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Attorneys for Plaintiffs and Petitioners

SUPERIOR COURT OF THE STATE OF CALIFORNIA

FOR THE COUNTY OF SACRAMENTO

GORDON D. SCHABER COURTHOUSE

LUCKY CHANCES, INC.; V C CARDROOM, INC.; HALCYON GAMING, LLC; PACIFIC GAMING SERVICES, LLC; BJ GAMING, LLC; FORTUNE PLAYERS GROUP, INC.; GOLD GAMING CONSULTANTS, INC.; CERTIFIED PLAYERS, INC.; LE GAMING, INC.; and RHINO GAMING INC., on their own behalf and on behalf of those similarly situated, Plaintiffs and Petitioners, vs. THE STATE OF CALIFORNIA; CALIFORNIA GAMBLING CONTROL COMMISSION; BUREAU OF GAMBLING CONTROL, A DIVISION OF THE CALIFORNIA DEPARTMENT OF JUSTICE; FIONA MA, in her official capacity as the State Treasurer; and DOES 1 through 20, Inclusive, Defendants and Respondents.	Case No. 34-2020-80003510-CU-WM-GDS Judge: James P. Arguelles **DECLARATION OF LUCAS K. HORI IN SUPPORT OF PLAINTIFFS' MOTION FOR PRELIMINARY APPROVAL OF CLASS ACTION SETTLEMENT** DATE: September 5, 2025 TIME: 11:00 a.m. DEPT: 32 [Filed Concurrently With Notice of Motion and Motion; Memorandum of Points and Authorities; Declarations of Jarhett Blonien; [Proposed] Order] Action Filed: 5/12/2020 Trial Date: TBD

DECLARATION OF LUCAS K. HORI

I, Lucas K. Hori, declare as follows:

1. I am an attorney at the law firm of Rutan & Tucker, LLP ("Rutan & Tucker"), counsel of record for Plaintiffs Lucky Chances, Inc., V C Cardroom, Inc., Halcyon Gaming, LLC, Pacific Gaming Services, LLC, BJ Gaming, LLC, Fortune Players Group, Inc., Gold Gaming Consultants, Inc., Certified Players, Inc., LE Gaming Inc., and Rhino Gaming Inc. ("Plaintiffs"), on their own behalf and on behalf of those similarly situated, in this action.

2. I am a member in good standing of the State Bar of California. I make this Declaration in support of Plaintiffs' Motion for Preliminary Approval of Class Action Settlement. I have personal knowledge of the facts set forth in this Declaration and, if called as a witness, could and would testify competently to such facts under oath.

The Settlement.

3. As counsel for Plaintiffs, I was involved in the drafting and negotiation of the Settlement. A true and correct copy of the May 2025 Settlement is attached to this Declaration as *Exhibit 1*. The Settlement, in turn, has five exhibits attached to it. These are (1) Settlement Exhibit 1—Form Preliminary Approval Order, (2) Settlement Exhibit 2—Form Notice of Settlement, (3) Settlement Exhibit 3—Form Claim Form, (4) Settlement Exhibit 4—Form Notice of Publication, and (5) Settlement Exhibit 5—Plan for Notice of Settlement.

Pleadings and Discovery

4. Plaintiffs filed their verified class action complaint ("Complaint") on or around May 12, 2020. A true and correct copy of the Complaint is attached to this Declaration as *Exhibit 2*. Before initiating this action, my office carefully investigated the factual and legal bases for Plaintiffs' claims.

5. On or around December 8, 2020, the California Gambling Control Commission ("Commission"), the Bureau of Gambling Control ("Bureau"), the State of California ("State") and the California Treasurer ("Treasurer" and together with Commission, Bureau, and State, "Defendants") filed an Answer to the Complaint. A true and correct copy of the Answer is attached to this Declaration as *Exhibit 3*.

6. The Complaint references and relies upon a report from the Auditor of the State of California ("Auditor") dated May 16, 2019, entitled "Bureau of Gambling Control and California Gambling Control Commission: Their Licensing Processes Are Inefficient and Foster Unequal Treatment of Applicants." On or around June 2, 2025, I downloaded a copy of this audit report from the Auditor's website. A true and correct copy of this document is attached to this Declaration as *Exhibit 4*. That audit report can also be found on the Auditor's website at https://www.auditor.ca.gov/reports/2018-132/index.html.

7. This litigation is complex and the subject matter was novel. Since the Complaint's filing, my office, together with J. Blonien, APLC (with Rutan & Tucker, "Class Counsel"), has worked actively to advance the litigation on Plaintiffs' behalf. After Defendants demanded that the case be transferred, for example, my office negotiated venue issues and obtained all Defendants' responses to the Complaint. Thereafter, my office propounded written discovery including, to date, 106 special interrogatories, 59 requests for production, 68 requests for admission, and 12 form interrogatories to each of the Commission and Bureau. We have met and conferred with Defendants on numerous occasions to seek compliance with discovery obligations, and have collected over 80,000 pages of records from the Commission and Bureau. We have also issued third-party document demands to the Auditor and the California Legislature to obtain relevant materials. In September and October 2022, I took the deposition of persons most knowledgeable, including the Commission's Executive Director and the Bureau's Director. The witnesses were questioned on dozens of exhibits.

8. Thus, I believe that Plaintiffs have thoroughly investigated and evaluated the factual strengths and weaknesses of the claims and defenses and engaged in investigation, research, and discovery.

Settlement Negotiations.

9. Apart from formal discovery, the parties also engaged in ongoing informal exchanges relating to settlement, including with respect to fees paid and the Gambling Control Fund's reserve. The parties extensively negotiated terms of the compromise memorialized in the Settlement. The Settlement was calculated using the information and data uncovered during litigation and case

investigation, as well as the formal and informal exchange of discovery, taking into account the potential risks and rewards inherent in any case and, in particular, in the instant action. In particular, the Settlement Amount was negotiated by taking into account all available funds in the Gambling Control Fund, which I understand was the repository for the allegedly unlawful fees. The balance of that Fund is publicly available via Fund Condition Statements, and my office closely analyzed the funds available for settlement. In settlement negotiations, the Commission and Bureau asserted they should be entitled in a settlement to maintain a reasonable operating reserve.

10. Defendants provided an initial written settlement offer on August 8, 2022. Thereafter, the parties engaged in arm's-length settlement negotiations for months. Among other things, the negotiations focused on reaching a settlement amount which would (1) pay out from the Gambling Control Fund the maximum available amount based on Plaintiffs' position the reserve money in the Fund had been wrongfully collected, while (2) leaving the Fund with an operational reserve acceptable to the Bureau and Commission for going-forward operations. Negotiations focused on the amount of that appropriate reserve, and the parties ultimately agreed payment of the $43,300,000 (the "Settlement Amount") would be the maximum figure acceptable to the Commission and Bureau which Defendants believed would leave an acceptable reserve for operations.

11. The Settlement Amount was reached through arm's-length negotiations. Though professional, the negotiations have been adversarial and non-collusive in nature. Class Counsel performed an extensive analysis of the proposed terms before entering into the Settlement. Class Counsel recognizes the expense of proceedings necessary to continue the litigation and the difficulties and delays inherent in such litigation. They also recognize the risk and uncertainty inherent to further litigation and any potential outcome. Like all reasonable litigants, Class Counsel evaluated on Plaintiffs' behalf the potentially available defenses alleged by Defendants, including statute of limitations defenses, defenses based on the exhaustion of administrative remedies, and defenses relating to the propriety of suing named defendant(s). The Settlement thus takes into account the strengths and weaknesses of each side's position and the uncertainty of how the case might have concluded through certification, trial, and/or appeals, including the risks and delays to

the Parties of proceeding with class certification and/or representative adjudication. The Settlement also takes into account the risks and expense to both Parties of further litigation and the difficulties and delays inherent in such litigation. Based on the foregoing, Class Counsel believes the Settlement Amount of $43,300,000 is fair, adequate, and reasonable, and is in the best interests of the class.

12. On or around June 3, 2025, I navigated to the Department of Finance's online summary of the Governor of California's 2025–2026 budget. I downloaded the fund condition statements relating to the May Revision to that budget, including the Gambling Control Fund (fund code 0567). A true and correct copy of the Gambling Control Fund's condition statement is attached to this Declaration as *Exhibit 5*. That statement can also be found online at https://ebudget.ca.gov/2025-26/pdf/GovernorsBudget/0010/0820FCS.pdf. As reflected in that fund condition statement, the estimated balance of the Gambling Control Fund as of the end of the fiscal year 2024–2025 is $48,250,000.

The Plaintiff Class.

13. Before filing the Motion, my office sought to identify the licensees that would comprise the class. The Settlement provides that the Bureau and Commission are to provide a "Class List" which is to include "to the greatest extent available" "[a]n identification by name and license number of each Class Member," "[f]or each license issued by the Commission to a Class Member and each registration with the Commission by a Class Member, the name of the Class Member, the last known individual contact, last known mailing address(es), and last known email address(es) of the Class Member, and any prior contact information that may be useful in providing notice to the Class Member," and "[t]he total amount of Regulatory Fees paid by each Class Member during the Class Period, taking into account any refunds, credits, or other adjustments." On May 15, 2025, counsel for the Bureau and Commission transmitted documents identifying potential class members. Although those records are subject to confidentiality protections, the Class List provided by the Bureau and Commission reflects the class comprises hundreds of current and former cardrooms and proposition player providers. I anticipate that the Class List will be used for identifying the class and providing notice.

/ / /

Class Administrator.

14. The Settlement provides the parties will seek appointment of Epiq as class administrator. My office has provided the Settlement to Epiq and initiated retention communications with Epiq. In response, Epiq has provided a preliminary estimate of its administration fees (including notice) as approximately $93,395. I anticipate that figure is subject to change, but it is provided as an estimate of future expenses. A true and correct copies of Epiq materials on its cost estimate are attached to this Declaration as *Exhibit 6*.

Adequacy of Rutan & Tucker, LLP As Class Counsel.

15. To my knowledge, my law firm of Rutan & Tucker, LLP has no conflicts with Plaintiffs or members of the proposed class.

16. I am not aware of any other litigation brought by a member of the proposed class against Defendants involving the same issues as this case during the "Class Period" as defined in the Settlement.

17. Rutan & Tucker has maintained a practice in California for decades and currently employs approximately 150 attorneys in four offices. Rutan & Tucker has seven practice areas, including a Trial Department and Government and Regulatory Law Department. Our firm has significant experience in actions involving the invalidity of public fees and class action matters, and maintains a large and sophisticated litigation department. That litigation department is supported by staff and e-discovery personnel using the latest legal and document review databases. As set forth in the concurrently filed Declaration of Jarhett Blonien, Plaintiffs propose that J. Blonien, APLC act as co-counsel for the putative class. The Blonien firm specializes in providing counsel to entities in the gaming industry. It regularly assists clients with licensure issues, ensures that clients remain in compliance with applicable gaming regulations, and represents clients before the Commission and the Bureau. Rutan & Tucker compliments this background with its experience with complex litigation and public law matters.

18. In addition to myself, Rutan & Tucker currently intends to staff at least two other attorneys on this matter, namely, David Lanferman, and Steven Goon. Profiles for Messrs. Lanferman, Goon, and myself are attached to this Declaration as *Exhibits 7* through *9*, respectively.

19. Mr. Lanferman is a Partner at Rutan & Tucker focusing on land use, CEQA, environmental law and litigation, and graduated from University of California UC Law San Francisco (formerly known as Hastings College of the Law) in 1976. I am informed Mr. Lanferman has been lead counsel in many types of litigation involving fees and charges established or imposed by governments, and has represented a wide variety of clients in such matters, including developers, property owners, home builders, public agencies, public interest groups, and industry associations. I am informed he has broad experience in disputes involving the legality of governmental fees and exactions, including involvement in matters resulting in published Supreme Court and Court of Appeal opinions on those topics. I am informed Mr. Lanferman has been involved in the review, analysis, negotiation, and litigation of hundreds of fee programs and ordinances and has provided input to state government on fee legislation. I am informed he has litigated more than 300 cases involving fees or exactions in trial courts throughout California. Based on his practice, he also has extensive experience in writ of mandate proceedings, and has taught CLE courses involving such proceedings and fee litigation.

20. Mr. Goon is a Partner in Rutan & Tucker's Trial Department, and graduated from University of California UC Law San Francisco (formerly known as Hastings College of the Law) in 1994. Based on his nearly decades of practice, Mr. Goon has extensive experience in complex civil litigation and class actions. I am informed he has prevailed on behalf of his clients in jury and bench trials in state and federal courts, and is familiar with all aspects of the litigation process. He has also negotiated millions of dollars in favorable settlements on behalf of his clients.

21. I am a Partner in Rutan & Tucker's Trial Department, and graduated from the University of California, Los Angeles School of Law in 2013. I specialize in class action litigation, and have successfully represented clients in numerous class action matters, including claims involving alleged statutory violations, consumer claims, alleged product defects, and other matters at the trial court and appellate level. I have significant experience with the class certification process and class action management. I have been recognized as "One to Watch" by Best Lawyers in America.

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22. Together with J. Blonien, APLC, I believe Rutan & Tucker is amply experienced and qualified to serve as class counsel. The firm is a leading California law firm, and has a long history of representing both plaintiffs and defendants in complex litigation. Representative class action cases include the following matters:

A. *Rene Marentes v. Impac Funding Corporation, et al.*, Orange County Superior Court Case No. 30-2012-00565615. Rutan & Tucker represented Impac Funding Corporation in connection with claims of statutory violations. After proceeding to a class action bench trial, judgment was entered in our client's favor. The verdict was upheld on appeal.

B. *Paul Kerkorian v. Samsung Electronics America, Inc.*, Eastern District of California Case No. 1:18-cv-00870-DAD-SKO: Rutan & Tucker represented Samsung Electronics America, Inc. in connection with class action claims relating to robotic vacuum cleaners. Judgment was entered in our client's favor at the pleadings stage.

C. *Kenneth Hobbs v. Brother International Corporation*, Central District of California Case No. 2:15-cv-01866: Rutan & Tucker represented Brother International Corporation in connection with class action claims relating to laser printer products. Our client opposed class certification, which was denied. Thereafter, the parties entered a walk-away settlement.

D. *Tanya Mack, et al. v. LuLaRoe, LLC, et al.*, Central District of California Case No. 5:17-cv-00853: Rutan & Tucker represented LuLaRoe entities in connection with class action claims relating to alleged defects in leggings. After significant discovery and motion practice, the parties entered a walk-away settlement.

E. *Weiner v. Weber Metals Inc. et al.*, Los Angeles Superior Court Case No. BC652102: Rutan & Tucker represented Weber Metals, Inc. in connection with class action claims relating to alleged toxic torts. Our client opposed class certification, and it was denied.

F. *TeAushua Moffett v. Recording Radio Film Connection, Inc., et al.*, Central District

of California Case No. 2:19-cv-03319: Rutan & Tucker represented Recording Radio Film Connection, Inc. in connection with class action claims asserting deceptive marketing. After Rutan & Tucker successfully compelled the claims to arbitration, the matter settled.

23. Rutan & Tucker likewise has extensive experience in governmental and regulatory matters involving challenges to allegedly improper or unjustified regulatory or mitigation fees, including writ of mandate proceedings. Representative cases in those areas include the following matters:

A. *Hamilton & High, LLC v. City of Palo Alto* (2023) 89 Cal.App.5th 528. I am informed Mr. Lanferman won reversal in the Court of Appeal determining an issue of local government's statutory obligation to refund un-used development fees for failure to make timely public findings as required by the Mitigation Fee Act.

B. *Sterling Park, L.P. v. City of Palo Alto* (2013) 57 Cal.4th 1193: I am informed Rutan & Tucker won unanimous reversal in the California Supreme Court determining issue of first impression agreeing that affordable housing in lieu fees are a form of "exaction" subject to pay-under-protest remedy provided by Mitigation Fee Act.

C. *California Building Industry Association v. State Allocation Board*, Sacramento Superior Court Case No. 34-2016-80002356-CU-WM-GDS: I am informed Rutan & Tucker represented petitioner in a challenge to legal authority for continued imposition of school facilities fees at "level 3" rates, following voter approval of statewide school bond (Prop 57); settlement agreement including stipulated judgment by defendant board agreeing that districts lack authority to impose level 3 fees so long as board continues to apportion state bond funds for local school construction.

D. *Pulte Home Co. et al. v. Dublin Unified School District*, Alameda Superior Court Case No. RG16819321: I am informed Rutan & Tucker represented petitioner developers; won preliminary injunction motions, followed by settlement agreement

providing for repeal of unjustified fee increases and refunds to petitioners.

E. *Building Industry Association of Southern California, et al. v. San Gorgonio Memorial Healthcare District*, Riverside Superior Court Case No. RICI605364. I am informed Rutan & Tucker represented petitioners and won a trial court judgment, granting petitioners' writ of mandate directing district to set aside resolution purporting to establish unauthorized development mitigation fees and awarding fees to prevailing petitioners.

F. *Building Association of Central California v. City of Patterson* (2009) 171 Cal.App.4th 886: I am informed Mr. Lanferman obtained appellate opinion which invalidated affordable housing in-lieu "fee" for failures to comply with constitutional and statutory nexus requirements (over-ruled in part in *CBIA v. City of San Jose* (2015) 61 Cal.4th 435).

24. Rutan & Tucker has, to date, worked diligently to represent the interests of the proposed class. Attorneys at our office have collectively spent well over a thousand hours litigating this case. Since 2020, we have researched and filed Plaintiffs' class action complaint, propounded written discovery, met and conferred with opposing counsel concerning discovery and settlement matters, databased thousands of records, and prepared for class certification.

25. This case presents significant legal and factual issues. Rutan & Tucker is able to provide those resources, and we anticipate litigating this case to finality. Together with J. Blonien, APLC, Rutan & Tucker is committed to continuing its efforts on behalf of the putative class until a final determination, to participating in all necessary aspects of these proceedings, to efficiently advancing the litigation, and to fairly and adequately representing the proposed class's interests.

Attorneys' Fees.

26. Pursuant to the Settlement, Plaintiffs will file a motion for attorneys' fees and costs with their motion for final approval. At that time, Class Counsel anticipating seeking an award of attorneys' fees based on a percentage of the overall recovery. The Settlement establishes a Settlement Amount of $43,300,000 and allows for Class Counsel to apply to the Court for an award of attorneys' fees of no more than 33.3333% of the Settlement Amount (i.e. $14,433,319)

and for an award of costs not to exceed $25,000. Class Counsel presently intends to seek a fees award of approximately 25.5% of the Settlement Amount net of costs, which will be in the range of $11,000,000. This request is authorized by Class Counsel's contingency fee agreement which—as will be more fully described at the time of final approval—provides for tiered levels of fee recovery based on the final recovery pool net of costs. Class Counsel will also seek reimbursement of actual costs incurred up to $25,000 per Section XVIII of the Settlement.

27. Class Counsel has litigated this matter on a contingency fee basis. I believe that the attorneys' fees Class Counsel intends to seek are commensurate with: (1) the risk Class Counsel took in bringing and litigating the case on a contingency fee basis; (2) the extensive time, effort and expense Class Counsel dedicated to the case; (3) the skill Class Counsel has shown and results that Class Counsel has achieved throughout the litigation; and (4) the value of the Settlement that Class Counsel has achieved for the class members.

Executed on June 9, 2025 at Irvine, California.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Lucas K. Hori

EXHIBIT 1

CLASS ACTION SETTLEMENT AGREEMENT AND RELEASE

Through this Class Action Settlement Agreement and Release ("Agreement"), it is hereby stipulated and agreed, by and between Plaintiffs Lucky Chances, Inc., V C Cardroom, Inc., Halycon Gaming, LLC, Pacific Gaming Services, LLC, BJ Gaming, LLC, Fortune Players Group, Inc., Gold Gaming Consultants, Inc., Certified Players, Inc., LE Gaming, Inc., and Rhino Gaming Inc. (collectively, "Named Plaintiffs"), on behalf of themselves and the class that they seek to represent (defined below as the "Class"), on the one hand, and Defendants California Gambling Control Commission (the "Commission") and the Bureau of Gambling Control (a Division of the California Department of Justice) (the "Bureau") (collectively "Defendants"), on the other hand, that the proceedings in the Superior Court of the State of California, County of Sacramento ("Court") in Case No. 34-2020-80003510-CU-WM-GDS, captioned Lucky Chances, Inc., et al. v. The State of California, et al. ("Action") (originally filed as Lucky Chances, Inc., et al. v. The State of California, et al., Case No. CPF-20-51786, in the Superior Court of the State of California, County of San Francisco), are settled and resolved on the terms set forth in this Agreement and its Exhibits, subject to and conditioned upon the approval of the Court and the entry of Final Judgment.

I. DEFINITIONS.

As used in this Agreement, capitalized terms have the meaning assigned to them in the Preamble or below:

1. "Administrative Costs" means the actual reasonable costs charged by Administrator for its services in connection with the Settlement and includes the costs of carrying out the responsibilities set forth in and consistent with this Agreement. Administrative Costs do not include other fees, costs or expenses, including Attorneys' Fees and Costs.

2. "Administrator" means the third-party administrator retained to administer the Settlement, including providing the Notice of Settlement, overseeing the claims process, managing distributions to the Class Members, and performing other tasks provided for in this Agreement.

3. "Attorneys' Fees and Costs" means the funds awarded by the Court to Class Counsel to compensate Class Counsel for their fees and expenses incurred in connection with the Action and Settlement.

4. "Cardrooms" means non-tribal cardroom gambling establishments in the State of California licensed by or registered with the Commission.

5. "Claim" means the claim of a Class Member (or a legal representative of the Class Member) submitted using the Claim Form in compliance with the procedure provided in this Agreement as described in Section XIV.

6. "Claimant" means each Class Member who submits a Claim pursuant to this Agreement.

7. "Claim Deadline" means sixty (60) days following the Notice Date unless a different date is ordered by the Court.

8. "Claim Form" means the claim form agreed to by the Parties attached to this Agreement as Exhibit 3.

9. "Class Counsel" means:

Rutan & Tucker, LLP
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1121 L Street. Suite 105
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Tel: (916) 441-4242
Email: jarhett@jblonien.com; dguard@jblonien.com.

10. "Class" means all persons in California licensed or registered at any time during the Class Period by or through the Commission as Cardrooms or Proposition Player Providers who paid Regulatory Fees as a Cardroom or Proposition Player Provider during the Class Period.

11. "Class List" means a list of the Class Members described in Section V containing information maintained by Defendants for the Class Members.

12. "Class Member" or "Class Members" mean Cardrooms and Proposition Player Providers within the Class.

13. "Class Member Database" means an electronic database that will be created and maintained by Administrator. It will contain all data and information provided to Administrator by the Parties relating to the Class Members, including the Class List, as well as any data and information provided by the Class Members during the course of the administration of this Agreement, including data on Claim Forms.

14. "Class Period" means the period January 1, 2005 until May 12, 2020.

15. "Complaint" mean the operative complaint in the Action dated May 12, 2020.

16. "Defendants' Counsel" means:

The Attorney General of the State of California
Attn: Daniel Robertson, Esq.; Michael Sapoznikow, Esq.
1300 I Street, Suite 125
P.O. Box 944255

Sacramento, CA 944255
Tel: (916) 210-7516
Email: daniel.robertson@doj.ca.gov; michael.sapoznikow@doj.ca.gov

17. "Effective Date" means the date on which the Agreement becomes effective as described in Section XI.

18. "Final Approval Hearing" means a Court hearing during or following which the Court will make the determinations described in Section X and enter Final Approval and Final Judgment in this Action.

19. "Final Approval" means an order issued by the Court finally approving this Agreement as binding upon the Parties and the Class Members.

20. "Final Judgment" means the Judgment entered by the Court upon granting Final Approval.

21. "Final Opt-out Deadline" means the date fourteen (14) days after the Administrator sends via email to Class Counsel and Defendants' Counsel a complete list of Class Members who submitted requests to exclude themselves from the Class before the Initial Opt-Out Deadline, as described in Section VIII.5.

22. "Funding Date" means the day which is ten (10) days after the Effective Date.

23. "Initial Opt-out Deadline" means sixty (60) days following the Notice Date unless a different date is ordered by the Court.

24. "Net Settlement Amount" means the amount of funds that remain from the Settlement Amount after Administrator deducts from the Settlement Amount (1) Administrative Costs, (2) Attorneys' Fees and Costs, (3) Service Awards, and (4) any other expenses mandated by this Agreement.

25. "Notice of Settlement" means the notice that will be provided to the Class Members informing them of Preliminary Approval and this Agreement. The Notice of Settlement will at a minimum contain the information set forth in Section VI. The Notice of Settlement in a format agreed to by the Parties is attached as Exhibit 2.

26. "Notice Date" means the initial date on which the Notice of Settlement is deposited by Administrator in the mail to Class Members pursuant to Section VII. The Notice Date shall be no later than thirty (30) days after the Court's issuance of Preliminary Approval unless a different date is ordered by the Court.

27. "Objection Deadline" means sixty (60) days following the Notice Date unless a different date is ordered by the Court.

28. "Party" or "Parties" means individually or collectively Named Plaintiffs and Defendants.

29. "Proposition Player Providers" means third party providers of proposition player services to Cardrooms in the State of California licensed by or registered with the Commission.

30. "Preliminary Approval" means an order entered by the Court preliminarily approving the terms and conditions of this Agreement, substantially in the form of Exhibit 1.

31. "Regulatory Fees" means the regulatory fees that are the subject of the Action, namely the annual fees that Class Members were required to pay during the Class Period pursuant to Business and Professions Code section 19951, subdivisions (c) and (d) (as to Cardrooms), or pursuant to Business and Professions Code section 19984, subdivision (c) (as to Proposition Player Providers) as those statutes were in effect during the Class Period.

32. "Service Awards" means service awards for each of the Named Plaintiffs in an amount not to exceed $2,500.00.

33. "Settlement" means the disposition of the Action effected by this Agreement.

34. "Settlement Amount" means $43,300,000.00.

35. "Settlement Class" means a class of all Class Members except those who have opted out of the Class pursuant to Section VIII.

36. "Settlement Fund" means a fund that will be established by Administrator under 26 U.S.C. § 468B for the purpose of receiving and distributing the Settlement Amount.

37. "Valid Claim" means a claim submitted on a Claim Form and reviewed and approved for payment by Administrator.

II. BACKGROUND.

1. Named Plaintiffs are entities that filed the Action on behalf of the Class alleging claims against Defendants, the State of California (the "State"), and Fiona Ma in her official capacity as California State Treasurer ("Treasurer") for return of amounts collected as Regulatory Fees during the Class Period, which Named Plaintiffs allege exceed amounts allowed by the California Constitution and other applicable law. Named Plaintiffs assert their claims are valid.

2. Defendants filed an answer disputing the allegations. Defendants deny wrongdoing or liability in connection with any facts or claims that have been alleged in the Action. Nevertheless, Named Plaintiffs and Defendants consider it desirable to resolve the Action.

3. No class has yet been certified in the Action.

4. Based upon their review, investigation, and evaluation of the facts and law relating to the matters alleged in the Action, Named Plaintiffs, on behalf of the Class, have agreed to settle the Action pursuant to this Agreement, after considering, among other things: (1) the substantial benefits to the Class under the terms of this Agreement, including the Settlement Amount; (2) the risks, costs, and uncertainty of protracted litigation, especially in complex actions such as this, as well as the difficulties and inevitable delays inherent in such litigation, including appeals

regardless of which side prevails at trial; and (3) the desirability of consummating this Agreement promptly in order to provide expeditious and effective relief to the Class, which includes Class Members that have waited years for the resolution of this matter and have an immediate interest in securing the benefits of this Agreement as soon as possible.

