need for the proposed major regulation.

The first proposed regulation would implement a requirement that the player-dealer position be rotated between the seated players and the third-party providers of proposition player services (TPPPPS) for games with player-dealers. The regulation intends to clarify the role of the player-dealer position so that games will be played in compliance with the law. The second proposed regulation would clarify which elements of cardroom games sufficiently differentiate them from twenty-one (or Blackjack), which is prohibited by statute in California.

2. The categories of individuals and business enterprises who will be impacted by the proposed major regulation and the amount of the economic impact on each such category.

All cardrooms (or card clubs) in California would be subject to the proposed regulations. There are currently 86 licensed cardrooms, with 65 operating before the advent of COVID-19, distributed around the state. In addition to the cardrooms themselves, all TPPPPS would be affected. There are currently 36 active TPPPPS in the state. Moreover, impacts are not expected to be limited to the gaming-related operations but to indirectly affect a variety of associated attractions or appurtenant services including restaurants, bar, and hotels.

3. Description of all costs and all benefits due to the proposed regulatory change (calculated on an annual basis from estimated date of filing with the Secretary of State through 12 months after the estimated date the proposed major regulation will be fully implemented as estimated by the agency).

The player-dealer rotation regulations could eliminate 50% TPPPPS revenue from cardrooms and divert 25% of that lost revenue to tribal casinos. Elimination of 50% of TPPPPS revenue would represent a direct loss for cardrooms of $396 million. Substitution of 25% of all gaming activities from cardrooms to tribal casinos could result in a direct benefit to them of $198 million. Total net direct costs to the gaming sector would thus be $198 million, while cardrooms would lose $396 million and tribal casinos would gain $198 million, and the combined costs and benefits (falling on different stakeholders) would be $594 million. The Blackjack regulations would eliminate all Blackjack revenue from cardrooms with 50% of that lost revenue replaced with new games, and 25% of that lost revenue could be diverted to tribal casinos. Elimination of all Blackjack revenue from cardrooms with replacement of 50% of revenue from new games could represent a $68 million cost to cardrooms while 25% Blackjack substitution to tribal casinos could represent a $34 million benefit to tribal casinos, yielding combined impacts exceeding $102 million. More restrictive treatment of TPPPPS and Blackjack will threaten cardroom revenue, divert business to tribal casinos and out-of-state alternatives, and offer incentives for product differentiation. Other costs include indirect effect on a variety of associated attractions or appurtenant services including restaurants, bars and hotels, and on local tax revenues dependent upon gaming revenue. Other benefits include improved compliance with gambling restriction laws and reduction in problem gambling.

4. Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed $50 million.

Under the current timeline, the Player-Dealer rotations regulations would tentatively be effective in October 2025. Cardrooms will have 60 days to request review of game rules, and the Bureau will have 120 days to approve or disapprove the game rules. That would mean full implementation by late March 2026. For Blackjack regulations, cardrooms have 60 days to request review, and the Bureau has 90 days to respond, which would mean full implementation by March 2026. The 12-month period in which DOJ has estimated economic impact is March 2026 through March 2027.

5. Description of the agency's baseline:

In 2023, TPPPPS revenue from cardrooms was approximately $793 million, total cardroom revenue was approximately $1.356 billion, and Blackjack revenue was approximately $136 million. The entire cardroom industry, including cardrooms, TPPPPS, and associated non-gaming activities, employs an estimated 18,000 people in California, generating $730 million in wages and benefits, and contributes $3 billion to overall economic activity.

6. For each alternative that the agency considered (including those provided by the public or another governmental agency), please describe:
   a. All costs and all benefits of the alternative
   b. The reason for rejecting alternative

The less stringent alternative would be a three-year extension of the deadline for full compliance. This would simply defer full direct costs and benefits until 2027, and assumes compliance progresses linearly from 2025 (i.e. in three equal steps). Extending compliance time might allow for more innovation and adaptation, leveraging additional annual savings for investment to reduce adjustment costs. This alternative was rejected because there is no data or convincing behavioral model to estimate innovation pathways resulting from further delay in bringing cardrooms into compliance. The more restrictive alternative would be to eliminate cardroom gaming in California, diverting half of its baseline revenue to tribal casinos. The more restrictive alternative is rejected because it is hypothetical and relatively extreme. Legal cardrooms contribute substantially to local and state economies. By 2035, cessation of cardroom gambling would reduce state Gross State Product by over $1.3 billion and jobs by more than 1,000.

7. A description of the methods by which the agency sought public input. (Please include documentation of that public outreach).

DOJ solicited public and stakeholder input on the proposed regulations by way of a pre-rulemaking public comment period from September 11 to October 26, 2023. Interested parties were invited to review concept language of the text and submit written comments to the Bureau of Gambling Control. During these weeks, 30 comment letters were submitted.

In addition, DOJ has been informally engaging with industry, private sector, and local government stakeholders on these issues for some time.

8. A description of the economic impact method and approach (including the underlying assumptions the agency used and the rationale and basis for those assumptions).

The economy-wide impacts of the proposed regulations were evaluated using the BEAR forecasting model. The BEAR model is a dynamic computable general equilibrium (CGE) model of the California economy. The model simulates detailed patterns of demand, supply, and resource allocation across the state, estimating economic outcomes over the period 2026-3035. For this SRIA, the BEAR model is aggregated to 60 economic sectors, with detailed representation of the construction sectors most likely affected by the regulations. The current version of the BEAR model is calibrated using 2022 IMPLAN data for the California economy. Both the baseline and policy scenarios use the DOF conforming forecasts from July 2024. The macroeconomic assessment is calibrated to incremental, sector-specific cardroom, Blackjack, and TPPPPS baseline and direct regulatory impact. Costs of lost cardroom profits are captured through changes in revenue patterns entered directly in the BEAR model. More comprehensive indirect and induced effects are simulated as they would pass through supply and expenditure chains and institutional transfers across the state economy. All these effects are captured by the BEAR model and then aggregated into net economic impacts, annually over the period 2026-2035, and discounted using the Federal Funds rate as a proxy for intertemporal time preference.

Agency Signature		Date
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