BENBROOK LAW GROUP

Professional Corporation 400 CAPITOL MALL, SUITE 2530 SACRAMENTO, CALIFORNIA 95814

www.benbrooklawgroup.com

TELEPHONE: (916) 447-4900 FACSIMILE: (916) 447-4904

BRADLEY A. BENBROOK

brad@benbrooklawgroup.com

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Via Email and Hand Delivery

Stephanie Shimazu Director Bureau of Gambling Control Department of Justice 2450 Del Paso Road Sacramento, CA 95834

Re: Bureau Workshops on Rotation of the Player-Dealer Position

Dear Director Shimazu:

Our firm represents the California Gaming Association ("CGA"). The CGA is an industry trade group whose members comprise 90 percent of the active cardroom tables in California. Our members provide tens of thousands of living wage jobs to working Californians and hundreds of millions of dollars of tax revenue to host communities.

On behalf of the CGA, we are submitting these comments concerning the rotation of the player-dealer position and the topics listed in your January workshop notice. The tribal complaints that prompted the Bureau's workshops are erroneous, and the CGA and its members strongly oppose the tribes' draconian regulatory proposals. Aside from having no basis in the law, any new regulations resembling those being demanded by the tribes would have substantial economic impacts on cardrooms, our employees, our communities, and thousands of vendors and suppliers to our industry.

I. The Governing Law.

Penal Code Section 330 prohibits "banking" games. "Banking game has come to have a fixed and accepted meaning: the 'house' or 'bank' is a participant in the game, taking on all comers, paying all winners, and collecting from all losers." *Sullivan v. Fox* (1987) 189 Cal.App.3d 673, 678 (citations omitted) (*Sullivan*).

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In November 1984, California's constitution was amended to also prohibit casinos "of the type currently operating in Nevada and New Jersey." Article IV, section 19. The California Supreme Court has said:

[T]he "type" of casino referred to must be an establishment that offers gaming activities including banked table games and gaming devices, i.e., slot machines.... Similarly, "the type" of casino "operating in Nevada and New Jersey" presumably refers to a gambling facility that did not legally operate in California...... The type of casino then operating in California is what has commonly been called a "card room"... a type that did *not* offer gambling activities including banking games and gaming devices.

Hotel Employees & Restaurant Employees v. Davis (1999) 21 Cal.4th 585, 604–05 (citations omitted).

Player-Dealer Games. California cardrooms have been operating player-dealer games since at least 1983, before the constitution was amended.¹ In player-dealer games, each table has multiple seated player positions. For each hand dealt, one player position is designated as the player-dealer position. The person seated in the player-dealer position wagers a fixed amount. The persons wagering in the other player positions all wager against the player-dealer position. The opportunity to occupy the player-dealer position rotates to all seated table positions, a distinguishing feature not found in the tribal or commercial casino versions of the games. A further distinguishing feature is that more than one participant can wager on a hand, including on the player-dealer hand.

For the last 35 years cardrooms have operated player-dealer games with the approval of the Legislature, Courts, and Attorney General. These games are integral to the continued vitality of the industry, amounting to 70% or more of activity and revenue in some cardrooms. Cardrooms operate in dozens of California communities and are responsible for over 20,000 local jobs, \$800 million in annual income, \$2 billion in annual economic activity, and \$300 million in tax revenue. In short, communities and individuals across the State have relied on the Bureau's practice of approving these games for play under rules currently in effect—a practice of long standing, interrupted only relatively recently by the Bureau's unwillingness to act on game approvals.²

¹ The City of Huntington Park adopted an ordinance for Pai Gow Poker played as a player-dealer game in August 1984. *Huntington Park v. County of Los Angeles* (1988) 206 Cal.App.3d 241, 244. The findings in AB 1416 for Penal Code §330.11 states that player-dealer games were played in card rooms in 1983 (*see* note 3, *infra*).

² At the same time, these games have had no apparent impact on the continued growth of California tribal gaming, which totals \$8.4 billion a year in gaming revenue and has reached

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Judicial Decisions. Several Court of Appeal decisions have held that player-dealer games played with the rules described in the previous section are not banking games.

[P]ai Gow is not a banking game proscribed under section 330 since the record does not establish that either the plaintiffs (the house) or any other entity maintains or operates a "bank."