5. This Agreement was reached after arm's-length settlement negotiations among and between Named Plaintiffs and Defendants which included written and verbal negotiations stretching over 18 months. During that time, Defendants produced thousands of records to help inform settlement discussions, including extensive summaries of Regulatory Fees paid. These discussions and arm's-length negotiations resulted in the Settlement Amount of $43,300,000.00.

6. This Agreement is the result of an informed and detailed analysis of Named Plaintiffs' claims and Defendants' potential liability and exposure in relation to the costs and risks associated with continued litigation. Class Counsel and Defendants' Counsel have each independently investigated the facts relating to the Action. Based on the documents produced and information provided, as well as the investigations and evaluations by Class Counsel and Defendants' Counsel, the Parties believe that the Agreement is fair, reasonable, and adequate, and in the best interest of the Class and Defendants in light of all known facts, circumstances, and litigation positions.

7. Class Representatives and Defendants have concluded that settlement of their dispute is preferable to litigation, and without admitting the other's positions, have agreed to resolve their dispute through this Agreement.

8. This Agreement reflects a compromise between the Parties and shall in no event be construed as an admission by any Party of the validity of any claim or defense.

III. PRELIMINARY APPROVAL.

1. Preliminary Approval. Within thirty (30) days of full execution of this Agreement, Named Plaintiffs shall file with the Court a motion pursuant to California Rules of Court, Rule 3.769(c) seeking Preliminary Approval of the Settlement. That motion shall:

i. Seek approval of the Settlement as within a range suitable for final approval;

ii. Request certification of the Class on a provisional basis for settlement;

iii. Request an order appointing Class Counsel as class counsel;

iv. Request an order approving Named Plaintiffs as class representatives;

v. Seek appointment of Administrator;

vi. Request an order approving the Notice of Settlement and the process for providing that notice described in this Agreement and attached in the plan for Notice of Settlement attached as Exhibit 5; and

vii. Otherwise request the Court to enter an order substantially in the form attached as Exhibit 1 to this Agreement.

2. Attorneys' Fees and Costs Methodology. The motion for Preliminary Approval shall disclose to the Court the methodology that Class Counsel will employ in calculating its request for Attorneys' Fees and Costs, with an estimate of the dollar amount of Attorneys' Fees and Costs Class Counsel will request. Class Counsel will not ask the Court to award Attorneys' Fees and Costs until Named Plaintiffs file a motion for Attorneys' Fees and Costs at the time that Named Plaintiffs file a motion for Final Approval.

3. Submissions. In seeking Preliminary Approval, Named Plaintiffs' filings shall include (1) a copy of this Agreement, (2) the form Preliminary Approval order attached as Exhibit 1, (2) the Notice of Settlement attached as Exhibit 2, (3) the form Claim Form attached as Exhibit 3, (4) the form notice for publication attached as Exhibit 4, and (5) the plan for Notice of Settlement attached as Exhibit 5.

4. Request for Final Approval Hearing. In connection with the motion for Preliminary Approval, Named Plaintiffs shall ask the Court to set a date for the Final Approval Hearing as soon as practicable, but in no event earlier than two-hundred (200) days after Preliminary Approval.

5. Request for Final Attorneys' Fees and Costs Hearing. In connection with the motion for Preliminary Approval, Named Plaintiffs shall ask the Court to set a date for a hearing on Named Plaintiffs' motion for Attorneys' Fees and Costs and Service Awards on the same date as the Final Approval Hearing.

6. Defendants' Response. Defendants will not oppose Named Plaintiffs' motion for Preliminary Approval so long as the motion and supporting papers are consistent with the terms of this Agreement. Class Counsel will provide Defendants' Counsel with a reasonable opportunity to review, and provide comments on, the motion for Preliminary Approval before the motion and supporting papers are filed with the Court. Notwithstanding the foregoing, Defendants may, without opposing Preliminary Approval, advise the Court if Defendants disagree with any of the factual statements included by the Named Plaintiffs in the motion and supporting papers. Defendants' Counsel will meet and confer with Class Counsel regarding any disputed factual statements before notifying the Court of any disputes.

IV. ADMINISTRATOR.

1. Administrator. In seeking Preliminary Approval, Named Plaintiffs will seek a Court order to engage Epiq as Administrator. Defendants will not oppose that request.

2. Duties. In addition to the other duties set forth in this Agreement, Administrator shall be responsible for the following:

i. Providing Notice of Settlement;

ii. Creating and maintaining a toll-free number that Class Members can call to request information concerning the Settlement or Agreement;

iii. Creating and maintaining a website relating to the Settlement using a short and simple web address relevant to the claims in the Action;

iv. Receiving objections and opt-outs and providing them jointly to Class Counsel and Defendants' Counsel in a timely manner;

v. Creating and maintaining the Class Member Database;

vi. Establishing the Settlement Fund;

vii. Monitoring and receiving the Settlement Amount;

viii. Calculating and overseeing distribution of settlement payments and, as further provided in Section XIV below, addressing any conflicts that may arise between different claims that are presented on behalf of the same Class Member;

ix. Protecting the confidentiality of personal identifying information Administrator receives regarding the Class Members and destroying such information upon the completion of Administrator's duties;

x. Providing information or declarations as the Parties request to assist with seeking Preliminary Approval and Final Approval, including an affidavit concerning the Notice of Settlement;

xi. Jointly consulting with Defendants' Counsel and Class Counsel concerning any relevant issues;

xii. Utilizing and hiring professionals to assist in the completion of any tasks assigned to Administrator; and

xiii. Such other tasks as the Parties mutually agree or that the Court orders Administrator to perform.

3. Costs of Administrator. All fees and expenses associated with the performance of Administrator's duties shall be paid out of the Settlement Amount. Defendants shall not be responsible for any payment to Administrator save and except through their obligation to timely remit the Settlement Amount.

4. Other Provisions Regarding Administrator.

i. Upon completion of the implementation and administration of the Settlement, Administrator shall provide written certification of such completion to counsel for all Parties.

ii. The Parties acknowledge and agree that Administrator is not an agent of Named Plaintiffs, Class Counsel, Defendants, or Defendants' Counsel and that Administrator is not authorized by this Agreement or otherwise to act on behalf of Named Plaintiffs, Class Counsel, Defendants, or Defendants' Counsel. Administrator is a neutral third-party whose appointment is

subject to Court approval and who will independently take actions and make determinations as set forth in this Agreement.

iii. If a Class Member requests that Administrator and/or its agent or employee refer the Class Member to Class Counsel, or if a Class Member requests advice beyond merely ministerial information, or poses other Settlement-related questions or concerns for which Administrator does not have an approved response, then Administrator and/or its agent or employee shall promptly refer the inquiry to Class Counsel.

iv. Each Party represents that the Party has no financial interest in Administrator the Court appoints, nor any relationship with Administrator that creates or could create a conflict of interest.

V. CLASS LIST.

1. Exchange of Class List. Defendants shall provide the Class List to Class Counsel and Administrator via email prior to the execution of this Agreement. The Parties acknowledge that the Class List will be based upon the information reasonably available to Defendants and that complete and accurate data regarding the amount of Regulatory Fees paid by each Class Member may be unavailable.

2. Content of Class List. The Class List will include to the greatest extent available:

i. An identification by name and license number of each Class Member;

ii. For each license issued by the Commission to a Class Member and each registration with the Commission by a Class Member, the name of the Class Member, the last known individual contact, last known mailing address(es), and last known email address(es) of the Class Member, and any prior contact information that may be useful in providing notice to the Class Member, and

iii. The total amount of Regulatory Fees paid by each Class Member during the Class Period, taking into account any refunds, credits, or other adjustments.

3. Confidentiality of Class List. The Class List will remain confidential and will be governed by a stipulation of the Parties and the Administrator, along with a protective order of the Court.

4. Additions to Class List. If Administrator, Class Counsel, or Defendants' Counsel becomes aware of any entity or individual who may fall within the Class but was omitted from the Class List, Administrator and the Parties shall timely confer to determine whether that entity or individual shall be added to the Class List. If a dispute arises concerning whether an entity or individual shall be added to the Class List, the Parties may file a motion with the Court for a determination. This provision does not obligate the Parties or their counsel to seek out additional Class Members.

VI. CONTENT OF NOTICE OF SETTLEMENT.

1. Content of Notice of Settlement. The Notice of Settlement distributed to Class Members shall be in the form of Exhibit 2 and shall include the following:

i. A brief explanation of the Action, including the basic contentions or denials of the Parties;

ii. A summary of the relief provided by the Settlement;

iii. A statement that the party may be receiving notice only as a former owner or operator of a Class Member and that any right to participate in the settlement may belong in whole or in part to later owners or operators of the Class Member, or to others;

iv. A statement that any relief to the Class is contingent on the Court's Final Approval;

v. Information about the potential amounts being sought by Class Counsel as Attorneys' Fees and Costs;

vi. A statement that an Attorneys' Fees and Costs award must be approved by the Court, and that individual Class Members will not be responsible themselves for paying any attorneys' fees, costs, litigation expenses, administration expenses (unless they elect to retain their own attorney at their own expense);

vii. A statement that the Court will exclude a Class Member from the Class if the Class Member so requests by a specified date;

viii. A procedure for the Class Member to follow in timely requesting exclusion from the Class;

ix. A procedure for the Class Member to follow in timely objecting to the Settlement;

x. The date, time, and place of the Final Approval Hearing, notice of Class Members' right to object to the Settlement, their right to appear in support of any timely and validly submitted objection, their right to appear at the Final Approval Hearing as provided by the Settlement or ordered by the Court in its Preliminary Approval, on their own or through counsel of their own selection (at their own expense), and the procedures for doing so;

xi. A statement of the releases contained in this Agreement;

xii. A statement that any Final Judgment entered in the Action will be binding on all Class Members who do not request exclusion; and

xiii. An explanation to Class Members on how to communicate with Administrator for purposes of providing their most current mailing address and contact information, which will include at minimum an email address and physical mailing address for Administrator.

VII. MANNER OF GIVING NOTICE OF SETTLEMENT.

Notice of Settlement shall be provided to the Class Members in the following manner:

1. By First Class Mail. Administrator shall mail the Notice of Settlement and a copy of this Agreement to each Class Member in a sealed envelope via first class mail, return service requested in a manner such that the Notice of Settlement is postmarked on the date of deposit. Administrator shall mail the Notice of Settlement within thirty (30) days of the Court's issuance of Preliminary Approval and shall deposit the Notice of Settlement into the mail simultaneously for all Class Members. The Notice of Settlement shall be mailed to the attention of the individual contact(s) and associated mailing address(es) identified in the Class List for each Class Member.

2. By Email. On the same day that Administrator deposits the Notice of Settlement into the mail to Class Members, Administrator shall send via email a PDF copy of the Notice of Settlement and a copy of this Agreement to each Class Member. The email shall be addressed to the attention of each individual contact(s) and associated email address(es) contained in the Class List for each Class Member.

3. By Internet Website. On the same day that Administrator deposits the Notice of Settlement into the mail to Class Members, Administrator shall post a copy of the Notice of Settlement on the website relating to the Settlement established by Administrator. The website will also include links to the following documents, in PDF format: the Complaint, this Agreement, any motion for Preliminary Approval, any Preliminary Approval order, any briefing filed in support of Final Approval (once filed), any application for Attorneys' Fees and Costs or Service Awards (once filed), any Final Approval order (once entered), any Final Judgment (once entered)), and other case documents as agreed upon by the Parties and/or required by the Court.

4. By Publication. On the same day that Administrator deposits the Notice of Settlement into the mail to Class Members, Administrator shall cause to be published within the daily publications of the Sacramento Bee and Los Angeles Times a notice in the form of Exhibit 4 providing notice that the Settlement has been reached in the Action and including a link to the internet website referenced in Section VII.3. That notice shall be published in those publications for fourteen (14) consecutive days.

5. Notices Returned As Undeliverable. With respect to any Notice of Settlement returned by mail as undeliverable, Administrator will re-mail the Notice of Settlement to any address provided by the postal service on returned mail pieces for which an automatic forwarding address has been provided, or to any better address that may be found using the National Change of Address Database, skip tracing, or a third-party lookup service such as "ALLFIND," maintained by LexisNexis. Administrator will conduct a search on such a third-party lookup service for each Class Member for whom mailed notice has been returned as undeliverable. If any alternative address is located that Administrator believes may be a correct address, the Notice of Settlement will be promptly re-mailed, but such re-mailing shall not extend the Initial Opt-Out Deadline or Objection Deadline. Administrator has no obligation to make further attempts to send Notice of Settlement to Class Members (1) for whom Administrator cannot, in its good faith discretion, locate an address it believes to be a viable alternative to the address used in the first mailing attempt, or (2) for whom the Notice of Settlement is returned as undeliverable a second time.

6. Notice Date. Administrator shall record the date that it takes the actions described in Sections VII.1, VII.2, VII.3, and VII.4 and shall immediately provide this date to Class Counsel and Defendants' Counsel.

VIII. OPT-OUTS.

1. Request for Exclusion. Any Class Member who wishes to be excluded from the Class must email or mail a signed written request for exclusion to Administrator at the email address or mailing address provided in the Notice of Settlement specifying that they want to be excluded from the Class.

i. Such written request for exclusion must include the following: (i) the name, address, and telephone number of the Class Member to be excluded; (ii) the name, address and telephone number of any person claiming to be legally entitled to submit an exclusion request on behalf of the Class Member and the basis for such legal entitlement; and (iii) a clear indication that the Class Member wants to be excluded from the Class.

ii. A representative who actually represents multiple Class Members may submit a single exclusion request naming all such Class Members, but a representative who actually represents only one Class Member may not submit a blanket request for exclusion on behalf of a class of similarly situated Class Members.

iii. A request for exclusion submitted by one or more representatives of a Class Member will, unless withdrawn pursuant to Section VIII.6, constitute a request on behalf of all others who claim to represent that Class Member.

2. Timeliness of Request. To be timely and valid, a request for exclusion from the Class must be submitted by email or postmarked on or before the Initial Opt-out Deadline.

3. Failure to Request Exclusion. Any Class Member that does not submit a timely and valid written request for exclusion shall be bound by the Settlement and all subsequent proceedings, orders, and judgments in the Action, including, but not limited to, the releases described in Section XX, even if it has litigation pending or subsequently initiates litigation against Defendants relating to the released claims.

4. Forfeiture. Subject to Section VIII.6, any Class Member who timely submits a valid request for exclusion as provided above shall waive and forfeit any and all rights it may have to benefits of the Settlement if it is approved and becomes final, including monetary relief, and shall waive and forfeit any and all rights to object to the fairness, reasonableness, or adequacy of the Settlement, Class Counsel's request for Attorneys' Fees and Costs, and/or the Service Awards.

5. Initial Exclusion List. Not later than five (5) days after the Initial Opt-out Deadline, Administrator shall send via email to Class Counsel and Defendants' Counsel a complete list of Class Members who submitted requests to exclude themselves from the Class by the Initial Opt-Out Deadline. At that same time, Administrator shall provide an estimated amount of the Administrative Costs incurred.

6. Withdrawal of Request for Exclusion. For a period of fourteen (14) days after the Administrator sends its initial list of Class Members who submitted exclusion requests, any Class Member who has timely submitted a request for exclusion on or before the Initial Opt-out Deadline may, independently or following voluntarily dialogue with Class Counsel or Defendants' Counsel, withdraw that request for exclusion and submit a Claim Form signed under penalty of perjury by a valid representative of the Class Member pursuant to Section XIV no later than fourteen (14) days after the Initial Opt-out Deadline. A Class Member who timely withdraws a request for exclusion and submits a Claim Form pursuant to this Section will be deemed a member of the Settlement Class, and will not be considered in addressing whether the opt-out threshold in Section VIII.8 has been met.

7. Final Exclusion List. Not later than five (5) days after the Final Opt-out Deadline, Administrator shall send via email to Class Counsel and Defendants' Counsel a complete and final list of Class Members who submitted requests to exclude themselves from the Class. At that same time, Administrator shall provide an estimated amount of the Administrative Costs incurred.

8. Opt-out Threshold. If Class Members with claims cumulatively in excess of $1,000,000 timely opt out of the Settlement and have not withdrawn their request for exclusion by the Final Opt-out Deadline, the Bureau, on behalf of itself and the Commission, will have the sole and absolute discretion to withdraw from this Agreement within thirty (30) days after Defendants receive the Administrator's email described in Section VIII.7 containing a complete and final list of Class Members who submitted requests to exclude themselves from the Class. The $1,000,000 threshold will be measured based solely upon the total amount of Regulatory Fees paid by each Class Member during the Class Period, as printed on the Claim Form. The claim of each Class Member that opts out will be assigned the value of the total amount of Regulatory Fees paid by that Class Member, as printed on that Class Members' Claim Form. For Defendants to withdraw from this Agreement, the Bureau must provide written notice to Class Counsel that Defendants are withdrawing. The withdrawal shall have the same effect as a termination of this Agreement for failure to satisfy a condition of settlement and the Agreement (with the exception of Section XXIII) shall become null and void and have no further force or effect, without prejudice to Named Plaintiffs' right to pursue future class certification or take any other actions.

9. Costs. If Defendants choose to terminate this Agreement under this Section VIII, Plaintiffs and Defendants shall each be responsible to pay one half of the Administrative Costs.

IX. OBJECTIONS.

1. Right to Object. Any Class Member or person legally entitled to act on a Class Member's behalf may object to the fairness, reasonableness, or adequacy of the Settlement, and/or Class Counsels' proposed methodology for calculating Attorneys' Fees and Costs. If the Class Member wishes to participate in the Settlement in the event the objection is overruled, the Class Member must also submit a Claim Form pursuant to this Settlement.

2. Form of Objection. Any Class Member who wishes to object must email or mail a signed written objection to Administrator at the email address or mailing address provided in the Notice of Settlement. Any objection must include the following: (i) the objector's name, address, and telephone number; (ii) the name, address, and telephone number of any person claiming to be

legally entitled to object on behalf of a Class Member and the basis of such legal entitlement; (iii) all grounds for the objection; and (iv) whether the objector is represented by counsel and, if so, the identity of such counsel. An objection submitted by one or more representatives of a Class Member will constitute an objection on behalf of all others who claim to represent that same Class Member.

3. Timeliness of Objection. To be timely and valid, an objection must be submitted by email or postmarked on or before the Objection Deadline.

4. Failure to Object. Subject to Section VIII ("Opt-Outs"), any Class Member who fails to make a timely objection shall waive and forfeit any and all rights the Class Member may have to object.

5. Effect of Objection. Any Class Member who objects to the Settlement shall nevertheless be entitled to all benefits of the Settlement if the Class Member also submits a Valid Claim, and the Settlement is approved and becomes final. Conversely, unless they opt out of the Settlement as specified in Section VIII, Class Members who object to the Settlement or the Agreement will remain part of the Settlement Class, and shall be deemed to have voluntarily waived their right to pursue an independent remedy against Defendants. To the extent any Class Member who has not opted-out objects to the Settlement or Agreement and such objection is overruled in whole or in part, such individuals will be bound by the Court's Final Approval and Final Judgment. In the event that a Class Member timely submits both an objection and an opt-out request, the objection will be rejected and the opt-out accepted, as a Class Member who opts-out of the Agreement is not a Class Member and no longer has grounds to object to the Settlement.

6. Right to Appear. Any Class Member who submits a timely written objection may appear at the Final Approval Hearing, either in person or through personal counsel hired at the Class Members' own personal expense and also may be subject to discovery, subject to Court approval.

7. Objection List. Not later than five (5) days after the Objection Deadline, Administrator shall send via email to Class Counsel and Defendants' Counsel all objections submitted by Class Members.

8. Filing Objections. Not later than fifteen (15) days after the Objection Deadline, Class Counsel shall file with the Court any and all objections to the Settlement and/or to Class Counsel's proposed methodology for calculating Attorneys' Fees and Costs. In accordance with the Rules of Court and any applicable local rules, all sensitive personal identifying information shall be redacted before objections are filed with the Court. In the event that any person objects to or opposes the Settlement or the Agreement, or attempts to intervene in or otherwise enter the Action, the Parties and Class Counsel will use their best efforts to defend the Settlement. Each Party retains the right to respond to any objection raised.

X. FINAL APPROVAL.

1. Proof of Notice. Proof that the Notice of Settlement procedures have been complied with shall be filed with the Court by Class Counsel no later than fifteen (15) days following the Final Opt-Out Deadline.

2. Motion for Final Approval. No later than sixteen (16) court days before the Final Approval Hearing, Named Plaintiffs shall file a motion for Final Approval and entry of Final Judgment which shall request that the Court:

i. Rule on the merits of any objections to the Settlement;

ii. Give final approval to the terms of this Agreement and Settlement as fair, just, adequate, equitable, reasonable and in the best interests of the Class;

iii. Certify the Settlement Class;

iv. Identify Class Members who opted out of the Settlement and are therefore excluded from the Settlement Class;

v. Provide for the orderly performance and enforcement of the terms and conditions of the Agreement, including the Parties' joint obligation to promptly perform the Agreement;

vi. Award Attorneys' Fees and Costs;

vii. Approve Service Awards;

viii. Grant Final Approval and enter Final Judgment;

ix. Request the dismissal of the State and Treasurer from the Action with prejudice, such dismissal having no effect on the obligations of Defendants under this Agreement;

x. Discharge the released parties of and from all further liability for the released claims as set forth in Section XX of this Agreement;

xi. Include additional provisions as the Court may direct that are not inconsistent with this Agreement.

3. Motion for Attorneys Fees' And Costs. No later than sixteen (16) court days before the Final Approval Hearing, Named Plaintiffs shall file a motion for an award of Attorneys' Fees and Costs and Service Awards.

4. Defendants' Response. Defendants will not oppose Named Plaintiffs' motion for Final Approval and Final Judgment so long as the motion and supporting papers are consistent with the terms of this Agreement.

5. Pendency of Claims Process. The Parties acknowledge and agree that, for purposes of efficiently implementing this Agreement, Named Plaintiffs may seek Final Approval after the Final Opt-Out Deadline and Objection Deadline, but while Administrator may be determining whether Claims shall be determined Valid Claims and/or calculating the amount of Valid Claims.

XI. EFFECTIVE DATE.

1. The "Effective Date" of this Agreement shall be the later of the following:

i. The Court's entry of both a Final Approval of the Settlement and Final Judgment if no objection by a Class Member with appellate standing under *Hernandez v. Restoration Hardware, Inc.*, 4 Cal.5th 260 (2018) has been filed or if all objections that have been filed have been withdrawn;

ii. The date on which the time of appeal has expired if an objection to this settlement or a motion to intervene by a Class Member or third person consistent with appellate standing under *Hernandez* has been filed and not withdrawn but no appeal by said Class Member has been filed; or

iii. The Court's entry of a final order and judgment following the final resolution of any appeal, including, but not limited to an appeal of any order(s) denying any motion(s) to intervene that has been filed and is consistent with appellate standing under *Hernandez* and exhaustion of any further appeals (whether available by right, petition, writ, or otherwise).

2. For purposes of this paragraph, an appeal based solely on a challenge to a request for, or any award by the Court of, Attorneys' Fees and Costs to be made to Class Counsel shall not be considered an appeal and shall not affect the Effective Date, provided that Class Counsel shall not seek an increase in the amount of attorneys' fees or costs which are the subject of any such appeal.

3. The Parties recognize that it is important to deliver the benefits of this Agreement to Named Plaintiffs and Class Members as soon as possible, and therefore agree to work in good faith to expedite the resolution of any appeals that are filed in this Action.

XII. CONTENT OF CLAIM FORM.

1. Content of Claim Form. The Claim Form distributed to Class Members shall be in the form of Exhibit 3 and shall include the following as to each Class Member:

i. The Class Members' name and license number(s);

ii. The total amount of Regulatory Fees paid by each Class Member during the Class Period as stated in the Class List;

iii. Direction for properly completing the Claim Form, including (1) directions for indicating whether the Claimant agrees or disagrees with the amount of Regulatory Fees stated in the Claim Form, and (2) directions, if the Claimant disagrees with the amount of Regulatory Fees submitted in the Claim Form, for submitting information to Administrator relating to those Regulatory Fees;

iv. Directions for confirming the Class Members' contact information, including name, corporate or other entity title, address for physical mail, entity email address, and phone number;

v. Directions for the Class Member's authorized representative to attest under oath to the accuracy of information provided by Claimant in the Claim Form, and to attest to the authorized representative's authority and agreement to handle the distribution of Settlement

proceeds in a fiduciary capacity to ensure proceeds are delivered to those entities and persons entitled to receive proceeds pursuant to law or agreement;

vi. Directions that any Claim Form being submitted by a former owner or operator of a Class Member must be accompanied by records establishing the existence and extent of the interest currently held by the former owner or operator in the Class Member's business or otherwise establishing the existence and extent of the former owner or operator's legal right to participate in the Claim;

vii. Directions that Class Members that are dissolved or inactive entities according to the records of the California Secretary of State must submit their plans of dissolution demonstrating how proceeds are to be distributed or follow the revivor process required by the jurisdiction(s) governing the existence of the entity during the Class Period;

viii. Notice that by returning the Claim Form, Class Members will be bound by the releases contained in this Agreement;

ix. Directions for returning the Claim Form to Administrator with a completed and executed IRS Form W-9, which will be used for tax reporting purposes, including, but not limited to, issuance of an IRS Form 1099;

x. Notice of the Claims Deadline; and

xi. A warning that a Claim Form that is untimely or incomplete will not be considered by Administrator.

XIII. DISTRIBUTION OF CLAIM FORMS.

The Claim Form shall be provided to the Class Members in the following manner:

1. By First Class Mail. Administrator shall mail the Claim Form to each Class Member in a sealed envelope via first class mail, return service requested in a manner such that the Claim Form is postmarked on the date of deposit. Administrator shall mail the Claim Form on the same date as the Notice of Settlement and shall deposit the Claim Form into the mail simultaneously for all Class Members. The Claim Form shall be mailed to the attention of the last known individual contact at the last known mailing address contained in the Class List. The Claim Form may be mailed in the same sealed envelope as the Notice of Settlement.

2. By Email. On the same day that Administrator deposits the Claim Form into the mail to Class Members, Administrator shall send via email a PDF copy of the Claim Form to each Class Member. The email shall be addressed to the attention of the last known individual contact at the last know email address contained in the Class List. The Claim Form may be emailed in the same message as the Notice of Settlement.

3. Claim Forms Returned As Undeliverable. With respect to any Claim Form returned by mail as undeliverable, Administrator will re-mail the Claim Form to any address provided by the postal service on returned mail pieces for which an automatic forwarding address has been provided, or to any better address that may be found using the National Change of Address

Database, skip tracing, or a third-party lookup service such as "ALLFIND," maintained by LexisNexis. Administrator will conduct a search on such a third-party lookup service for each Class Member for whom mailed notice has been returned as undeliverable. If any alternative address is located that Administrator believes may be a correct address, the Claim Form will be promptly re-mailed, but such re-mailing shall not extend the Claims Deadline. Administrator has no obligation to make further attempts to send the Claim Form to Class Members (1) for whom Administrator cannot, in its good faith discretion, locate an address it believes to be a viable alternative to the address used in the first mailing attempt, or (2) for whom the Claim Form is returned as undeliverable a second time.

4. Transmission Date. Administrator shall record the date that it takes the actions described in Sections XIII.1 and XIII.2 and shall immediately provide this date to Class Counsel and Defendants' Counsel.