Huntington Park v. County of Los Angeles (1988) 206 Cal.App.3d 241, 250 (Huntington Park); accord Bell Gardens v. City of Los Angeles (1991) 231 Cal.App.3d 1563, 1568 (Bell Gardens); Sullivan, 189 Cal.App.3d at p. 678; Walker v. Meehan (1987) 194 Cal.App.3d 1292, 1298 fn. 5.) The courts understood that not every player accepted the player-dealer position. Bell Gardens, supra, at p. 1566 ("The position of dealer rotates systematically among the players and each player has the opportunity to act as dealer for two consecutive rounds."). Nevertheless, they found "wholly lacking in merit" the contention that such games constitute banking games. Id. at p. 1570.

While the tribes often take the position that a new player must accept the player-dealer position every two hands in order for rotation to prevent the game from being a banking game, there is no statement in any judicial decision that sets out such a rule, and it is directly contrary to the decisions in *Huntington Park* and *Bell Gardens*. Nor is there any statement in the reported cases that "two hands" was the legal maximum number of hands before *offering* the position to other participants or that, once offered, the player-dealer position must be accepted by a new player without returning to the same player-dealer. Offering the player-dealer position every two hands has been the industry custom and Bureau-approved practice. But it has not created a substantive rule governing how often rotation must be offered, or how much rotation is required, for a game to not constitute a banking game.

all-time highs. Recent statistics demonstrate the *de minimis* effect of cardroom activity on their continued growth.

California's tribal casino industry, which accounts for more than a quarter of the nation's tribal casino revenue, showed stronger revenue growth than the next 15 largest states for tribal gaming revenue, a new report shows. ... Casino City's Indian Casino Industry Report, released this month, covers the year ended 2016, where California tribal casinos grew revenue by 6.3 percent. Nationwide, the growth was 3.9 percent. The report said 2016 was an all-time high in California tribal casino revenue, and the sixth straight year of revenue growth. ... California tribal casinos in 2016 had gaming revenue of \$8.4 billion, or 26.7 percent of the total tribal casino revenue in the nation...

Sacramento Business Journal, "California tribal casino growth outpaces nation, report shows" (Oct. 12, 2018), https://www.bizjournals.com/sacramento/news/2018/10/12/california-tribal-casino-growth-outpaces-nation.html.

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Tribal advocates routinely misstate the holding in *Oliver v. County of Los Angeles* (1998) 66 Cal.App.4th 1397. The *Oliver* decision is consistent with the several decisions upholding the player-dealer games described above. *Oliver* simply recognized that it was impossible to declare, categorically and in a declaratory relief action, that a game was not a banking game if it featured rules under which it remained possible that "[a] player with a significant amount of money to bet can hold the position of player-dealer **for a long time**..." *Oliver, supra*, at p. 1409 (emphasis added). *Oliver* does not say that the deal must rotate every two hands, to every person, or even in every round of play. *Oliver* also does not define what amount of time is "for a long time."

In short, no judicial decision has ever mandated that a new player accept the player-dealer position every two hands or in every round of play.

Legislation. Following *Oliver*, in 2000 in AB 1416 the Legislature adopted Penal Code section 330.11 to codify the usage of the player-dealer position. The Legislature confirmed that player-dealer games are legal under the Penal Code and the State Constitution.³ Section 330.11 provides:

"Banking game" or "banked game" does not include a controlled game if the published rules of the game feature a player-dealer position and provide that this position must be continuously and systematically rotated amongst each of the participants during the play of the game, ensure that the player-dealer is able to win or lose only a fixed wager during the play of the game, and preclude the house, another entity, a player or an observer from maintaining or operating as a bank during the course of the game. For the purposes of this section, it is not the intent of the Legislature to mandate acceptance of the deal by every player if the division finds that the rules of the game render the maintenance of or operation of a bank impossible by other means.

An earlier version of AB 1416 would have provided that no player could hold the player-dealer position for more than two consecutive hands. See, e.g., Section 3, Senate versions, 3/23/2000 - 5/16/2000. However, in the Senate Amendments dated July 5, 2000,

³ AB 1416. Section One: The Legislature finds and declares as follows:

⁽a) In 1983 and 1984 California card clubs played games with cards involving a player-dealer position in which players were afforded the temporary opportunity to wager against multiple players at the table where the player-dealer position continuously and systematically rotated among the players, prior to the amendment of Section 19 of Article IV of the California Constitution by the California State Lottery Act in 1984. This method of play was approved by the Courts of Appeal in *Sullivan v. Fox* (1987) 189 Cal.App.3d 673, *Walker v. Meehan* (1987) 194 Cal.App.3d 1290, *City of Bell Gardens v. County of Los Angeles* (1991) 231 Cal.App.3d 1563, and *Huntington Park Club Corp. v. County of Los Angeles* (1988) 206 Cal.App.3d 241.

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that language was removed. The Legislature deliberately did not require rotation of the deal every two hands. Instead, it made clear that a game is permissible if it includes "continuous[] and systematic[]" rotation of the player-dealer position. Although no appellate decision defines "continuous and systematic," its ordinary usage is consistent with the rotation currently in place in California cardrooms' player-dealer games. For example, the speaker position at a meeting may rotate continuously and systematically among a group, and that would remain true even if one person speaks for longer than others, or some people choose not to speak at all.

Third Party Proposition Players. Also in AB 1416, the Legislature enacted Business and Professions Code section 19980, which codified the existing long-term practice in both cardrooms and Class II tribal casinos of utilizing third party proposition player services, by requiring the licensing and regulation of providers of such services. In so doing, the Legislature recognized that having these providers occupy the player-dealer position under game rules that comply with section 330.11 did not create a banking game.⁴

Opportunity for Multiple Players to Wager on the Player-Dealer Position (Backline Wagers and Shared Wagers). Similarly, the Gambling Control Act recognizes that patrons can wager on any seated position, including the player-dealer position. When more than one patron participates in the player-dealer position, the game cannot possibly be a banking game because no one person is "taking on all comers, paying all winners, and collecting from all losers." *Sullivan*, *supra*, at p. 678. Rather, the hand is played with *multiple* players wagering on the player-dealer position with *multiple* players wagering on player positions, which is the antithesis of banking. *See*, *e.g.*, *Kelly v. First Astri Corp.* (1999) 72 Cal.App.4th 462, 474 ("In a banking game the banker ... is the one against the many, which is the supreme test of a banking game.").

In particular, under existing game rules, multiple players can (and do) participate in the player-dealer wager one (or both) of two ways. First, a person not occupying the seat of the player-dealer position may wager behind the seated player (a "backline" wager), taking on the players whose wagers are in excess of the amount wagered by the person occupying the seat of the player-dealer. Second, the person not occupying the seat of the player-dealer position may share the player-dealer wager with the person seated in that position (a "shared"

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⁴ In AB 1416, a banking game also was defined in part as one where "the bank is actually involved in the play, and serves as the ultimate source and repository of funds, dwarfing that of all other participants in the game." On September 29, 2000, the Attorney General wrote to the Governor and recommended approval of the bill, but objected to the language about the size of the player's fund dwarfing other participants. The Attorney General argued that language which focused on the fund "incorrectly suggests that the character of a game as a 'banking game' is dependent on the size of the bank in comparison with the resources of the other participants." The Attorney General asked for that portion of the definition to be deleted in clean up legislation, which occurred the following year in AB 54.

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or "kum-kum" wager), in which case the wagers are *pari passu* and the players take wins and losses *pro rata*. These wagering techniques may be combined such that, for example, two persons share a wager made behind the wager of the person seated in the player-dealer position. Although these practices may appear complex in theory, they are well-known to cardroom dealers and patrons.

The Gambling Control Act expressly authorizes these forms of wagering. Under Business and Professions Code section 19843, other players can place wagers "with a single seated player upon whose hand the wagers are placed." There is no exception or exclusion for the player-dealer position, nor can one be inserted. "[W]e must assume that the Legislature knew how to create an exception if it wished to do so." *DiCampli-Mintz v. Cty. of Santa Clara*, 55 Cal.4th 983, 992 (2012) (quoting *Cal. Fed. Savings & Loan Ass'n v. City of Los Angeles* (1995) 11 Cal.4th 342, 349).