XIV. CLAIM REVIEW PROCESS.

1. Purpose for Administration. This claims process is intended to balance the following goals: (1) provide relief to Class Members with Valid Claims, (2) take account of the relative amounts of Claims, (3) provide Class Members with a full and fair opportunity to obtain relief in accord with due process, (4) avoid payment of duplicate and overlapping Claims; and (5) provide clear and efficient relief.

2. Return of Claim Form. In order to be eligible for payment under the Settlement, Class Members must timely return a Claim Form signed under penalty of perjury by a valid representative of the Class Member attesting to the matters described in Section XII. The Claim Form must be submitted by email or postmarked on or before the Claims Deadline. Any Class Member who does not return a signed Claim Form by the Claims Deadline will not be entitled to receive proceeds in the Settlement. If a Class Member timely returns a Claim Form that is signed under penalty of perjury by a valid representative but is otherwise incomplete or illegible, that Class Member will not be barred from receiving proceeds in the Settlement, provided that the Administrator shall request that the Class Member provide any information omitted from the Claim Form and the Class Member shall provide information reasonably requested in make determinations concerning the Claim Form. Notwithstanding the terms of this Section, if a Class Member fails to return an IRS Form W-9 by the deadline for the Administrator in Section XV.4 to submit the calculated payment amount for all Valid Claims, that Class Member will not be entitled to receive proceeds in the Settlement.

3. Dissolved or Inactive Entities. If any entity that is dissolved or inactive according to the records of the California Secretary of State submits a Claim Form, it must submit its plan of dissolution concurrently with its Claim Form or follow the revivor process required by the jurisdiction(s) governing the existence of the entity during the Class Period before submitting its Claim Form. A dissolved or inactive Class Member which fails to submit its plan of dissolution demonstrating how proceeds are to be distributed with its Claim Form or fails to complete the revivor process before submitting its Claim Form will not be eligible for payment in the Settlement.

4. Review of Claims. Administrator will compare information in the Claim Forms against the information in the Class List. Administrator will review and verify the following for each Claimant:

i. The Class Members' name, license number(s), and mailing address, including any updated mailing address listed on the Claim Form;

ii. The execution of the Claim Form under penalty of perjury by a valid representative of the Class Member;

iii. The amount of Regulatory Fees paid by the Claimant as stated in the Class List; and

iv. The amount of Regulatory Fees claimed by the Class Member in the Claim Form.

5. Invalid Claims. Administrator will identify and remove Claim Forms relating to any Claimant which did not pay Regulatory Fees during the Class Period. Such Claim Forms will not be deemed a Valid Claim.

6. Duplicate or Overlapping Claims. The Administrator will determine whether multiple Claim Forms have been submitted on behalf of any Class Members. Such Claim Forms will not be deemed Valid Claims without adjustment to avoid payment in duplicate or overlapping amounts.

7. Determination of Valid Claims. Administrator shall determine whether a timely, signed Claim shall be treated as a Valid Claim as follows:

i. Administrator shall treat the total amount of Regulatory Fees paid by the Class Member as stated in the Class List (and as printed on the issued Claim Form) as the presumptively accurate amount of fees paid by the Class Member during the Class Period (before adjustment to avoid payment of duplicate or overlapping Claims).

ii. If a Claimant indicates on a Claim Form that it agrees with the amount of Regulatory Fees paid by the Claimant as stated in the Class List (and as printed on the issued Claim Form) and otherwise completes the Claim Form and returns the necessary documents, it shall be deemed a Valid Claim, subject to adjustment for duplicate or overlapping Claims submitted on behalf of the same Class Member. The amount of the Claim will be the amount of Regulatory Fees paid by the Claimant as stated in the Class List (and as printed on the issued Claim Form), subject to any adjustment for duplicate or overlapping Claims submitted on behalf of the same Class Member.

iii. If a Claimant indicates on a Claim Form that it actually paid an amount of Regulatory Fees that is *less than* the amount of Regulatory Fees paid by the Claimant as stated in the Class List (and as printed on the issued Claim Form) and otherwise completes the Claim Form and returns the necessary documents, it shall be deemed a Valid Claim, subject to adjustment for duplicate or overlapping Claims submitted on behalf of the same Class Member. The amount of the Claim will be the lesser amount of Regulatory Fees that the Claimant asserts it actually paid,

subject to any adjustment for duplicate or overlapping Claims submitted on behalf of the same Class Member.

iv. If a Claimant indicates on a Claim Form that it actually paid an amount of Regulatory Fees *greater than* the amount of Regulatory Fees paid by the Claimant as stated in the Class List (and as printed on the issued Claim Form), the Claimant must submit with the Claim Form conclusive documentary evidence that the Claimant paid the amount of Regulatory Fees asserted by the Claimant in the Claim Form. ("Conclusive documentary evidence" requires conclusive evidence as to the amount of the payment, the purpose of the payment, and the entity on whose behalf the payment was made.) If such evidence is not submitted with the Claim Form, then Administrator shall request that the Claimant provide such evidence within thirty (30) days of Administrator's receipt of the Claim Form. If the Claimant timely submits conclusive documentary evidence supporting the amount of Regulatory Fees claimed by the Claimant, then Administrator shall deem the Claim a Valid Claim in the amount Claimant asserts it actually paid. If the Class Member fails to timely respond or fails to timely provide conclusive evidence of having paid the amount of Regulatory Fees claimed by the Claimant, then Administrator shall deem the Claim a Valid Claim, but the Claimant will be deemed to have paid the amount as stated in the Class List (and as printed on the issued Claim Form). The amount of the Claim will be the amount of Regulatory Fees paid by the Claimant as stated in the Class List (and as printed on the issued Claim Form).

v. If a Claimant timely submits a signed Claim Form, it shall be deemed a Valid Claim even if the information provided by the Claimant is incomplete or illegible, and even if the Claimant fails to timely provide Administrator any necessary information omitted from the Claim Form. The amount of the Claim will be the amount of Regulatory Fees paid by the Claimant as stated in the Class List (and as printed on the issued Claim Form), subject to any adjustment for duplicate or overlapping claims presented on behalf of the same Class Member, and also subject to any adjustment based on the entity's status with the California Secretary of State. Notwithstanding the terms of this Section, if a Class Member fails to return an IRS Form W-9 by the deadline for the Administrator in Section XV.4 to submit the calculated payment amount for all Valid Claims, that Class Member will not be entitled to receive proceeds in the Settlement.

8. Review of Determination. Administrator's determination of the validity and amount of a Claim is final and will not be subject to review by Named Plaintiffs, Class Counsel, Defendants, or Defendants' Counsel.

9. Class Member Database. Administrator will input all information received from Claimants during the claims process into the Class Member Database. This information may be added to the Class Member Database in text format, or by scanning and uploading documents submitted by Class Members. Class Counsel and Defendants' Counsel shall have access to the Class Member Database. Information in the Class Member Database will be sortable by Class Member.

10. Evidence of Fraud or Manipulation. If during the process described above, Administrator discovers what it believes to be a Claim Form that appears to have been knowingly submitted with false or fraudulent information, Administrator shall inform the Parties' respective counsel. Administrator shall request documentation supporting the information provided in the

Claim Form. If the requested additional information is not provided within thirty (30) days after the date the request is made, the Claim may be deemed invalid based on Administrator's determination and no amount shall be due the Claimant. Notwithstanding the above, Defendants may, in their sole discretion, refer any Claim Form that they believe were knowingly submitted with false or fraudulent information to whatever law enforcement agency they deem appropriate for investigation and potential prosecution.

XV. CALCULATION OF VALID CLAIMS.

1. Calculation. Administrator will calculate the amount to be paid for each Valid Claim as follows:

i. Following the expiration of the Final Opt-out Deadline and after making a determination of the amount and validity of each Claim, the Administrator shall adjust each Claim as provided in Section XIV.7 above with respect to any duplicate or overlapping claims presented on behalf of the same Class Member.

ii. The Administrator shall then sum the total amount of all Valid Claims presented on behalf of each Class Member.

iii. Each Class Member with one or more Valid Claims shall be entitled to a pro rata portion of the Net Settlement Amount. That pro rata portion shall be calculated by dividing the total amount of the Class Member's Valid Claims by the sum total of all other Valid Claims.

2. Example: The following hypothetical example is provided only for purposes of demonstrating this methodology and assumes the following: "Class Member A" has an exemplar Valid Claim of $100.00. The exemplar sum total of all Valid Claims is $1,000.00 The exemplar Net Settlement Amount is $500.00. Under these circumstances, "Class Member A" is entitled to 10% of the Net Settlement Amount, because "Class Member A's" total Valid Claim ($100.00) is 10% of the total of all Valid Claims ($1,000.00). Multiplying the exemplar Net Settlement Amount of $500.00 by 10%, "Class Member A" would be entitled (as an example) to a pro rata portion of recovery under the Settlement of $50.00.

3. Payment Cap. The amount of payment to each Class Member with a Valid Claim shall be capped at the amount of the Regulatory Fees actually paid by that Class Member during the Class Period, as determined pursuant to Section XIV.

4. Payment List. No later than forty-five (45) days after the Final Opt-out Deadline, Administrator shall create and provide via email to Class Counsel and Defendants' Counsel a complete and final list of all Class Members that includes each Class Members' name, whether the Class Member submitted a Claim Form, opted-out, or objected, whether multiple claim forms were submitted by the Class Member and how those claims were adjusted, whether the Class Members' Claim was approved, and the calculated payment amount for all Valid Claims.

5. Fairness of Method. The Parties acknowledge and agree that the formula used to calculate settlement payments does not mean that all of the elements of the claims alleged in the Action are not being taken into account. The above formula was devised as a practical and logistically feasible method to simplify the participation process.

XVI. SETTLEMENT AMOUNT.

1. Settlement Amount. Defendants shall transfer the Settlement Amount into the Settlement Fund on the Funding Date.

2. Use of Settlement Amount. The Settlement Amount, and any interest or growth generated from the Settlement Amount, will first be used to pay in the following order of priority: (1) Administrative Costs, (2) Attorneys' Fees and Costs, (3) Service Awards, and (4) any other expenses mandated by this Agreement. Thereafter, Administrator will use the Net Settlement Amount to pay Valid Claims submitted by Class Members, as described in Section XVII.4.

3. Defendants' Authority. Defendants shall have no discretionary authority regarding the use of the Settlement Amount by Administrator, including, but not limited to, with respect to payments made by Administrator to the Settlement Class in accordance with this Agreement.

XVII. SETTLEMENT PAYMENTS.

1. Administrative Costs. Within fifteen (15) days of the Funding Date, the Administrative Costs shall be paid to Administrator from the Settlement Fund. Prior to paying itself the Administrative Costs, Administrator shall receive written approval from both Class Counsel and Defendants' Counsel of the total amount to be transferred from the Settlement Fund to Administrator. The Parties acknowledge and agree that this term may require Administrator to estimate expenses for distributing settlement funds pursuant to this Section XVII.

2. Attorneys' Fees and Costs. Within fifteen (15) days of the Funding Date, Attorneys' Fees and Costs as ordered by the Court at the Final Approval Hearing shall be paid by Administrator to Class Counsel from the Settlement Fund. Attorneys' Fees and Costs will be paid via wire to the Trust Account of the law firm Rutan & Tucker, LLP pursuant to instructions provided by Class Counsel, and will be divided among Class Counsel pursuant to agreement among Class Counsel. The Parties acknowledge that Defendants will have no responsibility for allocating the Attorneys' Fees and Cost among Class Counsel. Administrator will issue Class Counsel an IRS Form 1099 to Rutan & Tucker, LLP for Attorneys' Fees and Costs.

3. Service Awards. Within fifteen (15) days of the Funding Date, Service Awards as ordered by the Court at the Final Approval hearing shall be paid by Administrator to Named Plaintiffs. The Service Awards shall be paid by checks from the Settlement Fund, made payable to the Named Plaintiffs. Those checks will be sent to Class Counsel at J. Blonien, APLC via first class mail.

4. Distribution of Settlement Funds to the Class. Within fifteen (15) days of the Funding Date, Administrator shall calculate the amounts due to each Class Member with a Valid Claim and shall pay Valid Claims by mailing checks drawn from the Net Settlement Amount, made payable in the names of the Class Member as set forth in the Class List. Those checks will be sent to Class Members with Valid Claims via first class mail to the address confirmed by Class Members in the Claim Form, or to any updated address provided on a Claim Form. Such check shall be valid for a period of one-hundred-and-eighty (180) days from the date appearing on the payment check. For any payment check that is returned undeliverable with forwarding address information, Administrator shall re-mail the check to the provided address. Administrator shall

cancel any payment check that is returned as undeliverable without forwarding address information.

5. Taxability. The payment of the amounts of Valid Claims to Class Members could be deemed taxable. Administrator shall provide Defendants a list of all amounts paid to Class Members under the Settlement which shall include the name of the Class Member, the amount of payment, and the date payment was sent to the Class Member. Administrator is responsible for distribution of the benefits provided to Class Members. The Parties shall bear no responsibility for the tax liability associated with any payment to the Class Members.

6. Remaining Funds. If payment checks are returned as undeliverable or have not been cashed within one-hundred-and-eighty (180) days after the date appearing on the payment check, the funds will escheat back to the Settlement Fund. For any Class Member whose payment check is uncashed and cancelled after the void date, Administrator shall transmit the funds represented by such checks to the California Controller's Unclaimed Property Fund in the name of the Class Member, thereby leaving no "unpaid residue" subject to the requirements of California Code of Civil Procedure Section 384, subd. (b).

XVIII. ATTORNEYS' FEES.

1. Defendants' Fees. Defendants shall be responsible for their own attorneys' fees, costs and expenses incurred relating to the Action and in performing their obligations in connection with this Agreement and the Settlement. Neither Named Plaintiffs nor the Class shall be responsible for any portion of Defendants' own legal fees, costs, and expenses incurred in connection with the Action.

2. Request for Award. At the Final Approval Hearing, Class Counsel will apply to the Court for an award of attorneys' fees of no more than 33.3333% of the Settlement Amount. Class Counsel will also apply to the Court for an award of actual costs incurred by Class Counsel (excluding any costs for Administrator) not to exceed the amount of $25,000.00. Defendants will not oppose a request for Attorneys' Fees and Costs that is consistent with this Section XVIII. Named Plaintiffs and Class Counsel acknowledge the determination of Attorneys' Fees and Costs will be subject the Court's order, and Class Counsel may or may not receive all Attorneys' Fees and Costs requested.

3. Funds Exclusively From Settlement Amount. If the Court awards a lower amount of Attorneys' Fees and Costs than the amount requested by Class Counsel, only the amount of Attorneys' Fees and Costs awarded by the Court will be paid from the Settlement Amount, subject to any appellate rights. Class Counsel agrees to receive payment of Attorneys' Fees and Costs solely from the Settlement Amount.

XIX. SERVICE AWARDS.

Class Counsel intends to request at the Final Approval Hearing that the Court approve Service Awards for each of the Named Plaintiffs in an amount not to exceed $2,500.00 each. Any Service Awards approved by the Court will be paid out of the Settlement Amount. Defendants shall not object to Class Counsel's request for such Service Awards, provided that Service Awards payable to the Named Plaintiffs do not exceed $2,500.00 for each of the Named Plaintiffs.

XX. RELEASES.

1. Release of Claims By the Settlement Class.

i. As of the deposit of the Settlement Amount in the Settlement Fund, and except as set forth by this Agreement, all members of the Settlement Class shall be deemed to have released and forever discharged Defendants from any and all existing liability, demands, causes of action, suits, reimbursements or responsibility of any kind, whether known or unknown, related to or arising from the claims asserted in the Action, including but not limited to any claims relating to the validity and lawfulness of the imposition, calculation, collection, accounting, and use of Regulatory Fees, license application fees, and license application background deposits paid during the Class Period.

ii. It is an essential element to the Defendants' participation in the Settlement that they obtain the fullest possible release from further liability relating to the claims subject to the release described in paragraph 1.i above, and the Parties intend the Settlement to eliminate all further risk of liability of the Defendants relating to those claims. Accordingly, the Parties will request that the Court include in its order granting Final Approval a provision that any Class Member receiving notice of the Notice of Settlement, or having actual or constructive knowledge of the Notice of Settlement, other than those who submit a timely request for exclusion under Section VIII, shall be permanently barred from bringing any claims released by the Settlement Class under this Section XX.1.

2. Release of Claims By Defendants. As of the deposit of the Settlement Amount in the Settlement Fund, and except as set forth by this Agreement, Defendants shall be deemed to have released and forever discharged all members of the Settlement Class from any and all existing liability, demands, causes of action, suits, reimbursements or responsibility of any kind, whether known or unknown, for return or payment of Regulatory Fees incurred during the Class Period.

3. Notice of Release. Because it is impossible or impracticable to have each member of the Settlement Class execute this Agreement, the Notice of Settlement will advise all Class Members of the terms of the release contained in this Section XX and its binding nature. Such notice will have the same force and effect as if such release were executed by the member of the Settlement Class. Named Plaintiffs, members of the Settlement Class, and Defendants will be deemed by operation of an order granting Final Approval of the Settlement and entry of a Final Judgment to have agreed to be bound by the releases contained in this Section XX.

4. Right to Enforce. Notwithstanding any other provision of this Agreement (including, without limitation, this Section), nothing in this Agreement shall be deemed in any way to impair, limit, or preclude the Parties' rights to enforce any provision of this Agreement, or any court order implementing this Agreement, in a manner consistent with the terms of this Agreement.

XXI. CONFIDENTIALITY.

In addition to providing for the stipulation and protective order described in Section V.3 above, the Parties acknowledge that private and confidential data, information, and documents have been produced in the course of the Action, whether in response to formal discovery or

informally for purposes of mediation. The Parties agree to cooperate and to work with one another to protect private and confidential data, information, and documents. If any private or confidential data, information, or documents are relevant and necessary to any dispute pertaining to this action that may arise in the future, the Parties will meet and confer in good faith to find a means of protecting the data, materials, and/or documents from disclosure; and will cooperate in sealing such materials if filing with the Court is necessary.

XXII. DISPUTE RESOLUTION.

1. Scope of Disputes and Court Jurisdiction. The Final Approval Order will provide that the Court will retain exclusive jurisdiction to resolve any disputes arising out of or relating to, or involving the enforcement, implementation, application, or interpretation of this Agreement. The Parties acknowledge and agree that this Agreement is enforceable pursuant to Code of Civil Procedure section 664.6 upon application to the Court by any Party, and that the Court retains jurisdiction to and may otherwise enforce the terms of the Action consistent with the terms of this Agreement. The Parties shall enter documentation reasonably necessary to effectuate this term.

2. Attempt at Resolution. Although the Court retains exclusive jurisdiction to resolve disputes arising out of or relating to the enforcement, implementation, application, or interpretation of this Agreement, the Parties agree that, except as provided otherwise in this Agreement, prior to seeking recourse to the Court, the Parties shall, in good faith, attempt informally to resolve any such dispute relating to this Agreement amongst themselves.

XXIII. STAY OF LITIGATION.

The Parties agree that upon the execution of this Agreement, the Action shall be stayed, except to effectuate the terms of this Agreement. The stay will end upon the entry of judgment in this Action or on the occurrence of any of the conditions listed in Section XXVII.

The Parties further agree, upon the signing of this Agreement and pursuant to Code of Civil Procedure section 583.330, that any deadline to bring the Action to trial, including without limitation those under Code of Civil Procedure sections 583.310, 583.410, and/or 583.420, will be tolled for the duration of the stay. The Parties expressly waive any right of dismissal under Code of Civil Procedure section 583.360, 583.410, and/or 583.420, that would be inconsistent with this tolling agreement. *See Sanchez v. City of L.A.*, 109 Cal. App. 4th 1262, 1269 n.3 (2003) (stipulation may "expressly waive the right to a dismissal"). In the event the Court raises on its own motion the deadlines described by the Code of Civil Procedure (including without limitation sections 583.310, 583.410, and/or 583.420), the Parties shall jointly bring this stipulation to the attention of the Court and request the Court approve the stipulation and make it the Court's order. This tolling agreement will survive any termination or cancellation of this Agreement, including on any of the grounds described in Section XXVII and notwithstanding any other provisions of that Section.

XXIV. MODIFICATION.

This Agreement may not be amended or modified in any respect except by a written instrument signed by Class Counsel and Defendants' Counsel, and subject to Court approval. The

Parties agree that nonmaterial amendments or modifications to this Agreement may be made in writing signed by Class Counsel and Defendants' Counsel after Preliminary Approval without the need to seek the Court's approval.

XXV. SETTLEMENT BY STATE AGENCY.

The signatories to this Agreement for the Bureau and Commission represent and warrant that they are authorized to execute this Agreement, that the requisites of California Government Code section 948 have been satisfied, and that to the best of their knowledge, sufficient funds for the payment of amounts due under this Agreement are or will be available to make those payments from the Gambling Control Fund, and Gambling Control Fund Fines and Penalties Account. The Bureau and Commission acknowledge that the representations and warranties contained in this Section XXV are material inducements for the Named Plaintiffs to enter this Agreement, including without limitation its terms providing for the dismissal of the State and Treasurer.

XXVI. MISCELLANEOUS PROVISIONS.

1. The Parties and their attorneys agree to use reasonable efforts to cooperate in seeking Court approval of this Agreement and to effectuate this Agreement.

2. Unless indicated otherwise, the term "days" in this Agreement refers to calendar days. If the last day to complete an action contemplated by this Agreement falls on a weekend day or a California court holiday, the deadline for the completion of that action will be extended to the next business day in the California courts.

3. The Parties agree to cooperate in the Settlement administration process and implementation of the Settlement and to make all reasonable efforts to control and minimize the costs and expenses incurred in the administration and implementation of the Settlement.

4. Each signatory to this Agreement hereby warrants that the person signing has the authority to execute this Agreement and thereby bind the respective Party for which the person is signing, including with respect to the releases in Section XX.

5. Named Plaintiffs represent and certify that: (1) they have agreed to serve as representatives of the Class; (2) they are willing, able, and ready to perform all of the duties and obligations of representatives of the Class; (3) they have read the Complaint or have had the contents of such pleadings described to them; (4) they are generally familiar with the results of the fact-finding undertaken by Class Counsel; (5) they have read this Agreement or have received a detailed description of it from Class Counsel and they have agreed to its terms; (6) they have consulted with Class Counsel about the Action and this Agreement; and (7) they shall remain and serve as representatives of the Class until the terms of the Agreement are effectuated, this Agreement is terminated in accordance with its terms, or the Court at any time determines that said Named Plaintiffs cannot represent the Class.

6. The terms of this Agreement shall inure to the benefit of, and be binding upon, the Parties and their respective heirs, legal representatives, executors, administrators, successors, and assigns upon the Effective Date.

7. All references herein to sections, paragraphs, and exhibits refer to sections, paragraphs, and exhibits of and to this Agreement, unless otherwise expressly stated in the reference.

8. The headings and captions contained in this Agreement are inserted only as a matter of convenience and in no way define, limit, extend, or describe the scope of this Agreement or the intent of any provision thereof.

9. This Agreement and its exhibits constitute the entire agreement of the Parties with respect to the matters discussed herein and supersede all prior or contemporaneous oral or written understandings, negotiations, agreements, statements, or promises. In executing this Agreement, the Parties acknowledge that they have not relied upon any oral or written understandings, negotiations, agreements, statements, or promises that are not set forth in this Agreement. The Parties also acknowledge and agree that each has been represented by its own counsel with respect to the negotiating and drafting of the Settlement and this Agreement.

10. Without further order of the Court, the Parties may agree in writing to reasonable extensions of time to carry out any of the provisions of this Agreement or the Preliminary Approval, except those provisions which require Court involvement.

11. This Agreement may be executed in one or more counterparts, each of which shall be an original, and this Agreement is effective upon execution of at least one counterpart by each Party to this Agreement.

12. Named Plaintiffs, Class Counsel, Defendants and Defendants' Counsel do not intend anything contained in this Agreement and/or the settlement process to constitute legal advice regarding the tax consequences of any amount paid hereunder, nor may anything in this Agreement and/or the settlement process be relied upon as such by any Class Member. Defendants shall have no liability or responsibility for any representations made by third parties, including, but not limited to, Administrator, regarding taxes related to the Settlement Fund or payments from the Settlement Fund, or for any tax consequences of the Settlement.

13. In the event of a conflict between this Agreement and any other document prepared pursuant to the Settlement, the terms of this Agreement will supersede and control.

14. Any failure by any Party to insist upon the strict performance by any other Party of any provision of this Agreement shall not be deemed a waiver of any provision of this Agreement and such Party, notwithstanding such failure, shall have the right thereafter to insist upon the specific performance of any and all of the provisions of this Agreement.

15. This Agreement has been, and shall be construed to have been, drafted by all the Parties to it and the Parties agree that any rule which construes ambiguities against the drafter shall have no force or effect. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be valid and effective under applicable law.

16. Should any part of this Agreement be held unenforceable or in conflict with the applicable laws or regulations of any jurisdiction, the invalid or unenforceable part or provision shall be replaced with a provision which accomplishes, to the extent possible, the original purpose

of such part or provision in a valid and enforceable manner, and the remainder of this Agreement shall remain binding upon the Parties. The Parties to this Agreement agree, covenant and represent that each and every provision of this Agreement shall be deemed to be contractual, and that they shall not be treated as mere recitals at any time or for any purpose. Therefore, the Parties further agree, covenant and represent that each and every provision of this Agreement shall be considered severable.

17. The Parties agree that this Agreement was drafted and executed in the State of California and that the laws of the State of California shall govern its enforcement without regard to its choice of law principles. The Parties further agree that any action relating to or arising out of this Agreement, including an action to enforce or void any of its terms or to rescind it in its entirety shall be venued in the Superior Court of California, County of Sacramento. All Parties consent to personal jurisdiction in courts within the Superior Court of California, County of Sacramento.

XXVII. CONDITIONS IMPACTING FINALITY.

1. The Parties expressly agree this Agreement and the Settlement shall be null and void and shall have no force or effect, and neither Party to this Agreement shall be bound by any of its terms, except as otherwise provided in Section XXIII (including its provision that the tolling agreement therein will survive any termination or cancellation of this Agreement) or as otherwise specifically provided herein, if:

i. The Court does not grant Preliminary Approval of the Agreement and Settlement. If the Court will not grant such approval unless amendments or modifications are made, the Parties shall meet and confer and use best efforts in good faith to reach an agreement as to any such changes the Court may require.

ii. If Defendants withdraw from this Agreement pursuant to Section VIII.8 because the opt-outs have reached the threshold percentage.

iii. If the Court does not enter Final Approval and enter Final Judgment in a manner materially consistent with the Agreement and Settlement. If the Court will not grant such approval unless amendments or modifications are made, the Parties shall meet and confer and use best efforts in good faith to reach an agreement as to any such changes the Court may require.

iv. If the Agreement and Settlement do not become final for any other reason, including subsequent review by any appellate court(s) in the Action.

XXVIII. LIST OF EXHIBITS.

All exhibits to this Agreement are integrated herein and are to be considered terms of this Agreement as if fully set forth herein. The following exhibits are attached to this Agreement:

1. Exhibit 1: Form Preliminary Approval Order.

2. Exhibit 2: Form Notice of Settlement.

3. Exhibit 3: Form Claim Form.

4. Exhibit 4: Form Notice for Publication.

5. Exhibit 5: Plan for Notice of Settlement.

THE UNDERSIGNED HAVE READ THE FOREGOING AGREEMENT AND ACCEPT AND AGREE TO THE PROVISIONS CONTAINED HEREIN, AND HEREBY EXECUTE IT, KNOWINGLY AND VOLUNTARILY, AND WITH FULL UNDERSTANDING OF ITS CONSEQUENCES.

[Signatures on the following pages.]

Dated: May 9, 2025

BUREAU OF GAMBLING CONTROL

By: Yolanda Morrow

Name: Yolanda Morrow

Title: Director

Dated: May 9, 2025

CALIFORNIA GAMBLING CONTROL COMMISSION

By: Lisa Wardall

Name: Lisa Wardall

Title: Executive Director

Dated: _____, 2025

LUCKY CHANCES, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

V C CARDROOM, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

HALYCON GAMING, LLC

By: _____

Name: _____

Title: _____

Dated: _____, 2025

BUREAU OF GAMBLING CONTROL

By: _____

Name: _____

Title: _____

Dated: _____, 2025

CALIFORNIA GAMBLING CONTROL COMMISSION

By: _____

Name: _____

Title: _____

Dated: Apr 28, 2025, 2025

LUCKY CHANCES, INC.

By: Rommel Medina
Rommel Medina (Apr 28, 2025 11:25 PDT)

Name: Rommel Medina

Title: Chairman & CEO

Dated: _____, 2025

V C CARDROOM, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

HALYCON GAMING, LLC

By: _____

Name: _____

Title: _____

Dated: _____, 2025

BUREAU OF GAMBLING CONTROL

By: _____

Name: _____

Title: _____

Dated: _____, 2025

CALIFORNIA GAMBLING CONTROL COMMISSION

By: _____

Name: _____

Title: _____

Dated: _____, 2025

LUCKY CHANCES, INC.

By: _____

Name: _____

Title: _____

Dated: Apr 28, 2025, 2025

V C CARDROOM, INC.

By: Kelly Souza (Apr 28, 2025 09:25 PDT)

Name: Kelly Souza

Title: Secretary

Dated: _____, 2025

HALYCON GAMING, LLC

By: _____

Name: _____

Title: _____

Dated: _____, 2025

BUREAU OF GAMBLING CONTROL

By: _____

Name: _____

Title: _____

Dated: _____, 2025

CALIFORNIA GAMBLING CONTROL COMMISSION

By: _____

Name: _____

Title: _____

Dated: _____, 2025

LUCKY CHANCES, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

V C CARDROOM, INC.

By: _____

Name: _____

Title: _____

Dated: 28/04/25, 2025

HALYCON GAMING, LLC

By: Patrick Sanders
Patrick Sanders (Apr 28, 2025 18:17 EDT)

Name: Patrick Sanders

Title: CFO

Dated: _____, 2025

BUREAU OF GAMBLING CONTROL

By: _____

Name: _____

Title: _____

Dated: _____, 2025

CALIFORNIA GAMBLING CONTROL COMMISSION

By: _____

Name: _____

Title: _____

Dated: _____, 2025

LUCKY CHANCES, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

V C CARDROOM, INC.

By: _____

Name: _____

Title: _____

Dated: 28/04/25, 2025

HALYCON GAMING, LLC

By: 

Name: Mitch Goldstein

Title: President

Dated: Apr 28, 2025, 2025

PACIFIC GAMING SERVICES, LLC

By: Lori Suson
Lori Suson (Apr 28, 2025 15:44 PDT)

Name: Lori Suson

Title: owner

Dated: _____, 2025

BJ GAMING, LLC

By: _____

Name: _____

Title: _____

Dated: _____, 2025

FORTUNE PLAYERS GROUP, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

GOLD GAMING CONSULTANTS, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

CERTIFIED PLAYERS, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

PACIFIC GAMING SERVICES, LLC

By: _____

Name: _____

Title: _____

Dated: Apr 28, 2025, 2025

BJ GAMING, LLC

By: Joseph Capps
Joseph Capps (Apr 28, 2025 19:01 PDT)

Name: Joseph Capps

Title: REP

Dated: _____, 2025

FORTUNE PLAYERS GROUP, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

GOLD GAMING CONSULTANTS, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

CERTIFIED PLAYERS, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

PACIFIC GAMING SERVICES, LLC

By: _____

Name: _____

Title: _____

Dated: _____, 2025

BJ GAMING, LLC

By: _____

Name: _____

Title: _____

Dated: Apr 28, 2025, 2025

FORTUNE PLAYERS GROUP, INC.

By: _____

Name: TRICIA CASTELLANOS

Title: President/CEO/CFO

Dated: _____, 2025

GOLD GAMING CONSULTANTS, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

CERTIFIED PLAYERS, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

PACIFIC GAMING SERVICES, LLC

By: _____

Name: _____

Title: _____

Dated: _____, 2025

BJ GAMING, LLC

By: _____

Name: _____

Title: _____

Dated: _____, 2025

FORTUNE PLAYERS GROUP, INC.

By: _____

Name: _____

Title: _____

Dated: 28/04/25, 2025

GOLD GAMING CONSULTANTS, INC.

By: _____

Name: Mitch Goldstein

Title: President

Dated: _____, 2025

CERTIFIED PLAYERS, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

PACIFIC GAMING SERVICES, LLC

By: _____

Name: _____

Title: _____

Dated: _____, 2025

BJ GAMING, LLC

By: _____

Name: _____

Title: _____

Dated: _____, 2025

FORTUNE PLAYERS GROUP, INC.

By: _____

Name: _____

Title: _____

Dated: _____, 2025

GOLD GAMING CONSULTANTS, INC.

By: _____

Name: _____

Title: _____

Dated: Apr 28, 2025, 2025

CERTIFIED PLAYERS, INC.

By: Mike Leblanc (Apr 28, 2025 09:35 PDT)

Name: Mike Leblanc

Title: Principal

Dated: Apr 28, 2025, 2025

LE GAMING, INC.

By: Mike Leblanc (Apr 28, 2025 09:35 PDT)

Name: Mike Leblanc

Title: CEO and principal

Dated: Apr 28, 2025, 2025

RHINO GAMING INC.

By: Mike Leblanc (Apr 28, 2025 09:35 PDT)

Name: Mike Leblanc

Title: President and principal

SETTLEMENT AGREEMENT—EXHIBIT 1

FORM PRELIMINARY APPROVAL ORDER

RUTAN & TUCKER, LLP
David P. Lanferman (State Bar No. 71593)
dlanferman@rutan.com
Steven J. Goon (State Bar No. 171993)
mfrazier@rutan.com
Lucas K. Hori (State Bar No. 294373)
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SUPERIOR COURT OF THE STATE OF CALIFORNIA

FOR THE COUNTY OF SACRAMENTO

GORDON D. SCHABER COURTHOUSE

LUCKY CHANCES, INC.; V C CARDROOM, INC.; HALCYON GAMING, LLC; PACIFIC GAMING SERVICES, LLC; BJ GAMING, LLC; FORTUNE PLAYERS GROUP, INC.; GOLD GAMING CONSULTANTS, INC.; CERTIFIED PLAYERS, INC.; LE GAMING, INC.; and RHINO GAMING INC., on their own behalf and on behalf of those similarly situated, Plaintiffs and Petitioners, vs. THE STATE OF CALIFORNIA; CALIFORNIA GAMBLING CONTROL COMMISSION; BUREAU OF GAMBLING CONTROL, A DIVISION OF THE CALIFORNIA DEPARTMENT OF JUSTICE; FIONA MA, in her official capacity as the State Treasurer; and DOES 1 through 20, Inclusive, Defendants and Respondents.	Case No. 34-2020-80003510-CU-MW-GDS Judge: James P. Arguelles Dept: 32 **[PROPOSED] ORDER GRANTING MOTION FOR PRELIMINARY APPROVAL OF CLASS ACTION SETTLEMENT** Action Filed: May 12, 2020 Trial Date: TBD

This action is pending as a putative class action (the "Action"). Plaintiffs Lucky Chances, Inc., V C Cardroom, Inc., Halcyon Gaming, LLC, Pacific Gaming Services, LLC, BJ Gaming, LLC, Fortune Players Group, Inc., Gold Gaming Consultants, Inc., Certified Players, Inc., LE Gaming Inc., and Rhino Gaming Inc. (together, "Named Plaintiffs") seek class action relief against Defendants California Gambling Control Commission ("Commission"), the Bureau of Gambling Control (a Division of the California Department of Justice) ("Bureau"), the State of California ("State"), and Fiona Ma, in her official capacity as the State Treasurer ("Treasurer").

Through an unopposed motion pursuant to California Rules of Court, Rule 3.769(c), Named Plaintiffs moved for an order preliminarily approving the settlement of the Action in accordance with the Class Action Settlement Agreement and Release ("Agreement") attached to this Order as Exhibit A, and its respective exhibits, including (a) the Notice of Settlement attached to the Agreement as Exhibit 2, (b) the Claims Form attached to the Settlement as Exhibit 3, (c) the Notice for Publication attached to the Agreement as Exhibit 4, and (d) the Plan for Notice of Settlement attached to the Agreement as Exhibit 5. The Court, having examined and considered the Agreement and its exhibits, NOW HEREBY ORDERS:

1. Unless otherwise noted, capitalized terms in this Order will have the definitions stated in the Agreement.

2. The Court GRANTS preliminary approval of the Agreement and Settlement and finds the Settlement terms (including the Settlement Amount of $43,300,000.00) to be within the range of reasonableness of a settlement that ultimately could be granted final approval by the Court at the Final Approval Hearing.

3. The Court provisionally certifies the Class for settlement purposes. For the purposes of the Settlement, the Class is defined as "all persons in California licensed or registered at any time during the Class Period by or through the Commission as Cardrooms or Proposition Player Providers who paid Regulatory Fees as a Cardroom or Proposition Player Provider during the Class Period."[1] "Class Period" means the period January 1, 2005 until May 12, 2020.

[1] "Persons" are not limited to natural persons, but include individuals, corporations, partnerships, limited liability partnerships, limited liability companies, firms, associations, or other entities.

"Cardrooms" means non-tribal cardroom gambling establishments in the State of California licensed by or registered with the Commission. "Proposition Player Providers" means third party providers of proposition player services to Cardrooms in the State of California licensed by or registered with the Commission. "Regulatory Fees" means the regulatory fees that are the subject of the Action, namely the annual fees that Class Members were required to pay during the Class Period pursuant to Business and Professions Code section 19951, subdivisions (c) and (d) (as to Cardrooms), or pursuant to Business and Professions Code section 19984, subdivision (c) (as to Proposition Player Providers) as those statutes were in effect during the Class Period.

4. The Court designates Named Plaintiffs as class representatives.

5. The Court designates (a) David P. Lanferman, Esq., Lucas K. Hori, Esq. and Steven Goon, Esq. of Rutan & Tucker, LLP, and (b) Jarhett Blonien, Esq. and Danielle Guard, Esq. of J. Blonien, APLC as class counsel.

6. The Court designates Epiq as third-party Administrator retained to administer the Settlement, including providing Notice of Settlement, overseeing the claims process (including addressing any conflicts that may arise between different claims that are presented on behalf of the same Class Member), managing distributions to the Class Members, and performing other tasks provided for in the Agreement.

7. The Court approves, as to form and content, (a) the Notice of Settlement attached to the Agreement as Exhibit 2, (b) the Claims Form attached to the Agreement as Exhibit 3, and (c) the Notice for Publication attached to the Agreement as Exhibit 4.

8. The Court approves the plan for Notice of Settlement attached to the Agreement as Exhibit 5.

9. The Court finds the proposed form and method of notice to the Class regarding the pendency of this litigation and of the Settlement, and the methods of giving notice to the Class, constitute the best notice practicable under the circumstances, and constitute valid, due, and sufficient notice to the Class. The proposed form and method of giving notice complies with the requirements of California Code of Civil Procedure section 382, California Civil Code section 1781, California Rules of Court 3.766 and 3.769, the California and United States Constitutions,

and other applicable law.

10. The Court approves the procedures for Class Members to opt out of or object to the Settlement, as set forth in the Notice. The procedures and requirements for filing objections in connection with the Final Approval Hearing are intended to ensure the efficient administration of justice and the orderly presentation of any Class Member's objection to the Settlement, in accordance with the due process rights of all Class Members.

11. The Court directs the Administrator to mail the Notice of Settlement to the Class in accordance with the terms of the Agreement. As described in the Agreement, Class Members will have sixty (60) calendar dates following the transmission of the Notice of Settlement to opt out of, or object to, the Settlement.

12. A Final Approval Hearing is scheduled in Department 32 of this Court, located at 720 9th Street Sacramento, CA 95814 on a date at least two-hundred (200) days from the date of this Order of _____. A hearing on Named Plaintiffs' anticipated motion for Attorneys' Fees and Costs and Service Awards is set in Department 32 at the same time on that date.

13. On that date, the Court will address Named Plaintiffs' anticipated requests that the Court (a) rule on the merits of any objections to the Settlement; (b) give final approval to the terms of this Agreement and Settlement as fair, just, adequate, equitable, reasonable and in the best interests of the Class; (c) certify the Settlement Class; (d) identify Class Members who opted out of the Settlement and are therefore excluded from the Settlement Class; (e) provide for the orderly performance and enforcement of the terms and conditions of the Agreement, including the Parties' joint obligation to promptly perform the Agreement; (f) award Attorneys' Fees and Costs; (g) approve Service Awards; (h) grant Final Approval and enter Final Judgment; (i) dismiss the State and Treasurer from the Action with prejudice, such dismissal having no effect on the obligations of Defendants under this Agreement; (j) discharge the released parties of and from all further liability for the released claims as set forth in the Agreement; and (k) include additional provisions as the Court may direct that are not inconsistent with the Agreement.

14. Counsel for the parties shall file memoranda, declarations, or other statements and

materials in support of the above-enumerated requests for final approval according to the time limits set by the Code of Civil Procedure and the California Rules of Court.

15. An intended implementation schedule is below. To the extent that this schedule conflicts with or is any way inconsistent with the Settlement's terms, the Settlement's terms shall control:

Notice Date.	Within 30 days of Preliminary Approval.
Date of sending Claims Form.	Within 30 days of Preliminary Approval.
Objection Deadline.	60 days after Notice Date.
Initial Opt-Out Deadline.	60 days after Notice Date.
Claims Deadline.	60 days after Notice Date.
Deadline for Administrator to provide initial list of opt-outs	5 days after Initial Opt-Out Deadline.
Deadline for Administrator to provide objections to counsel.	5 days after Objection Deadline.
Deadline to file objections with Court.	15 days after Objection Deadline.
Deadline to withdraw request for exclusion	14 days after Administrator provides counsel initial list of opt outs (the "Final Opt-out Deadline").
Deadline for Administrator to provide final list of opt-outs	5 days after expiration of 14-day period after Administrator provides initial list of opt outs (i.e., Final Opt-out Deadline), for an outside total of 24 days after Initial Opt-out Deadline.
Deadline for the State to withdraw from Settlement based on opt-outs	30 days after receipt of final list of opt-outs, for a total of 54 days after Initial Opt-out Deadline.
Deadline to file proof of Notice of Settlement with Court.	15 days after Final Opt-Out Deadline.
Deadline for Claimants to provide additional information for Claims Form.	30 days after Claims Deadline.
Deadline for Administrator to provide final list of Class Members and amounts of Valid Claims.	45 days after Final Opt-out Deadline
Deadline to file motion for Final Approval.	16 court days before Final Approval Hearing.
Deadline to file motion for Attorneys' Fees and Costs /	16 court days before hearing on motion for Attorneys' Fees and Costs / Service Awards.

Service Awards.	
Final Approval Hearing.	As set by Court, at least 200 days after Preliminary Approval.
Motion for Attorneys' Fees and Costs.	As set by Court, at least 200 days after Preliminary Approval.
Effective Date.	Entry of Final Approval and Final Judgment (if no objections filed), or at expiration of appellate rights.
Funding Date.	10 days after Effective Date.
Payment of Attorneys' Fees and Costs.	15 days after Funding Date.
Payment of Service Awards.	15 days after Funding Date.
Payment of Administrative Costs	15 days after Funding Date
Payment of Valid Claims.	15 days after Funding Date.
Expiration of settlement checks.	180 days after issuance of checks.

16. Pursuant to the Settlement's terms, all proceedings in this litigation, other than proceedings necessary to carry out or enforce the terms and conditions of the Settlement and this Order, are stayed.

17. Counsel for the parties are authorized to use all reasonable procedures in connection with the administration of the Settlement which are not materially inconsistent with either this Order or the terms of the Settlement.

IT IS SO ORDERED.

Dated: _____, 2025

Honorable James P. Arguelles
Superior Court for the State of California
County of Sacramento

SETTLEMENT AGREEMENT—EXHIBIT 2

FORM NOTICE OF SETTLEMENT

Notice of Class Action Settlement

Lucky Chances, Inc., et al. v. The State of California, et al., Case No. 34-2020-80003510-CU-WM-GDS
(Sacramento Superior Court)

A Court authorized this notice. This is not a solicitation.
This is not a lawsuit against you and you are not being sued.
Your legal rights, however, are impacted by whether you act or don't act.

A judge of the California Superior Court for the County of Sacramento has granted preliminary approval of an agreement ("Agreement") memorializing a settlement ("Settlement") of the above-captioned class action (the "Action"). A copy of the Agreement is enclosed with this Notice of Settlement. Because your rights may be affected by the Agreement, it is important that you read the Agreement and this Notice of Settlement ("Notice") carefully. Unless otherwise noted, capitalized terms in this Notice of Settlement will have the definitions stated in the Agreement. To the extent that any provisions of this Notice of Settlement conflict with the Agreement, the Agreement's terms control.

The Court has provisionally certified the following class for settlement purposes ("Class"): "all persons in California licensed or registered at any time during the Class Period by or through the Commission as Cardrooms or Proposition Player Providers who paid Regulatory Fees as a Cardroom or Proposition Player Provider during the Class Period." "Commission" means the California Gambling Control Commission. "Class Period" means the period January 1, 2005 until May 12, 2020. "Cardrooms" means non-tribal cardroom gambling establishments in the State of California licensed by or registered with the Commission. "Proposition Player Providers" means third party providers of proposition player services to Cardrooms in the State of California licensed by or registered with the Commission. "Regulatory Fees" means the regulatory fees that are the subject of the Action, namely the annual fees that Class Members were required to pay during the Class Period pursuant to Business and Professions Code section 19951, subdivisions (c) and (d) (as to Cardrooms), or pursuant to Business and Professions Code section 19984, subdivision (c) (as to Proposition Player Providers) as those statutes were in effect during the Class Period. The Agreements provides that Cardrooms and Proposition Player Providers within the Class are "Class Members."

The purpose of this Notice is to provide a brief description of the claims alleged in the Action, the key terms of the Settlement, and your rights and options with respect to the Settlement. Additional documents relating to the Action are posted online at the following webpage: [Administrator webpage].

YOU MAY BE ENTITLED TO MONEY UNDER THE PROPOSED CLASS ACTION SETTLEMENT. PLEASE READ THIS NOTICE CAREFULLY. IT INFORMS YOU ABOUT YOUR LEGAL RIGHTS.

WHAT INFORMATION IS IN THIS NOTICE

1. Why Have I Received This Notice?

The records of the Commission indicate that you may be a Class Member. If finally approved and as described below, the Settlement will release all Class Members' claims related to or arising from the claims asserted in the Action for return of Regulatory Fees paid during the Class Period. Any Final Judgment entered in the Action will be binding on all Class Members who do not request exclusion. You may be receiving notice only as a ***former*** owner or operator of a Class Member and any right to participate in the Settlement may belong in whole or in part to later owners or operators of the Class Member, or to others.

A Preliminary Approval hearing was held on [date of Preliminary Approval hearing] in the Action. The Court provisionally certified the Class and ordered that you receive this Notice of Settlement.

The Court found the Settlement terms (including the Settlement Amount of $43,300,000.00) to be within the range of reasonableness of a settlement that ultimately could be granted final approval by the Court at the Final Approval Hearing.

The Court will hold a Final Approval Hearing concerning the Settlement on [date of Final Approval Hearing], 2025 at [time a.m./p.m.], at the Sacramento Superior Court, located in Department 32 of the Gordon D. Schaber Courthouse, 720 9th Street, Sacramento, CA 95814. The Final Approval Hearing will be open to the public and you are authorized to attend.

2. What Is This Case About?

Plaintiffs Lucky Chances, Inc., V C Cardroom, Inc., Halcyon Gaming, LLC, Pacific Gaming Services, LLC, BJ Gaming, LLC, Fortune Players Group, Inc., Gold Gaming Consultants, Inc., Certified Players, Inc., LE Gaming Inc., and Rhino Gaming Inc. (together, "Named Plaintiffs") initiated the Action seeking class action relief against Defendants California Gambling Control Commission ("Commission"), the Bureau of Gambling Control (a Division of the California Department of Justice) ("Bureau"), the State of California ("State"), and Fiona Ma, in her official capacity as the State Treasurer ("Treasurer"). Named Plaintiffs seek the return of amounts collected as Regulatory Fees during the Class Period, which Named Plaintiffs allege exceed amounts allowed by the California Constitution and other applicable law. The Named Plaintiffs' legal complaint filed in the Action, along with other case documents, can be reviewed at the following webpage: [Administrator webpage].

The Commission, Bureau, State, and Treasurer filed an answer disputing the allegations. They deny wrongdoing or liability in connection with any facts or claims that have been alleged in the Action. Nevertheless, Named Plaintiffs and the Commission and Bureau (together, "Defendants") entered into negotiations resulting in the Agreement. Among other things, the Agreement provides that Defendants will make a settlement payment of $43,300,000.00. As part of the Settlement, the State and Treasurer would be dismissed from the case.

The Court has not ruled whether either party is correct. The Court has not made any determination as to whether the claims advanced by Named Plaintiffs have any merit. Instead, both sides have agreed to resolve the Action through the Settlement with no decision or admission of who is right or wrong. By agreeing to resolve the Action, the parties avoid the risks and costs of a trial. The Settlement represents a compromise and settlement of disputed claims and is not an admission by Defendants of any wrongdoing or an indication that any law was violated.

3. Am I a Class Member?

You are a Class Member in the Action if you fall within the following definition: "all persons in California licensed or registered at any time during the Class Period by or through the Commission as Cardrooms or Proposition Player Providers who paid Regulatory Fees as a Cardroom or Proposition Player Provider during the Class Period." "Commission" means the California Gambling Control Commission. "Class Period" means the period January 1, 2005 until May 12, 2020. "Cardrooms" means non-tribal cardroom gambling establishments in the State of California licensed by or registered with the Commission. "Proposition Player Providers" means third party providers of proposition player services to Cardrooms in the State of California licensed by or registered with the Commission. "Regulatory Fees" means the regulatory fees that are the subject of the Action, namely the annual fees that Class Members were required to pay during the Class Period pursuant to Business and Professions Code section 19951, subdivisions (c) and (d) (as to Cardrooms), or pursuant to Business and Professions Code section 19984, subdivision (c) (as to Proposition Player Providers) as those statutes were in effect during the Class Period. If you qualify as a Class Member, you could receive money from the Settlement.

4. How Does This Class Action Settlement Work?

In the Action, Named Plaintiffs sued on behalf of themselves and all other similarly situated Cardrooms and Proposition Player Providers who were licensed by the Commission and who paid Regulatory Fees during the Class Period. The settlement of this Action resolves Class Members' claims related to or arising from the claims asserted in the Action for return of Regulatory Fees paid during the Class Period, except for those Class Members who exclude themselves from the Class by requesting to be excluded in the manner set forth below.

The full Agreement is being provided to you with this Notice of Settlement. Named Plaintiffs and Class Counsel believe the Settlement is fair and reasonable. The Court must also review the terms of the Settlement and finally determine if it is fair and reasonable to the Class. Additional records from the Court's file are located at the [Administrator webpage]. If you have additional questions concerning the Settlement, you can contact the Administrator. The Administrator's email and phone number are as follows: [email and phone number].

5. Who Are the Attorneys Representing the Parties?

Class Counsel	Attorneys for Defendant
Rutan & Tucker, LLP Steven Goon, Esq., David P. Lanferman, Esq., Lucas K. Hori, Esq. 18575 Jamboree Road, 9th Floor Irvine, CA 92612 Tel: (714) 641-5100 J. Blonien, APLC Jarhett Blonien, Esq., Danielle Guard, Esq. 1121 L Street. Suite 105 Sacramento, CA 95814 Tel: (916) 441-4242	**The Attorney General of the State of California** Daniel Robertson, Esq.; Michael Sapoznikow, Esq. 1300 I Street, Suite 125 P.O. Box 944255 Sacramento, CA 944255 Tel: (916) 210-7348

The Court has decided Rutan & Tucker, LLP as "Class Counsel" is qualified to represent the Class Members simultaneously for the purposes of the Settlement. Class Counsel is working on behalf of the Class. If you want your own attorney you may hire one at your own cost.

6. What Are My Options?

The purpose of this Notice of Settlement is to inform you of the Settlement and your options. Each option has consequences, which you should understand before making your decision. Your rights regarding each option, and the steps you must take to select each option, are summarized below and explained in more detail in this Notice of Settlement. Defendants will not retaliate against you in any way for either participating or not participating in this Settlement.

- **SUBMIT A CLAIM:** ***If you submit a Valid Claim, you will receive payment and release your claims.*** Together with this Notice of Settlement, you are receiving a Claim Form. If you wish to receive payment under the Settlement, you must follow the instructions in Section 11 below and in the Claim Form to provide information concerning the amount of Regulatory Fees you paid. If you submit a Valid Claim, you will become part of the Settlement Class and will be eligible to receive a pro rata portion of the Settlement Amount. Correspondingly, you will release any claims you may have related to or arising from the claims asserted in the Action for return of Regulatory Fees paid during the Class Period, and you will give up your right to pursue those claims.

- **OPT OUT:** ***If you do not want to participate as a Class Member and do not want to receive monetary compensation under the Settlement, you may "opt out," and you will not be part of the Settlement.*** If the Court grants Final Approval of the Settlement, you will not receive compensation, but you will preserve any rights you may have to sue Defendants on your own behalf based on claims related to or arising from the claims asserted in the Action for return of Regulatory Fees paid during the Class Period.

- **OBJECT:** ***You can ask the Court to deny approval of this Settlement by filing an objection.*** You cannot ask the Court to order a larger settlement; the Court can only approve or deny the Settlement. If the Court overrules your objection and you submit a Valid Claim, you will become part of the Settlement Class and will be eligible to receive a pro rata portion of the Settlement Amount if you have submitted a Claim Form by the applicable deadline. Correspondingly, you will release any claims you may have related to or arising from the claims asserted in the Action for return of Regulatory Fees paid during the Class Period, and you will give up your right to pursue those claims. You cannot both object to the Settlement and opt out of the Settlement.

- **DO NOTHING:** ***If you do nothing, your claims will be released and you will not receive payment.*** If you do nothing and the Court grants Final Approval of the Settlement, you will release any claims you may have related to or arising from the claims asserted in the Action for return of Regulatory Fees paid during the Class Period, and you will give up your right to pursue those claims. Further, if you do not submit a Claim Form, you will not receive compensation under the Settlement. Therefore, your claims will be released and you will not receive payment.