Section 330.11 must be construed in harmony with section 19843, which expressly provides for backline wagering without excepting the player-dealer position. *See Dyna-Med, Inc. v. FEHC* (1987) 43 Cal. 3d 1379, 1387 ("statutes or statutory sections relating to the same subject must be harmonized"). In addition, in the cases upholding certain player-dealer games, the rules of the games at issue included the possibility of wagers made by the players behind a seated player. *See Huntington Park*, 206 Cal.App.3d at p. 245 ("More than one participant may wager on a hand."); *Sullivan*, 189 Cal.App.3d at p. 677, fn.2.⁵ Thus, whereas

To the extent the tribes wish to argue that allowing a player with a large amount to wager behind other players in the player-dealer position constitutes banking, such an argument would conflict with the established legal definition of banking and AB 54, which eliminated the reference to one player having a large amount of money being an element in banking. *See supra*, note 4. As the final AB 54 Assembly Bill Analysis (Sept. 6, 2001, at p.2) states, the Attorney General argued that the language deleted by AB 54 which focused on the size of a player's fund "incorrectly suggests that the character of the a game as a 'banking game' is dependent on the size of the bank in comparison with the resources of the other participants." The banking inquiry therefore does not depend on the size of each player's

⁵ In 2000, when section 330.11 was adopted expressly to codify existing practice, there was no intention to eliminate backline wagers in the player-dealer position. The findings in section one of AB 1416 and the Assembly Floor Analysis (Aug. 28, 2000) each described the player-dealer position as one where "players" can wager against other players. With backline wagering, "players" (rather than just one player) can wager on the player-dealer hand. Similarly, section 330.11 describes a "player-dealer position." The "position" is "rotated amongst each of the participants." Rotating the player-dealer position among the seated players is exactly what occurs when backline wagers are also made on the player-dealer's hand. In this way, all the participants, not just the seated players, can wager on the player-dealer hand.

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the tribes contend that the cardrooms are duplicating their gambling experience, these forms of statutorily authorized betting in a cardroom simply would not be available in a tribal casino that actually offers banked, "Nevada-style" casino games.

II. The Tribes' Arguments

The tribes' assertion that a new player must accept the player-dealer position every two hands is both extreme and incorrect. This claim fails for many reasons, including that: (1) it is inconsistent with the text of section 330.11; (2) the Legislature deliberately removed language from AB 1416 that would have required acceptance of the player-dealer position by a new player every two hands; and (3) two hands – which take just minutes to play – hardly equals "a long time" under *Oliver* or any reasonable understanding of that phrase.

To begin, the tribes' view cannot be squared with the text of section 330.11. That provision is explicit that, by *permitting* games with continuous and systematic rotation of the player-dealer position, "it is not the intent of the Legislature to mandate acceptance of the deal by every player" in *all* player-dealer games. Put another way, the Legislature has expressly approved at least some player-dealer games where the deal is offered to, but not forced upon, the other participants at the table. The tribes, however, argue that *all* player-dealer games are illegal if they do not *require* acceptance of the deal by a new player every two hands. That position is flatly contrary to the text of section 330.11.

The tribes' view is also inconsistent with the legislative history of section 330.11. Indeed, the tribes call on the Attorney General to respect the Legislature's "intentions" but ignore that the Legislature *removed* the requirement from AB 1416 that a new player accept the player-dealer position every two hands. When the Legislature *removes* language from a bill, the removed language cannot become the legal standard for interpreting the statute. *See, e.g., People v. Goodloe,* (1995) 37 Cal.App.4th 485, 491–92. As a result, the Bureau has never construed section 330.11 to require a new player to accept the player-dealer position every two hands. Doing so would ignore the legislative history of AB 1416 where the Legislature removed that requirement.

Instead, the Bureau has correctly interpreted section 330.11 to permit game rules where the opportunity to be the player-dealer rotates every two hands even if at times all the other players refuse the position and it returns to the same person again.

While the ultimate interpretation of a statute is an exercise of judicial power and it is the responsibility of the courts to declare its true meaning even if it requires rejection of an earlier administrative interpretation ..., the contemporaneous construction of a

fund. Regardless, even when a participant makes a large backline wager, it is not "taking on all comers" because the seated player necessarily receives the first share of the action.