The procedures for opting out and objecting are set forth below in the sections entitled "How Do I Opt Out or Exclude Myself from This Settlement?," "How Do I Object to the Settlement?," and "How Can I Submit A Claim Forn." ***Regardless of which option you choose, you must keep the Administrator advised of any change of address.***

7. How Do I Opt Out or Exclude Myself from This Settlement?

If you do not wish to participate in the Settlement, ***and do not want to receive compensation under the Settlement***, you can exclude yourself from the Settlement (i.e., "opt out"). Any Class Member who wishes to opt-out and be excluded from the Class must email or mail a signed written request for exclusion to the Administrator specifying that they want to be excluded from the Class to the following email address or mailing address [Administrator contact info]. The written request for exclusion must include the following: (i) the name, address, and telephone number of the Class Member to be excluded; (ii) if applicable, the name, address and telephone number of any person claiming to be legally entitled to submit an exclusion request on behalf of the Class Member and the basis for such legal entitlement; and (iii) a clear indication that the Class Member wants to be excluded from the Class. A representative who actually represents multiple Class Members may submit a single exclusion request naming all such Class Members, but a representative who actually represents only one Class Member may not submit a blanket request for exclusion on behalf of a class of similarly situated Class Members. A request for exclusion submitted by one or more representatives of a Class Member will constitute a request on behalf of all others who claim to represent that Class Member.

A deadline for requesting for exclusion from the Class is 60 days from the date the Notice of Settlement was postmarked and sent via email. Please maintain a copy of all documents sent to the Administrator. The Court will exclude from the Settlement any Class Member who submits a complete and timely request for exclusion as described above. Any Class Member who fails to submit a valid and timely request for exclusion on or before the deadline shall be bound by all terms of the Settlement, release, and any Judgment entered in the Class Action if the Settlement receives Final Approval from the Court.

8. How Do I Object to the Settlement?

If you are a Class Member who does not opt out of the Settlement, you may object to the Settlement and/or Class Counsels' proposed methodology for calculating Attorneys' Fees and Costs, personally or through an attorney.

Any Class Member who wishes to object must email or mail a signed written objection to the Administrator at the following email address or mailing address: [Administrator contact info]. Any objection must include the following: (i) the objector's name, address, and telephone number; (ii) if applicable, the name, address, and telephone number of any person claiming to be legally entitled to object on behalf of a Class Member and the basis of such legal entitlement; (iii) all grounds for the objection; and (iv) whether the objector is represented by counsel and, if so, the identity of such counsel. An objection submitted by one or more representatives of a Class Member will constitute an objection on behalf of all others who claim to represent that Class Member.

A deadline for requesting for exclusion from the Class is 60 days from the date the Notice of Settlement was postmarked and sent via email. Class Counsel will then file with the Court any objections received.

Class Members may appear at the Final Approval Hearing, either in person or through the objector's own counsel, even if they did not submit a written objection. Class Members' timely and valid objections to the Settlement will be considered even if the objector does not appear at the Final Approval Hearing.

If the Court approves the settlement over objections, objecting Class Members will be bound by the terms of the Settlement. If an objecting Class Member wishes to receive compensation under the Settlement in the

event the objection is overruled, the objecting Class Member must also submit a Claim Forms in accordance with Section 11.

9. How Does This Class Action Settlement Affect My Rights? What are the Released Claims?

If the proposed Settlement is approved by the Court, a Final Judgment will be entered by the Court. All Class Members who do not opt out of the Settlement will be bound by the Court's Final Judgment and will fully release and discharge the Commission and the Bureau consistent with the releases contained in the Settlement. Specifically, those releases are as follows:

- ***Release of Claims By the Settlement Class***. As of the deposit of the Settlement Amount in the Settlement Fund, and except as set forth by this Agreement, all members of the Settlement Class shall be deemed to have released and forever discharged Defendants from any and all existing liability, demands, causes of action, suits, reimbursements or responsibility of any kind, whether known or unknown, related to or arising from the claims asserted in the Action, including but not limited to any claims relating to the validity and lawfulness of the imposition, calculation, collection, accounting and use of Regulatory Fees, license application fees, and license application background deposits paid during the Class Period.

- ***Release of Claims By Defendants***. As of the deposit of the Settlement Amount in the Settlement Fund, and except as set forth by this Agreement, Defendants shall be deemed to have released and forever discharged all members of the Settlement Class from any and all existing liability, demands, causes of action, suits, reimbursements or responsibility of any kind, whether known or unknown, for return or payment of Regulatory Fees incurred during the Class Period.

It is an essential element to the defendants' participation in the Settlement that they obtain the fullest possible release from further liability relating to the claims subject to the release described above, and the parties intend the Settlement to eliminate all further risk of liability of the defendants relating to those claims. Accordingly, the parties will request that the Court include in its order granting Final Approval a provision that any Class Member receiving notice of the Notice of Settlement, or having actual or constructive knowledge of the Notice of Settlement, other than those who submit a timely request for exclusion, shall be permanently barred from bringing any claims released by the Settlement Class.

10. How Much Can I Expect to Receive from This Settlement?

Defendants will pay, subject to Court approval, the Settlement Amount of $43,300,000.00. The Settlement Amount, and any interest or growth generated from the Settlement Amount, will first be used to pay in the following order of priority: (1) Administrative Costs due to the Administrator, (2) Attorneys' Fees and Costs due to Class Counsel, (3) Service Awards to the Named Plaintiffs in an amount not to exceed $2,500.00, and (4) any other expenses mandated by this Agreement. Thereafter, the Administrator will use the remaining amount (the "Net Settlement Amount") to pay Valid Claims submitted by Class Members.

The method for apportioning and distributing the Settlement Amount is described in Section XV of the Agreement and the Agreement's provisions shall control. Each Class Member with one or more Valid Claims shall be entitled to a pro rata portion of the Net Settlement Amount. Following the expiration of the Final Opt-out Deadline and after making a determination of the amount and validity of each Claim, the Administrator shall sum the total amount of all Valid Claims. That pro rata portion shall be calculated by dividing the amount of the Class Member's Valid Claim by the sum total of all Valid Claims. The following hypothetical example is provided only for purposes of demonstrating this methodology and assumes the following: "Class Member A" has an exemplar Valid Claim of $100.00. The exemplar sum total of all Valid Claims is $1,000.00 The exemplar Net Settlement Amount is $500.00. Under these circumstances, "Class Member A" is entitled to 10% of the Net Settlement Amount, because "Class Member A's" total Valid Claim ($100.00) is 10% of the total of all Valid Claims ($1,000.00). Multiplying the exemplar Net Settlement Amount of $500.00 by 10%, "Class Member A" would be entitled (as an example) to a pro rata portion of recovery under the Settlement of $50.00. The amount of payment to each Class Member with a Valid Claim shall be capped at the amount of the Regulatory Fees actually paid by that Class Member during the Class Period, as determined pursuant to Section XV of the Agreement.

Because the Administrator has not yet received Claim Forms from the Class Members and has not yet received requests for exclusions from the Settlement, your exact share of the Net Settlement Amount cannot be calculated. At this time, Defendants have estimated that during the Class Period, the Commission collected an approximate total of $_____ in Regulatory Fees from Class Members. The Net Settlement Amount (before deductions) therefore constitutes approximately ___% of that total amount.

The payment of the amounts of Valid Claims to Class Members could be deemed taxable. The Administrator shall provide Defendants a list of all amounts paid to Class Members under the Settlement which shall include the name of the Class Member, the amount of payment, and the date payment was sent to the Class Member. The Administrator is responsible for distribution of the benefits provided to Class Members. The parties to the Action shall bear no responsibility for the tax liability associated with any payment to the Class Members.

Defendants are expected to fund the Settlement Amount no later than ten days after the Effective Date. Compensation for Valid Claims will be distributed within approximately fifteen days of the funding of the Settlement Amount.

It is strongly recommended that upon receipt of any settlement compensation, you immediately cash it or cash it before the 180-day void date shown on each check. If any checks remain uncashed or not deposited by the expiration of the 180-day void date, the Administrator shall transmit the funds represented by such checks to the California Controller's Unclaimed Property Fund in the name of the Class Member.

11. How Can I Submit A Claim Form?

A Claim Form with instructions is enclosed with this Notice of Settlement. In order to be eligible for payment under the Settlement, Class Members must timely return a Claim Form signed under penalty of perjury by a valid representative of the Class Member. The deadline for returning this Claim Form is 60 days from the date the Notice of Settlement was postmarked and sent via email. A Claim Form that is untimely or incomplete will not be considered by the Administrator.

A Claim Form must be accompanied by a completed and executed IRS Form W-9, which will be used for tax reporting purposes, including, but not limited to, issuance of an IRS Form 1099.

If any entity that is dissolved or inactive according to the records of the California Secretary of State submits a Claim Form, it must submit its plan of dissolution concurrently with its Claim Form or follow the revivor process required by the jurisdiction(s) governing the existence of the entity during the Class Period before submitting its Claim Form. A dissolved or inactive Class Member which fails to submit its plan of dissolution demonstrating how proceeds are to be distributed with its Claim Form or fails to complete the revivor process before submitting its Claim Form will not be eligible for payment in the Settlement.

Any Claim Form being submitted by a former owner or operator of a Class Member must be accompanied by records establishing the existence and extent of the interest currently held by the former owner or operator in the Class Member's business or otherwise establishing the existence and extent of the former owner or operator's legal right to participate in the Claim.

12. How Will My Claim Form Be Reviewed?

The Commission has maintained a list of the Class Members (the "Class List") containing information including the amount of Regulatory Fees paid by each Class Member during the Class Period, taking into account any refunds, credits, or other adjustments. The Administrator will compare information in the Claim Forms against the information in the Class List. The Administrator will review and verify the following for each Claimant:

i. The Class Members' name, license number(s), and mailing address, including any updated mailing address listed on the Claim Form;

ii. The execution of the Claim Form under penalty of perjury by a valid representative of the Class Member;

iii. The amount of Regulatory Fees paid by the Claimant as stated in the Class List; and

iv. The amount of Regulatory Fees claimed by the Class Member in the Claim Form.

The Administrator will identify and remove Claim Forms relating to any Claimant which did not pay Regulatory Fees during the Class Period. Such Claim Forms will not be deemed a Valid Claim.

The Administrator will determine whether a timely, signed Claim shall be treated as a Valid Claim as follows:

i. The Administrator shall treat the amount of Regulatory Fees paid by the Class Member as stated in the Class List (and as printed on the issued Claim Form) as the presumptively accurate amount of fees paid by a Class Member (before adjustment to avoid payment of duplicate or overlapping fees).

ii. If a Claimant indicates on a Claim Form that it agrees with the amount of Regulatory Fees paid by the Claimant as stated in the Class List (and as printed on the issued Claim Form) and otherwise completes the Claim Form and returns the necessary documents, it shall be deemed a Valid Claim, subject to adjustment for duplicate or overlapping claims submitted on behalf of the same Class Member. The amount of the Claim will be the amount of Regulatory Fees paid by the Claimant as stated in the Class List (and as printed on the issued Claim Form), subject to adjustment for duplicate or overlapping claims submitted on behalf of the same Class Member.

iii. If a Claimant indicates on a Claim Form that it actually paid an amount of Regulatory Fees that is *less than* the amount of Regulatory Fees paid by the Claimant as stated in the Class List (and as printed on the issued Claim Form) and otherwise completes the Claim Form and returns the necessary documents, it shall be deemed a Valid Claim, subject to adjustment for duplicate or overlapping claims submitted on behalf of the same Class Member. The amount of the Claim will be the lesser amount of Regulatory Fees that the Claimant asserts it actually paid, subject to adjustment for duplicate or overlapping claims submitted on behalf of the same Class Member.

iv. If a Claimant indicates on a Claim Form that it actually paid an amount of Regulatory Fees *greater than* the amount of Regulatory Fees paid by the Claimant as stated in the Class List (and as printed on the issued Claim Form), the Claimant must submit with the Claim Form conclusive documentary evidence that the Claimant paid the amount of Regulatory Fees asserted by the Claimant in the Claim Form. ("Conclusive documentary evidence" requires conclusive evidence as to the amount of the payment, the

purpose of the payment, and the entity on whose behalf the payment was made.) If such evidence is not submitted with the Claim Form, then the Administrator shall request that the Claimant provide such evidence within thirty (30) days of the Administrator's receipt of the Claim Form. If the Claimant timely submits conclusive documentary evidence supporting the amount of Regulatory Fees claimed by the Claimant and otherwise completes the Claim Form, then the Administrator shall deem the Claim a Valid Claim in the amount Claimant asserts it actually paid. If the Class Member fails to timely respond or fails to timely provide conclusive evidence of having paid the amount of Regulatory Fees claimed by the Claimant but otherwise completes the Claim Form and returns the necessary documents, then the Administrator shall deem the Claim a Valid Claim, but the Claimant will be deemed to have paid the amount as stated in the Class List (and as printed on the issued Claim Form). The amount of the Claim will be the amount of Regulatory Fees paid by the Claimant as stated in the Class List (and as printed on the issued Claim Form).

The Administrator will determine whether multiple Claim Forms have been submitted on behalf of any Class Members. Such Claim Forms will not be deemed Valid Claims without adjustment to avoid payment in duplicate or overlapping amounts. The Administrator's determination of the validity and amount of a Claim is final and will not be subject to review by Named Plaintiffs, Class Counsel, Defendants, or Defendants' Counsel.

If during the process described above, the Administrator discovers what it believes to be a Claim Form that appears to have been knowingly submitted with false or fraudulent information, the Administrator shall inform the Parties' respective counsel. The Administrator shall request documentation supporting the information provided in the Claim Form. If the requested additional information is not provided within thirty (30) days after the date the request is made, the Claim may be deemed invalid based on the Administrator's determination and no amount shall be due the Claimant. Notwithstanding the above, Defendants may, in their sole discretion, refer any Claim Form that they believe were knowingly submitted with false or fraudulent information to whatever law enforcement agency they deem appropriate for investigation and potential prosecution.

13. How Will the Attorneys for the Class and the Class Representative Be Paid?

Class Counsel will be paid from the Settlement Amount. Subject to Court approval, at the Final Approval Hearing, Class Counsel will apply to the Court for an award of attorneys' fees of no more than 33.3333% of the Settlement Amount (i.e., $14,433,319.00). Class Counsel will also apply to the Court for an award of actual costs incurred by Class Counsel (excluding any costs for the Administrator) not to exceed the amount of $25,000.00. The Administrator will also be paid its actual costs, subject to Court approval. Finally, the Named Plaintiffs may apply at the Final Approval Hearing for Service Awards not to exceed $2,500.00.

An Attorneys' Fees and Costs award must be approved by the Court, and individual Class Members will not be responsible themselves for paying any attorneys' fees, costs, litigation expenses, administration expenses (unless they elect to retain their own attorney at their own expense). Defendants have paid all their own attorneys' fees and costs.

14. Final Approval Hearing

Any relief to the Class is contingent on the Court's Final Approval. The Court will hold a Final Approval Hearing concerning the proposed settlement on [date of Final Approval Hearing], 2025 at [time a.m./p.m.], before the Honorable James Arguelles, at the Sacramento Superior Court, located in Department 32 of the Gordon D. Schaber Courthouse, 720 9th Street, Sacramento, CA 95814. Directions for appearing at the hearing remotely may be found on the Sacramento Superior Court website. The Final Approval Hearing will be open to the public and you are authorized to attend. You may appear on your own or through counsel of your own selection (at your own expense). Any changes to the hearing date will be available on the Administrator's website [Administrator webpage].

Class Members have the right to object to the Settlement and to appear at the Final Approval Hearing in support of any timely and validly submitted objection. You do not need to appear at this hearing unless you have timely submitted an objection to the Settlement or if you wish to object to the Settlement at the hearing.

15. How Do I Get More Information And Communicate With The Administrator?

If you need more information or have any questions, or would like electronic copies of documents relating to the Action or the Settlement, you may contact the Administrator at the following telephone number, email address, and physical address: [Administrator contact info]. Please refer to the "Gambling Control Fund Class Action Settlement."

The above is a summary of the basic terms of the Settlement. For the precise terms and conditions of the Settlement, you are referred to the detailed Agreement, which is attached with this Notice of Settlement. Additional documents relating to the Action are posted online at the following webpage: [Administrator webpage]. The full pleadings and other records in this litigation, including the Settlement Agreement, may be examined online on the Superior Court of California, County of Sacramento's electronic filing and service website at https://www.saccourt.ca.gov/default.aspx . You may also contact the Administrator if you would like to review additional documents. ***Please do not telephone the Court or Defendants' Counsel for information regarding this settlement or the claims process.***

In order to facilitate communication with the Administrator, please contact the Administrator upon receipt of this Notice of Settlement to provide your most recent contact information, including your current mailing address, email address, and telephone number.

SETTLEMENT AGREEMENT—EXHIBIT 3

FORM CLAIM FORM

Class Settlement Claim Form

To:

[Class Member address block—email and mail.]

[Class Member license number.]

Return Information:

[Administrator Address Block—email and mail.]

The person or entity listed above ("Licensee" or "you") is receiving this Claim Form because it has been determined you may have paid regulatory fees in connection with the regulation of cardrooms or third-party-proposition-player-providers in the State of California between January 1, 2005 until May 12, 2020. For purposes of this Claim Form, "regulatory fees" refers to the annual fees that class members were required to pay between January 1, 2005 until May 12, 2020 (the "Class Period"), pursuant to Business and Professions Code section 19951, subdivisions (c) and (d) (as to cardrooms), or pursuant to Business and Professions Code section 19984, subdivision (c) (as to third party providers of proposition player services) as those statutes were in effect during the Class Period. The plaintiffs in the lawsuit *Lucky Chances, Inc., et al. v. The State of California, et al.*, Case No. 34-2020-80003510-CU-WM-GDS (Sacramento Superior Court) claim the regulatory fees were illegally collected and should be refunded. The plaintiffs, the California Gambling Control Commission ("Commission"), and the Bureau of Gambling Control (a Division of the California Department of Justice) ("Bureau") have negotiated a settlement that has been preliminarily approved by a judge. As described in the Notice of Settlement, that settlement will impact your rights and may entitle you to money. To make a claim to a portion of the settlement funds, you will need to complete this Claim Form, sign it under oath below, and return the form to the Administrator with the information described below. If you do not complete and return this Claim Form, you will not receive funds from the settlement.

1. Contact Information.

To ensure that the class settlement administrator (the "Administrator") can contact you, please provide your most updated contract information as follows:

Entity title: _____

Contact name: _____

Contact title: _____

Entity mail address: _____

Entity email address: _____

Entity phone number: _____

2. Amount Of Claim.

This Claim Form allows you to submit a claim to receive a portion of the settlement amount. As described in the Notice of Settlement, if you decide to participate in the settlement, you will receive a pro data portion of the settlement proceeds based on the amount of regulatory fees that you paid during the Class Period.

Records provided by the Commission indicate that, during the Class Period, you paid [insert Class Member amount] in regulatory fees. If you agree this accurately states the regulatory fees you paid during the class period, please check the box below reflecting your agreement.

☐ Licensee agrees that [insert Class Member amount] accurately states the amount of regulatory fees paid during the Class Period.

If you do not agree that [insert Class Member amount] is the amount of regulatory fees you paid during the Class Period, please check one of the boxes below, and please enter the amount of regulatory fees that you paid. If you assert that you paid more regulatory fees than [insert Class Member amount] during the Class Period, you will be responsible for submitting to the Administrator with this completed Claim Form conclusive documentary evidence that you paid the claimed amount of regulatory fees. This evidence may include bank statements, cancelled checks, or acknowledgements of receipt.

☐ Licensee paid less than [insert Class Member amount] in regulatory fees during the Class Period. Licensee paid regulatory fees during the Class Period in the total amount of _____.

☐ Licensee paid more than [insert Class Member amount] in regulatory fees during the Class Period. Licensee paid regulatory fees during the Class Period in the total amount of _____. Licensee will submit conclusive documentary evidencing supporting payment of these regulatory fees.

3. Submission Of Form W-9.

To make a valid claim, you are required to return to the Administrator a completed and signed IRS Form W-9, which will be used for tax reporting purposes, including, but not limited to, issuance of an IRS Form 1099 relating to any claim amounts paid. Please return this with Claims Form a completed and executed IRS Form W-9.

4. Dissolved Entities.

If you are registered as a dissolved or inactive entity according to the records of the California Secretary of State or the records in the State within which you are formed, you are required to either (1) submit a plan of dissolution with your Claim Form demonstrating how any settlement proceeds are to be distributed, or (2) follow the revivor process required by the jurisdiction(s) governing the existence of the entity during the Class Period before submitting its Claims Form. A dissolved or inactive class member which fails to submit with its Claims Form

its plan of dissolution demonstrating how proceeds are to be distributed or fails to complete the revivor process before submitting its Claims Form will not be eligible for payment.

5. Former Owner or Operator.

Any Claim Form being submitted by a former owner or operator of a class member must be accompanied by records establishing the existence and extent of the interest currently held by the former owner or operator in the class member's business or otherwise establishing the existence and extent of the former owner or operator's legal right to participate in the claim.

6. Signing And Returning This Form.

A Claim Form that is untimely or incomplete will not be considered by Administrator. The deadline for returning this Claims Form is 60 days from the date the Notice of Settlement was postmarked and sent via email. In order to submit a valid claim, an authorized representative must attest below under oath to the accuracy of information provided in this Claim Form, and attest to the authorized representative's authority and agreement to handle the distribution of settlement proceeds in a fiduciary capacity to ensure proceeds are delivered to those entities and persons entitled to receive proceeds pursuant to law or agreement. This Claims Form should then be timely submitted via mail or email to the Administrator at the address below:

[Administrator Address Block—email and mail.]

Please maintain a copy of all documents sent to the Administrator.

7. Important Notices.

The Notice of Settlement contains important information concerning this settlement and how submitting a Claims Form may impact your rights. Please review the Notice of Settlement. Among other things, the Notice of Settlement explains that:

- This Claim Form must be returned within 60 days of the date the Notice of Settlement is postmarked and sent via email.
- By returning a Claim Form, you will be bound by the releases contained in the settlement.
- If Administrator discovers a Claim Form that appears to have been knowingly submitted with false or fraudulent information, Administrator shall inform the parties' respective counsel. The Commission and Bureau may, in their sole discretion, refer any Claim Form that they believe were knowingly submitted with false or fraudulent information to whatever law enforcement agency they deem appropriate for investigation and potential prosecution.

8. Statement Under Oath.

In addition to completing the above form and providing the required documentation, please fill review and sign the statement under oath below.

The undersigned representatives declares as follows:

- I have read this Claim Form and the Notice of Settlement.
- The information provided in this Claim Form is accurate to my best knowledge.
- I am an authorized representative of the Licensee.
- I agree to handle any distribution of settlement proceeds in a fiduciary capacity to ensure proceeds are delivered to those entities and persons entitled to receive proceeds pursuant to law or agreement.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Signature: _____

Typed Name: _____

Title With Licensee: _____

SETTLEMENT AGREEMENT—EXHIBIT 4

FORM NOTICE FOR PUBLICATION

Exhibit 4: Notice for Publication

NOTICE OF CLASS ACTION SETTLEMENT. A class action settlement has been reached in the case *Lucky Chances, Inc., et al. v. The State of California, et al.*, Case No. 34-2020-80003510-CU-WM-GDS (Sacramento Superior Court). The settlement impacts the following class: all persons in California licensed at any time between January 1, 2005 until May 12, 2020 ("Class Period") by or through the California Gambling Control Commission ("Commission") as (1) non-tribal cardroom gambling establishments in the State of California licensed by the Commission, or (2) third party providers of proposition player services to such establishments licensed in the State of California by the Commission who paid regulatory fees as defined by the Settlement Agreement during the Class Period. If you fall within this class, you may be entitled to notice of the settlement and/or compensation. Details on the class action settlement and the process for submitting claims are located at the website [insert website].

SETTLEMENT AGREEMENT—EXHIBIT 5

PLAN FOR NOTICE OF SETTLEMENT

Exhibit 5: Plan for Notice of Settlement.

Unless otherwise noted, capitalized terms used in this plan have the meaning assigned to them in the Settlement Agreement (the "Agreement"). Notice of Settlement shall be provided to the Class Members in the following manner.

1. By First Class Mail. Administrator shall mail the Notice of Settlement and a copy of the Agreement to each Class Member in a sealed envelope via first class mail, return service requested in a manner such that the Notice of Settlement is postmarked on the date of deposit. Administrator shall mail the Notice of Settlement within thirty (30) days of the Court's issuance of Preliminary Approval and shall deposit the Notice of Settlement into the mail simultaneously for all Class Members. The Notice of Settlement shall be mailed to the attention of the individual contact(s) and associated mailing addresses identified in the Class List for each Class Member.

2. By Email. On the same day that Administrator deposits the Notice of Settlement into the mail to Class Members, Administrator shall send via email a PDF copy of the Notice of Settlement and a copy of the Agreement to each Class Member. The email shall be addressed to the attention of the each individual contact(s) and associated email addresses contained in the Class List for each Class Member.

3. By Internet Website. On the same day that Administrator deposits the Notice of Settlement into the mail to Class Members, Administrator shall post a copy of the Notice of Settlement on the website relating to the Settlement established by Administrator. The website will also include links to the following documents, in PDF format: the Complaint, the Agreement, any motion for Preliminary Approval, any Preliminary Approval order, any briefing filed in support of Final Approval (once filed), any application for Attorneys' Fees and Costs or Service

Awards (once filed), any Final Approval order (once entered), any Final Judgment (once entered)), and other case documents as agreed upon by the Parties and/or required by the Court.

4. By Publication. On the same day that Administrator deposits the Notice of Settlement into the mail to Class Members, Administrator shall cause to be published within the daily publications of the Sacramento Bee and Los Angeles Times a notice in the form attached to the Agreement as Exhibit 4 providing notice that the Settlement has been reached in the Action and including a link to the internet website required by the Agreement. That notice shall be published in those publications for fourteen (14) consecutive days.

5. Notices Returned As Undeliverable. With respect to any Notice of Settlement returned by mail as undeliverable, Administrator will re-mail the Notice of Settlement to any address provided by the postal service on returned mail pieces for which an automatic forwarding address has been provided, or to any better address that may be found using the National Change of Address Database, skip tracing, or a third-party lookup service such as "ALLFIND," maintained by LexisNexis. Administrator will conduct a search on such a third-party lookup service for each Class Member for whom mailed notice has been returned as undeliverable. If any alternative address is located that Administrator believes may be a correct address, the Notice of Settlement will be promptly re-mailed, but such re-mailing shall not extend the Initial Opt-Out Deadline or Objection Deadline. Administrator has no obligation to make further attempts to send Notice of Settlement to Class Members (1) for whom Administrator cannot, in its good faith discretion, locate an address it believes to be a viable alternative to the address used in the first mailing attempt, or (2) for whom the Notice of Settlement is returned as undeliverable a second time.

6. Notice Date. Administrator shall record the date that it takes the actions described in Sections 1, 2, 3, and 4 above and shall immediately provide those dates to Class Counsel and Defendants' Counsel.

EXHIBIT 2

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Attorneys for Plaintiffs and Petitioners

SUPERIOR COURT OF THE STATE OF CALIFORNIA

FOR THE COUNTY OF SAN FRANCISCO

LUCKY CHANCES, INC.; V C CARDROOM, INC.; HALCYON GAMING, LLC; PACIFIC GAMING SERVICES, LLC; BJ GAMING, LLC; FORTUNE PLAYERS GROUP, INC.; GOLD GAMING CONSULTANTS, INC.; CERTIFIED PLAYERS, INC.; LE GAMING, INC.; and RHINO GAMING INC., on their own behalf and on behalf of those similarly situated,

Plaintiffs and Petitioners,

vs.

THE STATE OF CALIFORNIA; CALIFORNIA GAMBLING CONTROL COMMISSION; BUREAU OF GAMBLING CONTROL, A DIVISION OF THE CALIFORNIA DEPARTMENT OF JUSTICE; FIONA MA, in her official capacity as the State Treasurer; and DOES 1 through 20, Inclusive,

Defendants and Respondents.

Case No. CPF-20-517086

CLASS ACTION

CLASS ACTION PETITION AND COMPLAINT FOR (1) WRIT OF MANDATE, (2) DECLARATORY AND INJUNCTIVE RELIEF, (3) MONEY HAD AND RECEIVED, (4) UNJUST ENRICHMENT, (5) VIOLATION OF THE CALIFORNIA CONSTITUTION, AND (6) ACCOUNTING

Judge:
Department:

BY FAX

Plaintiffs and Petitioners Lucky Chances, Inc., V C Cardroom, Inc., Halcyon Gaming, LLC, Pacific Gaming Services, LLC, BJ Gaming, LLC, Fortune Players Group, Inc., Gold Gaming Consultants, Inc., Certified Players, Inc., LE Gaming Inc., and Rhino Gaming Inc. (together, "Plaintiffs"), on their own behalf and on behalf of those similarly situated, demanding a jury trial for any issue triable by a jury, allege:

INTRODUCTION

1. This case arises from unlawful and invalid fees that Defendants and Respondents California Gambling Control Commission (the "Commission") and the Bureau of Gambling Control, a division of the California Department of Justice (the "Bureau" and together with the Commission, "Defendants"), collected, and continue to collect, from Plaintiffs and those similarly situated in connection with the licensing and/or regulation of (1) gaming businesses referred to as card rooms, and (2) certain service providers for the card rooms referred to as third-party providers of proposition player services ("proposition player providers").

2. Plaintiffs are each California card rooms or proposition player providers that pay, or have paid, fees to Defendants. Pursuant to state statute and regulation, card rooms and proposition player providers are subject to significant licensing and regulatory fees that ostensibly support the Commission and Bureau's activities. (*See* Bus. & Prof. Code §§ 19951, 19984; 4 C.C.R. § 12200.20.) In aggregate, those fees have amounted to more than twenty million dollars a year for each of the last five years.

3. At the direction of the Joint Legislative Audit Committee, the Auditor of the State of California (the "Auditor") conducted an audit of the Commission and Bureau beginning in or around 2018 which addressed these fees and Defendants' operations more broadly. On May 16, 2019, the Auditor issued a written report summarizing the findings of that audit. That report, entitled "Bureau of Gambling Control and California Gambling Control Commission: Their Licensing Processes Are Inefficient and Foster Unequal Treatment of Applicants" (the "Report"), offered—for the first time—a sharp critique of Defendants' operations and fee practices.

4. Among other things, the Report found that the Commission and Bureau operated in an inefficient manner that compounded backlogs in licensing applications for card rooms and

proposition player providers. Further, the Report concluded that Defendants' regulations and practices had resulted in unequal treatment of licensing applicants.

5. The Report also found that the licensing and regulatory fees that Defendants charged, and continue to charge, did not remotely align with the Bureau and Commission's regulatory costs. To the contrary, the Auditor concluded that Defendants' fees in the aggregate far exceed Defendants' actual or reasonable costs of conducting their regulatory and licensing functions. As a result, the California state budget fund from which Defendants receive funding for operations (the "Gambling Control Fund") has accumulated nearly $100 million, in excess of amounts authorized by law, which is bankrolled by fees paid by Plaintiffs and others similarly situated. Further, the Report found that Defendants have improperly used surpluses in fees that are supposed to be designated for one activity (general regulatory activity) to offset deficits for another activity (licensing activity). In addition, the State of California has borrowed at least $29 million of these unlawful and excess fees—paid by Plaintiffs and others similarly situated—to fund the State's general operations and obligations. The Auditor concluded:

> [N]either the [B]ureau nor the [C]ommission has addressed the fact that the fees they charge do not align with their costs for providing oversight. Such misalignment has contributed to an excessive surplus in the Gambling Control Fund and ***may call into question the legality of some fees***. (Report, Cover Letter (emphasis added).)

6. Under California law, if amounts charged as purported regulatory fees exceed the costs of the regulatory activity for which they are charged, or if the reasonable costs of that regulatory activity are not shown to be allocated to fee payors in a manner which bears a fair and reasonable relationship to the fee payors' burdens or benefits from the regulatory activity, then the fees are not valid or lawful as "regulatory fees" and should be viewed as ***taxes***, subject to California's constitutional constraints. As the Report summarized in analyzing the Commission and Bureau, "When an agency uses regulatory fees to subsidize different activities because the fee structure for those activities is inadequate, the regulatory fees may be serving as taxes rather than regulatory fees—***which is unlawful***." (Report, p. 35 (emphasis added).)

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7. Despite the fact that amounts obtained by Defendants from Plaintiffs and others similarly situated were described and collected as "fees," such amounts are in reality unlawful taxes. Pursuant to Article XIII A of California's Constitution, state taxes must be approved by a supermajority of the State Legislature. None of the purported licensing or regulatory fees that Defendants charged to Plaintiffs satisfy this requirement. Therefore, those fees constitute unlawful taxes. Despite the Auditor's findings, none of the improperly fees have been returned to the licensees, and it is apparent none of the funds will not be returned by Defendants without judicial action. Accordingly, Plaintiffs now bring this class action seeking (1) mandamus relief directing Defendants to make refunds and restitution of all such unlawful charges collected in excess of the actual costs of the regulatory programs for which they were imposed; (2) declaratory relief, confirming and declaring the invalidity and unlawfulness of Defendants' practices regarding the calculation, collection, accounting and use of the disputed charges, and injunctive relief enjoining Defendants from continuing to levy future unlawful charges in excess of Defendants' actual and reasonable regulatory costs; and (3) recovery of past unlawfully charged amounts from Defendants.

PARTIES

8. Plaintiff Lucky Chances, Inc. is a California corporation that operates, or operated, a card room in Colma, California.

9. Plaintiff V C Cardroom, Inc. is a California corporation that operates, or operated, a card room in Chula Vista, California.

10. Plaintiff Halcyon Gaming LLC is a Delaware limited liability company authorized to do business in California that operates, or operated, a proposition player provider located in Anaheim, California.

11. Plaintiff Pacific Gaming Services, LLC is a California limited liability company that operates, or operated, a proposition player provider located in Carlsbad, California.

12. Plaintiff BJ Gaming, LLC is a California limited liability company that operates, or operated, a proposition player provider located in Carlsbad, California.

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13. Plaintiff Fortune Players Group, Inc. is a California corporation that operates, or operated, a proposition player provider located in Daly City, California.

14. Plaintiff Gold Gaming Consultants, Inc. is a California corporation that operates, or operated, a proposition player provider located in Elk Grove, California.

15. Plaintiff Certified Players, Inc. is a California corporation that operates, or operated, a proposition player provider located in Anaheim, California.

16. Plaintiff L.E. Gaming Inc. is a California corporation that operates, or operated, a proposition player provider located in Anaheim, California.

17. Plaintiff Rhino Gaming, Inc. is a California corporation that operates, or operated, a proposition player provider located in Anaheim, California.

18. Defendant State of California is a state of the United States of America.

19. The Commission is an independent state regulatory commission that focuses on gambling establishments and proposition player providers. The Commission is responsible for setting policy, establishing regulations, making determinations of suitability for gaming employees and other persons in the gambling industry, issuing licenses to gaming establishments, and administering the provisions of the Gambling Control Act, Business & Professions Code sections 19800, *et seq.*

20. The Bureau is a division of the California Department of Justice with special jurisdiction over activities within the State. Relevant to this litigation, the Bureau receives applications for card room and proposition player providers licensing, collects fees, and conducts investigations and audits in connection with those applications. The Bureau then transmits recommendations to the Commission regarding whether a person should be licensed. The Commission acts on these recommendations.

21. Defendant Fiona Ma, named in her official capacity, is the California State Treasurer. The Gambling Control Fund at issue in this litigation is a fund in the State Treasury.

JURISDICTION AND VENUE

22. This Court has jurisdiction over this action pursuant to Code of Civil Procedure sections 1085, 1060, 526, and 527, and Government Code section 814.

23. Venue is proper in this Court as this action seeks relief against the Commission, an independent state agency, and the Bureau, which is a division of the Department of Justice. (Code of Civ. Proc. § 401; Gov't Code § 955.)

COMMON ALLEGATIONS

Gaming and Fees

24. California law authorizes a limited number of cards rooms not located on tribal lands. Plaintiffs Lucky Chances, Inc. and V C Cardroom, Inc. operate, or operated, such card rooms.

25. Per state law, those card rooms may not have a financial stake in the outcome of the card games played on their premises. This limits the types of games that card rooms can offer. The limitation has given rise to proposition player providers that are permitted to provide certain services to card rooms pursuant to state law. Those companies provide third-party players who participate in card room games with a rotating player-dealer position. A third-party player sits at each table to pay players that win and collect from players that lose. (*See* Bus. & Prof. Code § 19984(a).) All Plaintiffs other than Lucky Chances, Inc. and V C Cardroom, Inc. are proposition player providers.

26. The Gambling Control Act authorizes fees in an amount "sufficient to enable the [Department of Justice] and the [C]ommission to fully carry out their duties and responsibilities" under that Act. (Bus. & Prof. Code § 19951(g).) The State Legislature enacted some of the fees, and the Commission promulgated some of the fees in reliance on authority granted by the State Legislature in the Gambling Control Act. Funds collected are deposited in the Gambling Control Fund, which is a fund in the State Treasury. (Bus. & Prof. Code § 19950.)

27. The fees that Defendants collect can generally be broken into two categories: (1) licensing fees and (2) regulatory fees.

28. The licensing fees ("Licensing Fees") include (1) nonrefundable, flat fees collected with each initial or renewal application for a license or permit needed in connection with the operation of a card room business or proposition player provider business, (Bus. & Prof. Code § 19951(a); 4 C.C.R. § 12008(a)), and (2) refundable background investigation deposits that "will

be adequate to pay the anticipated costs and charges incurred in the investigation and processing of the application." (Bus. & Prof. Code § 19867(a); 11 C.C.R. § 2037 (schedule of investigation fees and processing costs).) Certain Licensing Fees were revised by the State Legislature through Assembly Bill 1620 ("A.B. 1620") during the 2005-2006 Regular Session. That bill passed by a vote of 22 ayes to 12 noes in the state Senate, and 43 ayes to 31 noes in the state Assembly, which does not constitute a supermajority in either body.

29. Separately, Defendants have also collected, and continue to collect, annual regulatory fees (the "Regulatory Fees") for purposes of funding Defendants' non-licensing regulatory activities.

a. ***Card rooms***: With respect to card rooms, the Regulatory Fees are tied either to the number of gaming tables that a card room operates or the gross revenues that a card room receives during the prior fiscal year. (Bus. & Prof. Code § 19951(c), (d).) Like the Licensing Fees, the State Legislature set the Regulatory Fee schedule for card rooms via A.B. 1620 without the votes of a supermajority of either the Senate or Assembly.

b. ***Proposition player providers***: With respect to Regulatory Fees imposed on proposition player providers, Business and Professions Code section 19984 authorizes annual "reasonable fees and deposits as necessary to defray the costs of providing [the] regulation and oversight." (Bus. & Prof. Code § 19984(c).) Pursuant to regulation issued by the Commission in 2004, the annual Regulatory Fees for proposition player providers are calculated based on the number of registrants or licensees affiliated with the primary owner. (4 C.C.R. § 12200.20.)

30. Based on these provisions, Defendants collect significant amounts of Licensing Fees and Regulatory Fees on an annual basis from card rooms and proposition player providers. In the 2018-2019 period alone, for example, Plaintiffs allege on information and belief that Defendants had fee revenues in excess of $23 million. Failure to pay the Licensing Fees may result in a denial of a necessary licensing application. (Bus. & Prof. Code § 19951(a); 4 C.C.R. § 12008(a).) Failure to pay the annual Regulatory Fees may result in the closure of a card room or proposition player provider. (Bus. & Prof. Code § 19955; 4 C.C.R. § 12200.18.)

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31. Plaintiffs paid the Regulatory Fees (1) based on Defendants' representations that the fee charges were legitimate and reasonably-related to regulatory costs, and (2) in reliance on Defendants' (mis)characterization of these fee charges as properly-authorized regulatory fees (rather than unauthorized taxes). Plaintiffs were required to comply with such demands under duress, compulsion, or threat of adverse governmental action.

The Report

32. On May 16, 2019, the Auditor publicly released the Report. The Report revealed that Defendants were collecting fees that far exceeded Defendants' actual or reasonable costs of conducting their regulatory (i.e., non-licensing) functions. Before that date, Defendants had concealed from Plaintiffs—and Plaintiffs were unaware of and could not reasonably discover—the fact that Defendants were collecting fees that far exceeded Defendants' actual or reasonable costs of conducting their regulatory and licensing functions.

33. The Auditor's Report revealed that "[i]n possible violation of state law, the regulatory fees that the [C]ommission and [B]ureau charge applicants, card room owners, and third-party company owners do not align with the costs of providing the related services." (Report, p. 31.)

34. More specifically, the Auditor found the following: "[T]he Gambling [Control] Fund's balance has continued to increase because nonlicensing regulatory fees have generated far more revenue each year than the [B]ureau and [C]ommission have spent on the regulated activities . . . ." (Report, p. 34.) As an example, in the fiscal year 2017 to 2018, the Auditor "estimated that the [B]ureau and [C]ommission had combined nonlicensing regulatory costs of $6.9 million," while "nonlicensing regulatory fees generated $18.9 million in revenue," "resulting in a surplus of $12 million in fee revenue." (*Id.*) The Auditor similarly found discrepancies between regulatory fees and costs in each of the fiscal years 2013-14, 2014-15, 2015-16, 2016-17, and 2017-18. To demonstrate these discrepancies, the Auditor included the following graph in the Report:

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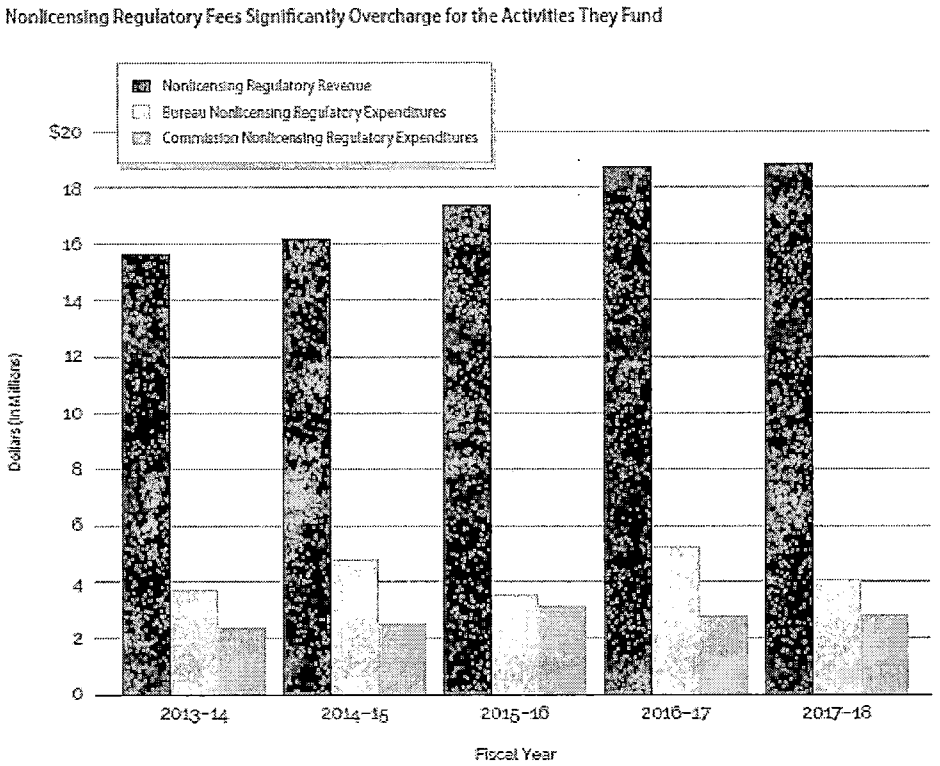

Source: Gambling Fund condition statements, fiscal years 2013–14 through 2017–18; fiscal year 2017–18 commission budget change proposal; fiscal year 2018–19 bureau budget change proposal; and analysis of staffing documentation.

35. Plaintiffs are informed and believe, and based thereon allege, that the Auditor's conclusions reached in accordance with generally accepted government auditing standards are correct and accurate. In written responses attached in the appendix of the Report, neither the Commission nor the Bureau disputed that the Regulatory Fees that they collected significantly exceeded the reasonable costs of the regulatory activities that the Regulatory Fees are supposed to fund. Further, as a result of the Report, Plaintiffs now are informed and believe that the Commission and Bureau have been collecting Regulatory Fees that significantly exceed the reasonable costs of the regulatory activities that the Regulatory Fees are supposed to fund since 2004, when the Commission and Bureau began first collecting Regulatory Fees from proposition player providers.

36. Separately, the Auditor also determined that the Licensing Fees that the Commission and Bureau collected were insufficient to cover the agencies' licensing expenditures. Instead of obtaining a lawful increase in Licensing Fees, the Commission and Bureau have apparently applied Regulatory Fees to cover licensing expenditures. The excessive Regulatory

Fees that the agencies collected, and continue to collect, have more than covered the shortfall in Licensing Fees, and are causing the Gambling Control Fund's balance to continue to increase. The Gambling Control Fund's ending balance for the fiscal year 2013-2014 was approximately $30 million. By the end of fiscal year 2017-2018, the balance was $61 million. The Auditor's Report estimated that the Gambling Control Fund's balance would grow to more than $97 million by mid-2020. The Auditor noted that this was "a surplus of more than five times the [B]ureau's and [C]ommission's projected annual expenditures." (Report, p. 35.)

37. The Gambling Control Fund's bloated balance, consisting of the fees that Plaintiffs and others similarly situated paid, and continue to pay, were improperly used for purposes other than Commission and Bureau oversight costs. For example, in 2008 and 2011, California's General Fund received "loans" from the Gambling Control Fund totaling approximately $29 million. Plaintiffs have not been able to determine whether and how these "loans" were properly authorized or documented.

38. Despite this fact, Defendants continue to collect the Licensing Fees and Regulatory Fees, and continue to require Plaintiffs and others similarly situated to pay such fees to avoid suspension or closure of their businesses if those fees are not paid.

Defendants' Regulatory "Fees" Are Unlawful And Unauthorized Taxes

39. Valid fees charged in connection with regulatory activities include fees which "do not exceed the reasonable cost of providing services necessary to the activity for which the fee is charged and which are not levied for unrelated revenue purposes." (*Sinclair Paint Co. v. State Bd. of Equalization* (1997) 15 Cal. 4th 866, 876 (citation omitted).) "What a fee cannot do is exceed the reasonable cost of regulation with the generated surplus used for general revenue collection. An excessive fee that is used to generate general revenue becomes a tax." (*Cal. Farm Bureau Fed'n v. State Water Res. Control Bd.* (2011) 51 Cal. 4th 421, 438.)

40. As described above, the Regulatory Fees that Defendants have collected, and continue to collect, from Plaintiffs far exceeded, and continue to exceed, the reasonable cost of regulating the relevant gambling activities. Those Regulatory Fees are therefore invalid and improper. The excessive amounts of those fees must be returned to Plaintiffs and others similarly

situated, including for the following reasons:

a. First, Article XIII A of the California Constitution, section 3(a) provides that "Any change in state statute which results in any taxpayer paying a higher tax must be imposed by an act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature . . . ." As alleged herein, the Regulatory Fees that Defendants imposed on, and/or collected from, Plaintiffs were either enacted (1) pursuant to A.B. 1620 with less than a Legislative supermajority, or (2) imposed through regulations promulgated directly by the Commission without a Legislative supermajority. Because the Regulatory Fees exceed the reasonable costs of the regulatory activities they are supposed to fund, but were not approved by a two-thirds Legislative supermajority, they are invalid and unlawful.

b. Second, and separately, established California law makes clear that fees imposed against businesses must not be more than is reasonably necessary for the purpose they are sought—i.e. the regulation of the business. Fees intended to realize revenue under the guise of regulation cannot stand as a proper exercise of the State's police power. Accordingly, to the extent that the total Regulatory Fees exceed the reasonable costs of the regulatory activities that they are supposed to fund, they violate limitations on the power of Defendants to impose unwarranted financial burdens on particular businesses.

c. Third, the Commission ostensibly imposed Regulatory Fees on proposition player providers pursuant to its authority under Business and Professions Code section 19984. Consistent with the legal principles cited above, that statute authorizes only "reasonable fees and deposits as necessary to defray the costs of providing [the] regulation and oversight." To the extent that the Regulatory Fees promulgated through regulation(s) exceed the reasonable costs of the regulatory activities that they are supposed to fund, these Regulatory Fees also exceed the authority granted to the Commission through Business and Professions Code section 19984 and are therefore also invalid and unlawful.

41. The imposition and collection of the Regulatory Fees is an ongoing and continuous violation which breaches state law anew with each collection. Further, Plaintiffs are informed and believe, and based thereon allege, that funds collected pursuant to the Gambling Control Act have

been used for, and allocated to, purposes other than those for which they were authorized.

42. Article XIII A of the California Constitution, section 3(d) further provides that "The State bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity." Accordingly, Defendants bear the burden of establishing that the Regulatory Fees are not a tax, are not more than necessary to cover the reasonable cost of the specific regulatory activity, and bear a reasonable relationship to the burdens Plaintiffs and other similarly situated put on the specific regulatory activity.

43. Plaintiffs were required to make payments as license and regulatory fees, and assert that the provisions of the Government Claims Act, Government Code sections 810, *et. seq.* and other administrative remedies relevant to "tax" refund claims do not apply to their claims for return, disgorgement and/or reimbursement of the monies that Defendants have unlawfully collected. Nonetheless, in an abundance of caution to preserve all rights, Plaintiffs submitted a government claim to the appropriate entity in May 2020.

CLASS ACTION ALLEGATIONS

44. Plaintiffs bring this complaint and petition on behalf of themselves and for the benefit of all others similarly situated pursuant to Code of Civil Procedure section 382 or, in the alternative, as a common law class action.

45. Plaintiffs seek to represent the following proposed class (the "Class"):

> All persons who are licensed by or through the Bureau and/or the Commission as card rooms or proposition player providers who were assessed and have paid Regulatory Fees that are unlawful taxes or excessive in light of regulatory costs.

46. This Class satisfies each requirement for the maintenance of a class action.

47. The Class is ascertainable. Information identifying card rooms or proposition player providers who have paid Regulatory Fees to Defendants is readily available from Defendants.

/ / /

48. The Class is sufficiently numerous such that joinder of all members is impracticable. Plaintiffs are informed and believe that there are currently, as of the time of filing, 86 card rooms in operation in California, and 34 proposition player providers in operation in California, in addition to card rooms and proposition player providers that have paid Regulatory Fees but are no longer in operation.

49. There is a well-defined community of interest in the questions of law and fact affecting all members of the Class.

50. Common questions of law and fact predominate over any facts pertaining to individual Class members. Those questions of law and fact include, but are not limited to:

a. Whether the Regulatory Fees have been improperly charged and collected.

b. Whether the Regulatory Fees constitute a tax requiring approval by a supermajority of the State Legislature.

c. Whether the Regulatory Fees are an improper exercise of the State's police power where they exceed the reasonable costs of the regulatory activities that they are supposed to fund and violate limitations on the power of Defendants to impose unwarranted financial burdens on particular businesses.

d. Whether the Regulatory Fees imposed on proposition player providers exceed the authority of provisions of the Gambling Control Act granting the Commission authority to establish reasonable regulatory fees to fund the Commission's and the Bureau's regulatory activities.

e. Whether Plaintiffs and members of the Class are entitled to declaratory and injunctive relief.

f. Whether Plaintiffs and members of the Class are entitled to a writ of mandate.

g. Whether Plaintiffs and members of the Class are entitled to recovery and/or restitution and disgorgement of the unlawfully collected amounts.

51. Plaintiffs' claims are typical of the Class that they seek to represent.

52. Plaintiffs will fairly and adequately protect the interests of the Class. There are no conflicts of interest between Plaintiffs and the members of the Class. Plaintiffs will vigorously

represent the Class's interest. Plaintiffs and proposed Class members will be ably represented by Rutan & Tucker, LLP ("Rutan") and by J. Blonien, APLC ("J. Blonien"). Rutan is a California law firm with over 150 attorneys in three offices practicing in seven areas, including a Trial Department and Government and Regulatory Law Department. Rutan has significant experience in actions involving the invalidity of public fees and class action matters, and maintains a large and sophisticated litigation department. J. Blonien, also a California-based law firm, has long and extensive experience representing the interests of both card rooms and proposition player providers. It also has deep knowledge of the California gaming industry and the challenges that high Regulatory Fees have imposed on the California gaming industry.

53. A class action proceeding will confer substantial benefits rendering it superior to the alternatives. Further, the resolution of these claims in a single case will result in increased efficiency for the judicial system and will reduce the potential for inconsistent outcomes arising from other matters.

54. Defendants are acting or refusing to act on grounds generally applicable to the Class, thereby making appropriate final injunctive relief or corresponding declaratory relief with respect to the Class as a whole.

FIRST CAUSE OF ACTION

Petition for Writ of Mandate, Code of Civil Procedure sections 1085, et. seq., *On Behalf of Plaintiffs and the Class Against Defendants and Does 1 Through 20*

55. Plaintiffs incorporate the allegations of the foregoing paragraphs as though set forth in full by this reference.

56. Defendants' actions in establishing, collecting, and retaining the excessive charges, in the guise of purported Regulatory Fees, were arbitrary, capricious, without evidentiary or statutory justification, procedurally improper, and in derogation of their limited authority and mandatory duties under the law.

57. At all times alleged, Defendants were under a mandatory duty to conform their actions to the controlling provisions of state law, and to act only with their authority, and to refrain from adopting regulations or fees in excess of that authority.

58. In doing the things alleged above, Defendants failed to conform to such controlling legal mandates, by imposing unlawful amounts of Regulatory Fees without justification or authority, and in contravention of the controlling provisions of state law.

59. For each of the reasons alleged above, Plaintiffs contend that Defendants' establishment and imposition of large portions of the Regulatory Fees was unlawful and unauthorized, was in conflict with other provisions of state law and the California Constitution, was unjustified, arbitrary, discriminatory, and excessive, and that the Regulatory Fees were not established as required by law, and have been established in violation of controlling state law and constitutional protections, such that they may not be lawfully imposed or collected.

60. Defendants are obligated but have failed to provide adequate pre-deprivation or post-deprivation remedies for the illegal collection and retention of the excessive Regulatory Fees, including (without limitation) making refunds and restitution of all excessive charges collected as alleged in this action.

61. Issuance of a writ of mandate requiring Defendants to set aside and vacate the excessive amounts of the Regulatory Fees, and to conform their actions to state law as set forth above, is therefore appropriate and necessary as provided by Code of Civil Procedure sections 1085, *et. seq.*

62. Plaintiffs seek a writ of mandate requiring Defendants to provide an adequate remedy for persons subjected to the unlawful collection of the Regulatory Fees, and to transfer to Plaintiffs and the Class property in the form of the wrongfully collected fees.

SECOND CAUSE OF ACTION

Declaratory and Injunctive Relief On Behalf of Plaintiffs and the Class Against Defendants and Does 1 Through 20

63. Plaintiffs incorporate the allegations of the foregoing paragraphs as though set forth in full by this reference.

64. An actual controversy has arisen and now exists between the parties regarding their respective rights, duties, and obligations with respect to the Regulatory Fees. Specifically, Plaintiffs contend for reasons including those stated above that large portions of the Regulatory

Fees paid by Plaintiffs are unlawful in violation of California's Constitution and/or other common law, statutory, and constitutional limitations, and are therefore invalid and should not have been collected, and should not be collected in the future.