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statute by an administrative agency charged with its administration and interpretation, while not necessarily controlling, is entitled to great weight and should be respected by the courts unless it is clearly erroneous or unauthorized This is true particularly where there has been continued public reliance upon and acquiescence in such interpretations.

City of Santa Ana v. City of Garden Grove, (1979) 100 Cal.App.3d 521, 530. Here, not only has the Bureau had a consistent interpretation for over a decade, but there has been industry-wide reliance on that interpretation. Compare Yamaha Corp. of America v. State Bd. of Equalization (1998) 19 Cal.4th 1, 13 (additional deference due if an "agency has consistently maintained the interpretation in question, especially if it is long-standing") with Murphy v. Kenneth Cole Productions, Inc. (2007) 40 Cal.4th 1094, 1106 fn. 7 (minimal deference due when agency adopts a new statutory interpretation that "flatly contradicts its original interpretation").

In fact, the Bureau's December 2007 letter regarding rotation correctly stated both the law and the practice since 1983: if the cardroom offers the player-dealer position to each participant every two hands, the fact that at times all the participants but one refuse the position and it returns to the same person does not make the player-dealer game a banking game. While the tribes attack the Bureau Chief who signed the letter, Robert Lytle, they ignore that the Bureau interpretation for inspections and game approvals has long been consistent. Further, former Bureau Director Wayne Quint told the tribes that cardrooms' reliance on the Bureau's actions was a reason to maintain the Bureau's existing interpretation. *See* Tribal letter April 15, 2016 at p. 4.

Finally, it is worth noting that, when the tribes were themselves operating under Penal Code section 330 prior to the passage of Proposition 1A in 2000, tribal casinos offered player-dealer games rather than house-banking games. We are advised that tribal casinos allowed one player to occupy the player-dealer position for an entire dealing shoe (i.e., 6–8 decks), and sometimes the position did not rotate even then, which resulted in a single person continuously wagering in the player-dealer position for hours at a time. We also understand that the tribes imposed conditions on those taking the player-dealer position (e.g., requiring that such players hold a large amount of funds), which eliminated most players from participation. Thus, tribal casinos did not offer the position every two hands, let alone require players to accept it every two hands. The tribes certainly never took the position that their practices violated California law at the time. They should not be heard to now argue that card rooms violate the law by offering games that provide significantly greater opportunity for participants to occupy the player-dealer position.

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III. Considerations in Writing Regulations

As part of evaluating proposed regulations, the Bureau is obligated to conduct a complete analysis and determine all options, including identifying the least burdensome and equally effective regulations to achieve the purposes of the regulation in a manner that ensures full compliance with the authorizing statute or other law being implemented or made specific by the proposed regulation. Cal. Gov. Code § 11346.2.

The Bureau should consider the following:

- The very existence of the player-dealer position itself suffices to distinguish A. cardroom player-dealer games from tribal and Las Vegas style gaming: No opportunity exists in Las Vegas style gaming for a patron to bet on the dealer's hand (let alone multiple patrons, as is the case for backline and shared bets on the player-dealer position). In addition, the player-dealer position rotates continuously and systematically when the opportunity to be the player-dealer rotates. Every patron has the option to take the player-dealer position and wager on the player-dealer hand on a regular basis. There is no minimum wager required of the player-dealer other than the table minimum for any player. A person wagering on the playerdealer hand cannot lose or risk more than what that person chose to wager, meaning that some winning wagers will not be paid by and some losing wagers will not be collected by that person. All of these things serve to distinguish cardroom player-dealer games from the banking games found in traditional or tribal casinos. If a patron does not want to take the player-dealer position, that is the patron's choice, but willing participants may occupy the position more frequently. As the Legislature recognized in Penal Code section 330.11, the fact that at times participants will not accept the position when offered and the position returns to the same person does not create a banking game.
- B. We recognize, however, that it is critical for player-dealer games to include genuine offers of the deal. We therefore acknowledge that, as an essential element of player-dealer game rules that rely on rotation, cardrooms must ensure that offers of the deal are both audible and visible to surveillance cameras.
- C. Although offering the player-dealer position every two hands has become a widespread practice in the industry, a two-hand rule is not required by anything in existing law. Accordingly, if the Bureau incorporates a two-hand standard, it should do by committing to approve rules based on a two-hand standard, while reserving its discretion to approve rules in which the player-dealer position is offered after a greater number of hands.
- D. Assuming that the Bureau intends to devise regulations that specify a particular time interval for forced acceptance of the player-dealer position by a new player—which the CGA believes is not required—*Oliver*'s "for a long time" standard should be measured in hours, not minutes. Most patrons visit a cardroom or casino with the intention of remaining for several hours and participating in games for extended periods of time. A person would not drive to a facility 30 minutes away or fly to one several hours away and expect to play for 30