65. Plaintiffs are informed and believe, and on that basis allege, that Defendants dispute these contentions and assert that the Regulatory Fees are valid and proper.

66. Plaintiffs desire a judicial determination and decree, pursuant to Code of Civil Procedure section 1060, establishing the respective rights, duties and obligations of the parties with regard to Plaintiffs' contentions and the above described actions.

67. In addition, Defendants' actions will cause irreparable and permanent harm and will unlawfully and unnecessarily expose Plaintiffs to unlawful fees, including the Regulatory Fees.

68. Plaintiffs have no adequate remedy at law to prevent or mitigate this ongoing imminent harm and the actions described above, have exhausted all available remedies, and therefore issuance of temporary, preliminary, and permanent injunctive relief is necessary to restrain and enjoin Defendants, and all others acting in concert, from in any way seeking to impose or authorize the imposition of the excessive Regulatory Fees.

THIRD CAUSE OF ACTION

Money Had and Received On Behalf of Plaintiffs and the Class Against Defendants and Does 1 Through 20

69. Plaintiffs incorporate the allegations of the foregoing paragraphs as though set forth in full by this reference.

70. Article XIII A of the California Constitution, section 3, prohibits the imposition of taxes that are not approved by a supermajority of each of the two houses of the State Legislature. Thus, Defendants had a constitutional duty to refrain from assessing and/or collecting a tax that had not been approved in that manner. Further, Defendants had a duty to refrain from the continued collection and retention of the Regulatory Fees in excess of their police power and without valid legal authority.

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71. As described above, Defendants collected and retained unlawful amounts of the Regulatory Fees in violation of the California Constitution. Those funds belong to Plaintiffs and the Class, were intended to be used for their benefit, and in fairness, equity, and good conscience should be returned to Plaintiffs and the Class.

72. Plaintiffs, on behalf of themselves and others similarly situated, have demanded the return of these funds, including through the claims submission referenced above. Defendants have not returned the funds.

73. Defendants have no legal or equitable right to retain the Regulatory Fees. Plaintiffs and the Class seek the release of this specific property in the form of fees that rightfully belong to them but that were wrongfully detained by Defendants, and are entitled to the return of all funds improperly collected under the guise of the Regulatory Fees, along with statutory interest.

FOURTH CAUSE OF ACTION

Unjust Enrichment On Behalf of Plaintiffs and the Class Against Defendants and Does 1 Through 20

74. Plaintiffs incorporate the allegations of the foregoing paragraphs as though set forth in full by this reference.

75. Article XIII A of the California Constitution, section 3, prohibits the imposition of taxes that are not approved by a supermajority of each of the two houses of the State Legislature. Thus, Defendants had a constitutional duty to refrain from assessing and/or collecting a tax that had not been approved in that manner. Further, Defendants had a duty to refrain from the continued collection of the Regulatory Fees in excess of their police power and without valid legal authority.

76. Defendants have been unjustly enriched by the unlawful exaction of money from Plaintiffs and the Class through the improper imposition and continued collection of excessive amounts of the Regulatory Fees.

77. Plaintiffs and the Class are entitled to full reimbursement in the actual amount by which Defendants have been unjustly enriched at the expense of Plaintiff and the Class.

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FIFTH CAUSE OF ACTION

Violation of California Constitution Article XIII A § 3 (Invalid Tax) On Behalf of Plaintiffs and the Class Against Defendants and Does 1 Through 20

78. Plaintiffs incorporate the allegations of the foregoing paragraphs as though set forth in full by this reference.

79. Article XIII A of the California Constitution, section 3, prohibits the imposition of taxes that are not approved by a supermajority of each of the two houses of the State Legislature. Thus, Defendants had a constitutional duty to refrain from assessing and/or collecting a tax that had not been approved in that manner. Further, Defendants had a duty to refrain from the continued collection of the Regulatory Fees in excess of their police power and without valid legal authority.

80. As described above, Defendants collected excessive amounts of the Regulatory Fees in violation of the California Constitution. The unlawful collection of the Regulatory Fees requires Defendants to restore the amounts of the illegally collected fees to Plaintiffs and the Class in an amount to be determined by proof at trial.

SIXTH CAUSE OF ACTION

Accounting On Behalf of Plaintiffs and the Class Against Defendants and Does 1 Through 20

81. Plaintiffs incorporate the allegations of the foregoing paragraphs as though set forth in full by this reference.

82. Defendants have transferred or misappropriated unlawful fees for which Defendants have failed to account to Plaintiffs and the Class. There is a balance due to Plaintiffs and the Class. Therefore, Defendants should provide an accounting to Plaintiffs and the Class in connection with the Regulatory Fees including, without limitation, of the total amount of the funds unlawfully collected under the guise of the Regulatory Fees.

83. The maintenance and prosecution of this action will, if successful, result in the enforcement of important rights affecting the public interest and will confer a significant benefit on the general public or a large class of persons and thus, Defendants may recover attorneys' fees under Code of Civil Procedure section 1021.5.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for judgment in their favor and against Defendants as follows:

1. For certification of the Class pursuant to California Code of Civil Procedure section 382;

2. For appointment of Plaintiffs' counsel as Class counsel;

3. For a judicial declaration, decree, or order determining that the excessive Regulatory Fees were not authorized under State law, were and are unlawfully levied and collected, and are invalid, and that any demands, imposition, or levy of such unlawful fees are invalid and shall immediately cease;

4. For injunctive relief immediately enjoining and restraining Defendants from collecting or continuing to collect any unlawful amounts of Regulatory Fees;

5. For an order requiring Defendants to provide an accounting of the total amount of the funds illegally collected under the guise of the Regulatory Fees;

6. For an alternative and preemptory writ of mandate commanding Defendants to immediately set aside and vacate the excessive Regulatory Fees, and to provide a constitutionally adequate remedy including refunds and restitution of all excessive charges collected from Plaintiffs and the Class and mandating the transfer of Plaintiffs' and the Class' property to Plaintiffs and the Class;

7. For an award of restitution and disgorgement to Plaintiffs and the Class in the amount of the unlawful benefit to Defendants in the form of unlawful fees;

8. For Plaintiffs' costs of suit, including the recovery of reasonable attorneys' fees incurred herein under the common fund and/or private attorney general doctrines; and

9. For such other and further relief as the Court deems proper.

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Dated: May 9, 2020

RUTAN & TUCKER, LLP
DAVID P. LANFERMAN
MARK B. FRAZIER
MATTHEW CARRUTH
LUCAS K. HORI

By: _____
Mark B. Frazier

J. BLONIEN, APLC
JARHETT P. BLONIEN
DANIELLE M. GUARD

By: _____
Jarhett P. Blonien

Attorneys for Plaintiffs and Petitioners

CPF-20-517086

VERIFICATION

I have read the foregoing Class Action Petition and Complaint for (1) Writ of Mandate, (2) Declaratory and Injunctive Relief, (3) Money Had and Received, (4) Unjust Enrichment, (5) Violation of the California Constitution, and (6) Accounting.

I am President and Chief Executive Officer of Lucky Chances, Inc., a Plaintiff and Petitioner in this action. I am authorized to make this verification for and on its behalf, and I make this verification for that reason. I am informed and believe and on that ground allege that the matters stated in the foregoing document are true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and accurate.

Executed on May 11, 2020 at COLMA, California.

LUCKY CHANCES, INC.

By: Rommel Medina
ROMMEL MEDINA

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EXHIBIT 3

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SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF SACRAMENTO

LUCKY CHANCES, INC., V C CARDROOM, INC.; HALCYON GAMING, LLC; BJ GAMING, LLC; FORTUNE PLAYERS GROUP, INC.; GOLD GAMING CONSULTANTS, INC.; CERTIFIED PLAYERS, INC.; LE GAMING, INC.; and RHINO GAMING INC., on their own behalf and on behalf of those similarly situated,

Plaintiffs and Petitioners,

v.

THE STATE OF CALIFORNIA; CALIFORNIA GAMBLING CONTROL COMMISSION; BUREAU OF GAMBLING CONTROL, a division of the California Department of Justice; FIONA MA, in her official capacity as the State Treasurer, and DOES 1 through 20, inclusive,

Defendants and Respondents.

Case No. 34-2020-80003510-CU-WM-GDS

ANSWER BY DEFENDANTS AND RESPONDENTS TO CLASS ACTION PETITION AND COMPLAINT

Action Filed: May 12, 2020

Defendants and Respondents (collectively the Commission) answer the Class Action Petition and Complaint filed by Lucky Chances, Inc., et al. (collectively Lucky Chances), as follows. All allegations not expressly admitted below are denied.

ANSWER

1. The Commission denies the allegations of paragraph 1.

2. In response to paragraph 2, the Commission admits that card rooms and proposition player providers are subject to licensing and regulatory fees that support the Commission and Bureau's activities. The Commission further admits that those fees, in the aggregate, have amounted to more than twenty million dollars a year for each of the last five years. The Commission lacks information and belief sufficient to form a belief as to the truth of the first sentence of paragraph 2, and on that ground denies each of those allegations. The remaining allegations of paragraph 2 are legal conclusions or arguments to which the Commission need not respond; to the extent a response is required, the Commission denies each of those allegations.

3. The Commission admits the allegations of the first two sentences of paragraph 3. The Commission further admits that the Auditor's report was entitled "Bureau of Gambling Control and California Gambling Control Commission: Their Licensing Processes Are Inefficient and Foster Unequal Treatment of Applicants" and that the report offered comments on the Commission's operations and fee practices. The Commission denies the remaining allegations of paragraph 3.

4. The Commission admits the allegations of paragraph 4.

5. In response to paragraph 5, the Commission admits that the Report included the quoted language. The Commission denies the remaining allegations of paragraph 5.

6. The allegations of paragraph 6 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

7. The Commission denies the allegations of the first, third, fourth, and fifth sentences of paragraph 7. The remaining allegations of paragraph 7 are legal conclusions or arguments to

which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

8. The Commission admits the allegations of paragraph 8.

9. The Commission admits the allegations of paragraph 9.

10. The Commission admits the allegations of paragraph 10.

11. The Commission admits the allegations of paragraph 11.

12. The Commission admits the allegations of paragraph 12.

13. The Commission admits the allegations of paragraph 13.

14. The Commission admits the allegations of paragraph 14.

15. The Commission admits the allegations of paragraph 15.

16. The Commission admits the allegations of paragraph 16.

17. The Commission lacks information and belief sufficient to respond to the allegations of paragraph 17, and on that ground denies each of those allegations.

18. The Commission admits the allegations of paragraph 18.

19. The Commission admits the allegations of paragraph 19.

20. The Commission admits the allegations in the first three sentences of paragraph 20. The remaining allegations of paragraph 36 consist of legal conclusions or arguments to which the Commission need not respond; to the extent a response is required, the Commission denies each of those allegations.

21. The Commission admits the allegations of paragraph 21.

22. The Commission admits the allegations of paragraph 22.

23. The Commission admits the allegations of paragraph 23.

24. The Commission admits the allegations of paragraph 24.

25. The Commission admits the allegations of the first five sentences of paragraph 25. The Commission denies the remaining allegations of paragraph 25.

26. The Commission admits the allegations of paragraph 26.

27. The Commission admits the allegations of paragraph 27.

28. The Commission admits the allegations of paragraph 28.

29. The Commission admits the allegations of paragraph 29, including subparagraphs 29a and 29b.

30. In response to paragraph 30, the Commission admits that the Bureau collects licensing fees and regulatory fees on an annual basis from card rooms and proposition player providers. The Commission also admits that pursuant to California Business and Professions Code section 19955, the Commission may order the temporary closure of an establishment where a licensee that fails to make timely payments, and that licenses shall be deemed surrendered if fees remain unpaid after 90 days. The Commission further admits that in fiscal year 2018-19, the Bureau had fee revenues in excess of $23 million. The Commission denies the remaining allegations of paragraph 30.

31. The Commission denies the allegations of paragraph 31.

32. The Commission admits that the Auditor published the Report on May 16, 2019, and that the Report concluded that the Commission's fees have resulted in a surplus of funds. The Commission denies each remaining allegation of paragraph 32.

33. The Commission admits that the quoted language of paragraph 33 appears in the Report. The Commission denies each remaining allegation of Paragraph 33.

34. The Commission admits that the language quoted in paragraph 34 and the graph contained in paragraph 34 both appear in the Report. The Commission also admits that the Report concluded there were discrepancies between regulatory fees and costs for the fiscal years listed in sentence three of paragraph 34. The Commission denies each remaining allegation of paragraph 34.

35. The Commission lacks information and belief sufficient to respond to the first sentence of paragraph 35, and therefore denies those allegations. The Commission admits that neither the Commission nor the Bureau explicitly addressed in their responses to the Report whether the regulatory fees collected exceeded the costs of the regulatory activities that the fees fund. The Commission denies the remaining allegations of paragraph 35.

36. In response to paragraph 36, the Commission admits that the Report concluded the following: that licensing expenditures exceeded licensing revenues; that the balance of the

Gambling Control Fund was approximately $30 million for fiscal year 2013-2014 and $61 million by the end of fiscal year 2017-2018; and that the Gambling Control Fund's balance has increased because nonlicensing regulatory fees have generated more revenue than the amount spent on regulated activities. The Commission admits that the Report estimated that the Gambling Control Fund's balance would be more than $97 million by June 2020. The Commission admits that the quoted language in the last sentence of Paragraph 36 appears in the Report. The second sentence of paragraph 36 consists of legal conclusions or arguments to which the Commission need not respond; to the extent a response is required, the Commission denies each of those allegations. The Commission denies each remaining allegation of paragraph 36.

37. In response to the second sentence of paragraph 37, the Commission admits that the Report states the State's General Fund received $29 million in loans from the Gambling Control Fund in 2008 and 2011. The Commission lacks information and belief sufficient to respond to the allegations in the third sentence of paragraph 37, and therefore denies those allegations. The Commission denies each remaining allegation of paragraph 37.

38. In response to paragraph 38, the Commission admits that the Bureau continues to collect the licensing and regulatory fees and continues to require plaintiffs and others similarly situated to pay such fees to avoid suspension or closure of their businesses. The Commission denies each remaining allegation of paragraph 38.

39. The allegations of paragraph 39 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

40. The Commission denies the allegations of paragraph 40.

40.a. The first two sentences of paragraph 40.a. are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations. Commission denies the remaining allegations of paragraph 40.a.

40.b. The allegations of paragraph 40.b. are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

40.c. The allegations of paragraph 40.c. are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

41. The Commission denies the allegations of paragraph 41.

42. The allegations of paragraph 42 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

43. In response to paragraph 43, the Commission admits that plaintiffs were required to make payments as license and regulatory fees and that plaintiffs submitted a government claim in May 2020. The remaining allegations of paragraph 43 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

44. The allegations of paragraph 44 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

45. The allegations of paragraph 45 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

46. The allegations of paragraph 46 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

47. The allegations of paragraph 47 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

48. The Commission denies the allegations of paragraph 48.

49. The allegations of paragraph 49 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

50. The allegations of paragraph 50 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

51. The allegations of paragraph 51 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

52. The allegations of paragraph 52 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

53. The allegations of paragraph 53 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

54. The allegations of paragraph 54 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

55. In response to paragraph 55, the Commission incorporates each of the above admissions and denials.

56. The Commission denies the allegations of paragraph 56.

57. The allegations of paragraph 57 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

58. The Commission denies the allegations of paragraph 58.

59. The allegations of paragraph 59 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

60. The Commission denies the allegations of paragraph 60.

61. The Commission denies the allegations of paragraph 61.

62. The allegations of paragraph 62 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

63. In response to paragraph 63, the Commission incorporates each of the above admissions and denials.

64. The allegations of paragraph 64 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

65. The allegations of paragraph 65 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

66. The allegations of paragraph 66 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

67. The Commission denies the allegations of paragraph 67.

68. The Commission denies the allegations of paragraph 68.

69. In response to paragraph 69, the Commission incorporates each of the above admissions and denials.

70. The allegations of paragraph 70 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

71. The Commission denies the allegations of paragraph 71.

72. The Commission admits the allegations of paragraph 72.

73. The Commission denies the allegations of paragraph 73.

74. In response to paragraph 74, the Commission incorporates each of the above admissions or denials.

75. The allegations of paragraph 75 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

76. The Commission denies the allegations of paragraph 76.

77. The Commission denies the allegations of paragraph 77.

78. In response to paragraph 78, the Commission incorporates each of the above admissions and denials.

79. The allegations of paragraph 79 are legal conclusions or arguments to which the Commission need not respond. To the extent a response is required, the Commission denies each of those allegations.

80. The Commission denies the allegations of paragraph 80.

81. In response to paragraph 81, the Commission incorporates each of the above admissions and denials.

82. The Commission denies the allegations of paragraph 82.

83. The Commission denies the allegations of paragraph 83.

AFFIRMATIVE DEFENSES

1. The complaint and each cause of action within the complaint are barred in whole or in part by the applicable statutes of limitations, including but not limited to Government Code section 945.6 and Code of Civil Procedure section 343.

2. The complaint and each cause of action within the complaint are barred in whole or in part by the failure to timely exhaust applicable administrative remedies, including but not limited to the remedies provided under Government Code section 810 et seq.

3. The complaint and each cause of action within the complaint are barred in whole or in part by the doctrine of laches.

4. The State of California is not a necessary or proper party to the action.

PRAYER

WHEREFORE, the Commission prays that:

1. The complaint be dismissed and no writ of mandate be issued;

2. Lucky Chances takes nothing by its action;

3. Judgment be awarded against Lucky Chances and in favor of the Commission;

4. The Commission be awarded costs of this suit; and

5. The Commission be awarded any other relief deemed appropriate by this court.

Dated: December 8, 2020

Respectfully submitted,

XAVIER BECERRA
Attorney General of California
MOLLY K. MOSLEY
Supervising Deputy Attorney General

By: _____
ROBERT E. ASPERGER
GINA TOMASELLI
Deputy Attorneys General
Attorneys for Defendants and Respondents State of California, appearing by and through the California Gambling Control Commission and Bureau of Gambling Control; California Gambling Control Commission; Bureau of Gambling Control; and Fiona Ma, in her official capacity as the State Treasurer

DECLARATION OF SERVICE BY U.S. MAIL

Case Name: **Lucky Chances, Inc., et al. v. State of California, et al.**
No.: **CPF-20-517086**

I declare:

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar, at which member's direction this service is made. I am 18 years of age or older and not a party to this matter. I am familiar with the business practice at the Office of the Attorney General for collection and processing of correspondence for mailing with the United States Postal Service. In accordance with that practice, correspondence placed in the internal mail collection system at the Office of the Attorney General is deposited with the United States Postal Service with postage thereon fully prepaid that same day in the ordinary course of business.

On December 8, 2020, I served the attached ***Answer by Defendants and Respondents to Class Action Petition and Complaint*** by placing a true copy thereof enclosed in a sealed envelope in the internal mail collection system at the Office of the Attorney General at 1300 I Street, Suite 125, P.O. Box 944255, Sacramento, CA 94244-2550, addressed as follows:

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1121 L Street, Ste. 105
Sacramento, CA 95814

I declare under penalty of perjury under the laws of the State of California and the United States of America the foregoing is true and correct and that this declaration was executed on December 8, 2020, at Sacramento, California.

M.E. Conde
Declarant

Signature

SA2020302095
34651387.docx

EXHIBIT 4

Bureau of Gambling Control and California Gambling Control Commission

Their Licensing Processes Are Inefficient and Foster Unequal Treatment of Applicants

May 2019

REPORT 2018-132

CALIFORNIA STATE AUDITOR
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May 16, 2019
2018-132

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As directed by the Joint Legislative Audit Committee, the California State Auditor conducted an audit of the California Department of Justice's Bureau of Gambling Control (bureau) and the California Gambling Control Commission (commission). The audit focused on each entity's regulatory duties that the Gambling Control Fund supports, which include the licensing of individuals who own or work in card rooms. This report concludes that the bureau's and commission's incomplete or inconsistent procedures have contributed to delays and backlogs for gaming license applicants and have resulted in unequal treatment for applicants and licensees.

Despite receiving significant additional resources from the Legislature, the bureau has failed to clear its backlog of pending license applications. In fact, its productivity has declined over the past few fiscal years, and our review identified inefficiencies in its processes and concerns about how staff report spending their time. The bureau and the commission have each engaged in inefficient practices that delay licensing denials, and it may require legislative intervention to address the commission's delays.

To varying degrees, both the bureau and the commission have charged fees that result in unequal treatment of license applicants. Although our review did not identify evidence of discrimination by either entity on the basis of individuals' ethnicities or related characteristics, we determined that the bureau's incomplete or inconsistent procedures resulted in unequal treatment related to the level of scrutiny applicants received. Furthermore, neither the bureau nor the commission has addressed the fact that the fees they charge do not align with their costs for providing oversight. Such misalignment has contributed to an excessive surplus in the Gambling Control Fund and may call into question the legality of some fees.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
California State Auditor

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CONTENTS

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SUMMARY

The Gambling Control Act (Gambling Act) and state regulations give the California Department of Justice's Bureau of Gambling Control (bureau) and the California Gambling Control Commission (commission) distinct responsibilities for a range of licensing and enforcement activities related to gaming businesses—primarily card rooms—in California. Generally speaking, the bureau is responsible for performing background investigations of applicants seeking licenses that will enable them to own or work in these gaming businesses and for enforcing gaming laws and regulations. The commission, on the other hand, is an independent body that makes licensing decisions in consideration of the bureau's recommendations and, when applicable, takes or upholds disciplinary actions against licensees, such as license revocation. To meet their responsibilities, the bureau and the commission receive funding from the Gambling Control Fund (Gambling Fund). Given the broad discretion that the bureau has in reviewing license applications and that the commission has in reaching determinations about applicants' suitability for licenses, we reviewed these entities' processes to determine the extent to which they have treated applicants consistently. Our report concludes the following:

Page 13

The Bureau's and Commission's Inefficiencies Have Driven Delays and Compounded Backlogs in the Licensing Process

Our review of 23 gaming license applications found that the bureau regularly exceeded the statutory time frame of 180 days for completing its review of applications. Although the bureau cited a lack of available resources as a factor in the delays, we question its efficiency given that temporary funding it received from the Legislature for 32 additional positions has more than doubled its licensing staff since fiscal year 2015–16. The temporary funding is set to expire in June 2019, yet the bureau has not sufficiently demonstrated what an appropriate permanent staffing level would be. In fact, despite its increased staffing, the bureau still has a backlog of almost 1,000 applications, likely in part because its productivity has diminished since it hired its new staff. In contrast, the commission complied with its separate regulatory time frame of 120 days when it approved applications at its regular licensing meetings. However, its practice of holding evidentiary hearings to deny license applications—an approach the commission explained it implemented to conform to the Gambling Act—contributed to significant delays and use of extra staff resources in its handling of such applications.

Page 31

The Bureau and Commission Have Charged Fees That Do Not Align With Regulatory Costs, Resulting in an Excessive Surplus and Fairness Concerns

The bureau and the commission have established regulatory fees that do not align with the actual costs that they incur when performing oversight activities. These fees—which applicants and gaming business owners pay—raise questions about the legality and fairness of the current fee structure. In part because some of the fees are higher than necessary, the balance in the Gambling Fund has doubled over the past five years, and it is projected to increase to $97 million by June 2020. If the balance reaches this amount, it will represent a surplus of more than five times the combined annual operating expenditures of the bureau and commission. This excessive surplus has enabled the bureau to engage in inconsistent billing and time-management practices. Specifically, the bureau's billing processes have resulted in many applicants' not paying for the actual costs of their background investigations. Further, bureau licensing staff have reported spending the majority of their time on activities that may not be productive or even directly related to license applications.

Page 43

The Bureau's and Commission's Inconsistent Regulations and Practices Have Resulted in the Unequal Treatment of Applicants

The bureau and commission have not ensured that their regulations and practices treat all applicants consistently and fairly. Specifically, the commission's regulations create unjustified differences in terms of the time frames in which individuals must submit applications, the circumstances under which they may hold temporary licenses, and the notifications they receive about their application status, among other issues. The bureau's procedures for conducting background investigations further contribute to the inconsistent treatment of applicants because the procedures require different levels of review for different license types without justification. Finally, the commission lacks procedures to ensure that it allows applicants to withdraw from the hearing process, and as a result, it publishes decisions that include unnecessary negative information about some applicants. Because the bureau and commission have considerable discretion in reviewing license applications and in making licensing decisions, respectively, any inconsistencies that affect applicants' experiences during the licensing process may exacerbate perceptions of bias or lead to questions of fairness.

Summary of Recommendations

Legislature

To ensure the prudent use of Gambling Fund resources, the Legislature should not approve any requests to make permanent the funding for the bureau's 32 additional positions. Instead, the Legislature should extend the funding for an additional two years to give the bureau time to clear its backlog of applications and to implement our recommendations to improve its application processing.

To prevent delays and the unnecessary use of resources in the processing of licensing applications, the Legislature should amend the Gambling Act to allow the commission to take action at its regular licensing meetings rather than requiring it to hold evidentiary hearings.

Bureau

To ensure that it approaches its backlog strategically and that it is accountable for its use of resources, the bureau should establish a formal plan by November 2019 for completing its review of the remaining pending applications.

To ensure that it fairly charges applicants for the costs of their background investigations, the bureau should establish and implement policies by July 2019 that require staff to properly and equitably report and bill the time they spend conducting such investigations.

Commission

To prevent delays and the unnecessary use of resources, the commission should, following the Legislature's amendment to the law that we recommend, revise its relevant regulations to specify that it is not required to hold evidentiary hearings unless applicants request that it do so.

Bureau and Commission

To better align the revenue in the Gambling Fund with the costs of the activities that the fund supports, the bureau and the commission should conduct cost analyses of those activities by July 2020, and they should adjust their fees to reflect the actual costs of the oversight activities they perform.

Agency Comments

The bureau agreed with most of our recommendations and identified actions that it is taking or planning to take to implement them. However, it disagreed with our recommendation that the Legislature extend temporary funding for additional bureau staff for two years instead of making that funding permanent. The commission generally agreed with our recommendations and identified actions it is taking or planning to take to implement them. However, it disagreed with our implementation time frames for two recommendations.

INTRODUCTION

Background

The Bureau of Gambling Control (bureau) is part of the California Department of Justice (Justice), whereas the California Gambling Control Commission (commission) is an independent entity. In addition to regulating tribal-operated casinos, the bureau and the commission each have responsibilities for licensing and enforcement activities related to certain gaming businesses in California. These gaming businesses consist predominantly of card rooms that offer poker-style and other table games to the public. Card rooms differ from tribal casinos in how they generate revenue and in the specific types of gaming they can offer.

The Gambling Control Act (Gambling Act) requires people who own or work in card rooms to be 21 years of age and to hold commission-issued gaming licenses, which they must renew periodically.[1] Further, the Gambling Act prevents the licensing of any additional card rooms beyond those that the commission has already licensed, therefore limiting the number of card rooms that can operate in the State. As of March 2019, the commission reported 87 licensed card rooms in California. The size of these card rooms varies from businesses with just a few gaming tables to large establishments with more than 200.