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minutes. Even home card game sessions (poker, bridge, hearts, etc.) are expected to last for several hours. Cardroom customers customarily play at a single table for more than an hour, and it is not uncommon to stay two or three hours. Moreover, measuring rotation in hours is consistent with the ordinary meaning of "a long time." This also accords with the language of section 330.11 recognizing that the players have the option to take the position, and accommodates the contemporaneous and consistent interpretation of section 330.11 that while at times the other patrons refuse the player-dealer position and it returns to the same person, this does not create a banking game.

- E. In addition, there are many different ways to "continuously and systematically rotate" the player-dealer position. Neither Section 330.11 nor the five decided cases involving player-dealer games prescribes a single means. The game rules do not have to be the same for every cardroom or game. In the course of reviewing game rules submitted by cardrooms, the Bureau should consider various means, including rules about offering the position, time intervals, intervals tied to the dealing of an entire shoe, or other means which may be now or later proposed in game applications. Any of these proposed means would provide a continuous and systematic standard. And any proposed regulations should provide for flexibility in the available options set forth in the regulations.
- F. Any Bureau rule for rotation should do no more than the minimum necessary for compliance with section 330.11. For example, if the Bureau were to specify a particular time interval for forced acceptance of the player-dealer position by a new player, the rotation method announced in 2016 by the Bureau represents at least one specific approach. That method would have, in effect, prohibited a person or entity from holding or otherwise being involved in the player-dealer position continuously for 60 minutes. Although compliance with that proposed standard would be costly both in terms of its effect on cardroom patronage and compliance measures, a more onerous rule would lead to far greater and irreversible disruption in cardroom gaming with resulting damage to the cardroom industry, its employees, and dozens of communities across the state.

The 2016 rotation rules recognized that if the player-dealer position did not rotate at a fixed interval the game would break for two minutes with no cards dealt or wagers accepted during the period. This figure was arrived at based on experience, namely that this was a sufficient amount of time to motivate players to take the player-dealer position before the two minutes expire or decide that they would leave and the game would not resume.

G. The Bureau should consider how the established practice of multiple persons wagering on the player-dealer position affects the rotation issues it has focused on. As explained above, games in which multiple players are wagering against multiple players cannot possibly be characterized as "banking" games. The Bureau should, for example, recognize that a rule mandating acceptance of the deal by players occupying particular seats is unnecessary if the players already can (or do) wager on the player-dealer hand when it is dealt to a different seat. We would welcome a discussion a more detailed discussion with the

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Bureau's personnel on these subjects to ensure that the Bureau has full regard for the consequences of these practices on its current process.

H. Finally, while cardroom games have little impact on tribal gaming, significant changes in player-dealer game rules will substantially impact cardrooms and their communities with expected losses in excess of \$50 million, requiring an economic study before regulations are adopted. Government Code § 11342.548, §11346.3.

IV. CONCLUSION

California court decisions and statutes authorize player-dealer games, where one participant has the opportunity to wager against all the others during a hand of play. No decision or law requires that a new player accept the player-dealer position every two hands or that every person take the player-dealer position. Nor should any regulation specify a single means to satisfy existing legal requirements. The statute at issue contemplates the existence of many ways that the rules of a game will render the maintenance of or operation of a bank impossible. If the Bureau adopts regulations, it should do so in the most flexible and least restrictive manner possible, consistent with the law being implemented.

Thank you for your attention to these important matters.

Respectfully,

Bradley A. Benbrook

cc: BGC Regulations@doj.ca.gov

Kyle Kirkland, President, California Gaming Association

Joe Patterson, Executive Director, California Gaming Association