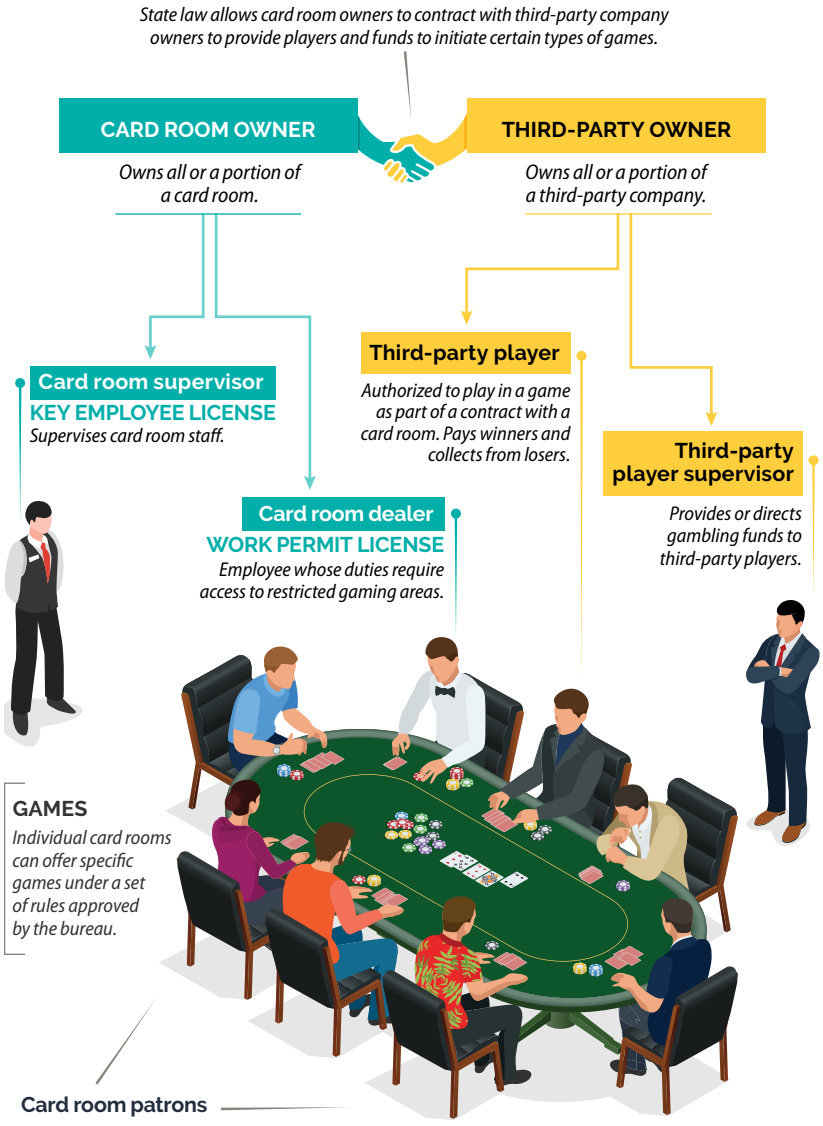
This audit focuses on the manner in which the bureau and commission individually carry out regulatory roles supported by the Gambling Control Fund (Gambling Fund). The Gambling Fund receives revenue from the licensing and regulatory fees that those who own, operate, and work in card rooms and related businesses pay. Since fiscal year 2010–11, the bureau's and commission's expenditures have comprised an average of 98 percent of all Gambling Fund expenditures. Although the bureau and commission also perform regulatory activities for tribal casinos, these activities are distinct from those for card rooms and are financed by a separate fund; therefore, this audit does not focus on the bureau's and commission's regulation of tribal casinos.

Types of Gaming Licenses

The bureau and commission perform activities related to processing, approving, and otherwise regulating gaming licenses for card rooms and related businesses, as well as their owners and employees. With the exception of the card room patron, each of the gaming roles that Figure 1 depicts requires a distinct type of license. Many licenses go to individuals who work in the gaming industry, such as card dealers and floor supervisors. Even employees working in nongaming roles, such as food service, must hold licenses. In general, the licenses subject to the most in-depth review are those held by business owners—individuals who partially or fully own card rooms or who provide players for certain types of games, as we discuss below. Although state law does not allow the licensure of new card rooms, individuals may buy existing card rooms, which requires these individuals to apply for licenses. Finally, as Figure 1 shows, card rooms must also obtain approval for the rules of every game they offer to their patrons.

[1] The commission issues some but not all gaming licenses known as work permits; local jurisdictions also issue some work permits. This report focuses on work permits that the commission issues.

Figure 1
License Types Correspond to Individual Roles in Card Rooms



Source: Business and Professions Code; California Code of Regulations, title 4, section 12002 et seq.; California Code of Regulations, title 11, section 2000 et seq.; and bureau documentation.

Games that card rooms offer include poker-style games, in which players wager against one another. They may also offer variations on games such as blackjack or baccarat—known as California games—in which players wager against a single individual. State law allows card room owners to generate revenue based on the volume of game play taking place in their establishments, but it bars them from benefiting from the outcome of any games or from players' winning or losing money. Therefore, card rooms earn revenue by charging players to participate in games and by selling food and drinks.

The fact that state law prohibits card rooms from benefitting from the outcomes of games means they cannot act as the house or bank.[2] Therefore, in order to offer certain California games, the card rooms depend on patrons' acting in a role known as the player-dealer, paying players who win and collecting from those who lose. Although individual patrons are allowed to act as the player-dealer, doing so may carry a financial risk, and consequently an entire industry has emerged to serve this role. Businesses known as third-party proposition player companies (third-party companies) enter into contracts with card rooms and employ staff who, as Figure 1 shows, take on the role of the player-dealer at game tables. These companies also employ personnel who supervise their players and distribute money to games. Third-party companies have been subject to regulation since 2003, and in fiscal year 2017–18, they represented a large portion of all gaming license applications.

The Licensing Process

The bureau, the commission, and the Indian and Gaming Law Section (IGLS)—a separate division of Justice—each have responsibilities in determining whether to issue licenses to applicants. Figure 2 outlines the roles each of these parties play in the regulation of card rooms and third-party companies, and we describe these roles in detail in the sections that follow.

Figure 2
The Bureau, the Commission, and IGLS Share Licensing Responsibilities

Source: Business and Professions Code; California Code of Regulations, title 4, section 12002 et seq.; California Code of Regulations, title 11, section 2000 et seq.; and bureau, Justice, and commission policies.

[2] The prohibition on banked gaming, in which establishments have a stake in the games' outcomes, distinguishes card rooms from casinos operated by federally recognized tribes. These tribes can enter into agreements with the State that allow them to offer banked gaming and slot machines in their casinos.

The Bureau

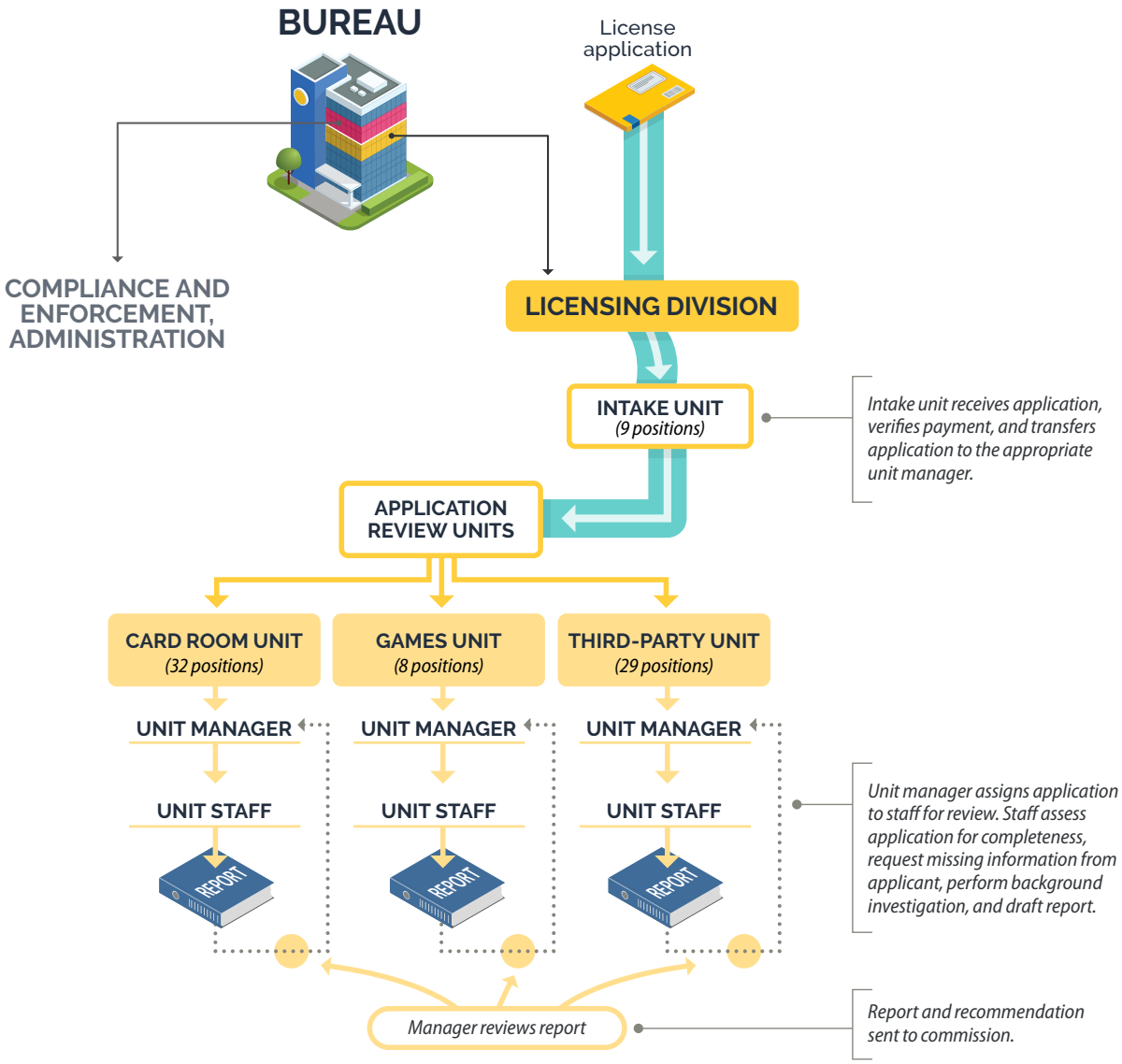
To begin the process, applicants first submit their applications to the bureau, along with payment of any applicable fees. The application forms vary by license type, but most require information about the applicants' employment history and criminal background. Because the Gambling Act prohibits certain individuals from holding licenses, including those with felony convictions or who have been convicted within the past 10 years of offenses classified as crimes involving moral turpitude or dishonesty, the bureau must recommend denial for applicants with such convictions. Some license types also require other types of information, such as the applicants' personal financial history. In general, the higher the level of responsibility the license holder will hold in the industry, the more detailed the application materials and subsequent review are.

The bureau has multiple units under its licensing division, each of which is responsible for either a specific step in the process or for a specific type of application. Figure 3 shows the structure of the bureau's licensing division, as well as its general process for handling applications. The bureau's intake unit receives all initial applications and license renewals. This unit performs certain administrative tasks, such as verifying application fees, before forwarding the applications to one of the three application review units: one focuses on card room owners and their employees, one on the games that card rooms offer, and one on third-party company applications. According to the bureau's assistant director for licensing (licensing director), managers in the application review units are responsible for assigning individual applications to staff. Although the bureau has no formal protocols for how managers assign applications, managers told us they generally do so in the order in which the applications arrive. Managers also told us that as a general rule, staff in different licensing units do not assist with each other's applications.

Once applications are assigned, bureau staff conduct background investigations on the applicants to help determine their suitability to hold gaming licenses. Figure 4 provides some example steps in the background investigation process. Although these steps vary depending on the type of license, the bureau's procedures generally direct staff to identify and inquire about criminal convictions or apparent issues with applicants' employment histories, such as previous terminations, as part of investigating the applicants' suitability for licensing. The bureau's procedures further instruct staff to review all applicants' fingerprint results and to request database inquiries from agencies such as the Department of Motor Vehicles to identify past infractions or outstanding fines. Some processes may require staff to follow up

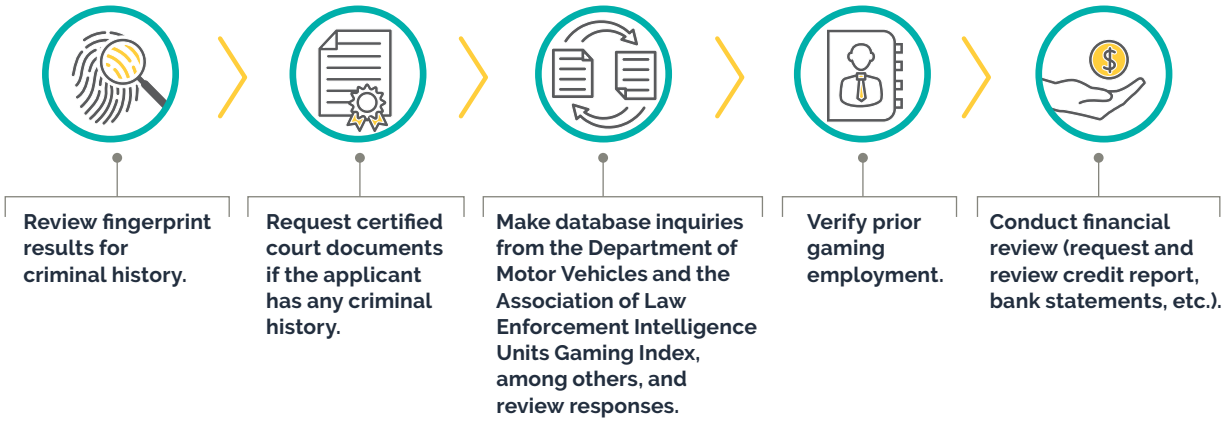
for additional information. For example, when an applicant has a criminal history, staff may need to request records from the court that convicted the applicant. For more involved applications, such as those for card room and third-party company owners, staff also review and follow up on financial issues, such as bankruptcy filings or loans.

Figure 3
The Bureau Has a Structure and Process for Reviewing License Applications



Source: Bureau organizational charts and licensing division procedures.
Note 1: Position totals include vacancies and only positions funded by the Gambling Fund.
Note 2: The Games Unit and Intake Unit have the same manager but are different units. The manager is included in the position count of the Intake Unit.

Figure 4
The Bureau's Background Investigation Process Can Include Numerous Steps



Source: Bureau background investigation procedures.

Note: This list does not include all of the steps the bureau takes in its background investigations, nor does the bureau perform all of the steps above for all applicants.

In most cases, the bureau has 180 days to complete its investigation process after receiving a complete application. When an investigation is complete, the bureau issues a report and accompanying licensing recommendation to the commission.[3] For most application types, applicants must submit a deposit to cover the costs of the bureau's background investigation. Bureau staff use a time-reporting system to account for the time and costs involved in reviewing each application, and the bureau refunds any unused portion of the deposit. If a background investigation's costs exceed the amount of the deposit, state law allows the bureau to request additional funds from the applicant.

The Commission

After the commission receives the bureau's report, it schedules the applicant for consideration by the five commissioners. Appointed by the Governor and confirmed by the Senate, the commissioners are responsible for granting or denying most initial gaming license applications within 120 days of receiving the bureau's report—which, combined with the bureau's 180-day period, means that processing a license can take 300 days even if all time frames are met. The commissioners make certain decisions during their regularly scheduled licensing meetings, which they hold roughly

[3] An exception is the bureau's processing of applications for the licensing of games, for which it makes the final approval decisions.

every two weeks. The commission's records indicate that the commissioners consider an average of more than 200 card room and third-party company applications at each of these meetings and approve the majority of them.

The commissioners may also decide to refer applicants to evidentiary hearings for a more involved consideration of their suitability. These hearings, which the commissioners oversee, involve sworn testimony by applicants, who may have legal representation if they choose to do so. Apart from mandating the denials that we describe on page 8, the Gambling Act gives the commission broad discretion in making determinations about individual applicants, requiring the commissioners to be satisfied with the applicant's character, honesty, and integrity.

IGLS

IGLS performs a range of tasks for the bureau related to card rooms and third-party companies. For example, at the commission's evidentiary hearings, IGLS attorneys present legal arguments in support of the bureau's licensing recommendations and evidence the bureau obtained during background investigations. In the past, another key IGLS responsibility has involved the review of legal documents associated with applications for owner licenses. Applicants for owner licenses are generally attempting to purchase all or part of card rooms or third-party companies or to transfer existing ownership to a legal trust. Along with their applications, these individuals submit legal and contractual ownership documents, such as purchase agreements, financial documents, and trust documents. Until October 2018, IGLS was responsible for performing legal reviews of these transaction documents before the bureau forwarded its licensing recommendations to the commission. At that time, however, the bureau hired an in-house deputy attorney general (in-house attorney) to process all its legal reviews of transaction documents in an effort to expedite these reviews.

Enforcement Responsibilities

In addition to processing license applications, the bureau is responsible for enforcing card rooms' and third-party companies' compliance with state laws and regulations. The bureau's Compliance and Enforcement Section (compliance section) conducts routine inspections of card rooms in which staff verify compliance with regulatory and legal requirements, such as the need to post signs that feature responsible gambling messages. Staff also verify the

appropriateness of the number of tables in use and of the limits on wagering. In addition, bureau special agents may conduct investigations into suspected illegal activities at the bureau's discretion, in response to complaints, or in cooperation with other law enforcement agencies.

The bureau reports card room violations it identifies to the commission. Depending on the nature of the violations, the commissioners may review them in the context of licensing decisions, or the violations may be litigated in front of an administrative law judge. When a violation goes before an administrative law judge, IGLS attorneys represent the bureau at the administrative hearing. Ultimately, however, the commissioners are responsible for making the final determination regarding the violations, including about any disciplinary actions recommended by the administrative law judge, which can include license revocation or fines.

Equal Treatment of Applicants and Licensees

When the Joint Legislative Audit Committee (Audit Committee) approved this audit, it expressed concerns that the bureau and the commission may be treating certain applicants and license holders differently on the basis of race or ethnicity. The Audit Committee directed us to determine whether the bureau and commission have and adhere to policies and procedures to ensure all applicants and licensees are treated fairly and consistently. Because neither the bureau nor the commission comprehensively track the ethnicity of the applicants and license holders they regulate, we were unable to determine with certainty whether systematic discrimination has taken place. However, our review of individual applicant files did not identify evidence of discrimination on the basis of ethnicity or other related characteristics.

Nonetheless, as the subsequent sections of this report discuss, this audit found practices at both the bureau and commission that subjected applicants and licensees to inconsistent and unequal treatment. We found issues at both entities with the timeliness of their application reviews and the costs applicants and licensees paid. We also identified inconsistencies in the level of scrutiny to which the bureau subjected applicants. Some of these practices stemmed from missing or incomplete policies and procedures. As long as the bureau and commission allow inconsistencies in their practices, they risk fostering the perception that they may engage in discriminatory acts.

The Bureau's and Commission's Inefficiencies Have Driven Delays and Compounded Backlogs in the Licensing Process

Key Points

- The bureau has regularly exceeded the statutory 180-day time frame for completing its review of license applications, and it has also failed to notify applicants of their status at required points. Although the bureau asserted that the delays were the result of a lack of resources, it could process applications more quickly if it effectively screened them for completeness when it first received them.
- The bureau has elected to stop issuing decisions on certain games applications, which has placed some card room owners at an economic disadvantage by preventing them from offering games that the bureau approved for their competitors.
- Since July 2015, the bureau has more than doubled its staffing to address its backlog of license applications. Nevertheless, as of December 2018, it still had a backlog of nearly 1,000 applications. The bureau's productivity has diminished since it hired additional staff, raising questions about the level of staffing it needs to process applications.
- As a result of its referral of an increasing number of applicants to evidentiary hearings and of conflicting regulations, the commission has repeatedly failed to meet the requirement that it approve or deny most applications within 120 days of receiving the bureau's recommendations.

The Bureau Has Failed to Establish Processes That Might Help It Address Licensing Delays

The bureau has regularly exceeded statutory time frames for processing gaming license applications. As Table 1 demonstrates, the bureau's data indicate that it exceeded the 180-day time frame for 3,521, or 70 percent, of the 5,012 applications it reviewed from January 2014 through December 2018. Some of these delays spanned years: in fact, 46 applications took longer than six years to complete. Similarly, the bureau exceeded the 180-day time frame to complete its review of 16 of the 23 application files we reviewed, with one review taking more than 2,300 days—over six years.

The bureau also rarely provided the applicants we reviewed with required notifications. Once an application review reaches 180 days, state law requires the bureau to give the applicant an update on the status of the application and the estimated time to completion. However, the bureau failed to provide such updates to any of the 16 applicants we reviewed whose applications took longer than 180 days. For certain types of licenses, regulations also require the bureau to notify applicants within five to 20 days if the applications they have submitted are complete and

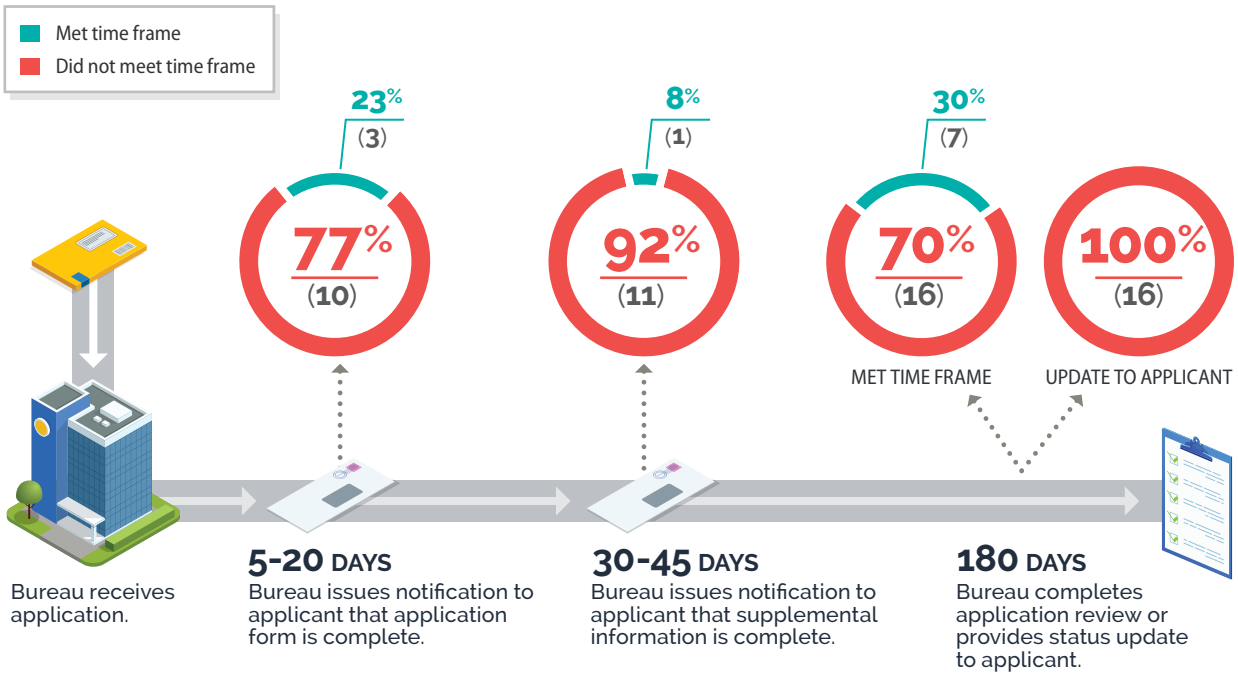
within 30 to 45 days if the applications include all required supplemental information, such as employment history and financial records. However, the bureau failed to meet the pertinent deadlines for 10 of the 13 applications we reviewed in which the first time frame applied and 11 of the 12 in which the second time frame applied. Figure 5 summarizes the bureau's compliance with relevant time frames for the applications we reviewed.

Table 1
The Bureau Exceeded the 180-day Time Frame for the Majority of the Applications It Reviewed in the Past Five Years

	LICENSE TYPE				
	CARD ROOM		THIRD-PARTY		
LENGTH OF TIME TO REVIEW	EMPLOYEES	OWNERS	EMPLOYEES	OWNERS	TOTAL REVIEWED
180 Days or Fewer	352	40	1,099	–	1,491
181 Days to 1 Year	180	58	1,432	–	1,670
> 1 Year to 2 Years	384	122	764	2	1,272
> 2 Years to 3 Years	10	68	250	1	329
> 3 Years to 4 Years	1	31	93	1	126
> 4 Years to 5 Years	1	7	15	–	23
> 5 Years to 6 Years	–	5	49	1	55
Greater Than 6 Years	–	4	39	3	46
Subtotals of applications taking more than 180 days	*576*	*295*	*2,642*	*8*	*3,521*
Totals	*928*	*335*	*3,741*	*8*	*5,012*

Source: Analysis of bureau data on license applications it completed from January 2014 through December 2018.

Figure 5
In Most Cases, the Bureau Did Not Meet Required Time Frames for Processing the 23 Applications We Reviewed



Source: Business and Professions Code; California Code of Regulations, title 4, section 12002 et seq.; and review of case files at the bureau.

Note: The length of time the bureau has to notify applicants whether their applications and supplemental information is complete varies by license type. Not all license types have these notification requirements, which is why not all of the above time frames apply to all 23 applications.

The bureau's failure to promptly determine whether applications were complete likely exacerbated at least some of its delays in processing the applications we reviewed. In one case, the bureau sent an applicant eight letters over two years requesting different types of missing and additional documentation. The bureau then took so long to assess the information that the applicant provided that staff ultimately asked for bank statements for an additional year and tax returns for two additional years. The bureau also took long periods of time between its requests to the applicant; in one instance, it waited nine months between requests and, in another instance, nearly a year.

Similarly, when the bureau was processing an application that it spent more than six years reviewing, it made multiple requests for additional information from the applicant. The bureau's files show that this applicant communicated his frustration with the length of the background investigation process and, at one point, requested an update of the bureau's estimated time to completion. However, the available documentation does not show that the bureau responded to this request. Although some of the letters in one of these cases

included follow-ups to initial requests that the applicants had not met, some of the correspondence in both cases also requested new documentation. Failing to promptly and effectively assess the completeness of submitted applications and supplemental information leads to back-and-forth interactions that compound delays and create more work for the applicants and the bureau.

Although the licensing director cited the bureau's lack of available resources to assign cases to as contributing to the processing delays in several of the applications we reviewed, we found that the bureau could take steps to increase its efficiency. For example, it has not developed a process to screen applications as it receives them to determine if they are complete. Although the bureau's intake unit receives and sets up files for applications, it does not evaluate the applications' completeness. Instead, licensing staff make these assessments when they begin working on the applications. An evaluation of the completeness of an application at the beginning of the process would allow the bureau to request missing documentation earlier and enable licensing staff to begin their reviews more quickly.

Moreover, we identified other ways in which the bureau could improve its application review process. Although the bureau has written guidelines that list the steps licensing staff must take when performing background investigations, a licensing manager told us that the bureau lacks written guidelines to guide managers when prioritizing the applications they assign to staff. In addition, she stated that the bureau has not completed a review to determine what particular steps within the background investigation process may be contributing to delays. If the bureau identified the portions of its background investigation process—such as reviewing criminal histories or requesting court documents—that most commonly cause delays, it could implement changes that might improve its timeliness in processing applications.

The bureau has not completed a review to determine what steps within the background investigation process may be contributing to delays.

Lengthy delays have different implications for different types of applicants. Under state regulations, the commission may issue temporary licenses to individuals who apply to work in nonownership positions in the industry. These temporary licenses—which usually require the bureau only to check the applicants'

fingerprints for criminal history—allow the individuals to work while the bureau investigates their license applications. However, lengthy delays in completing investigations of these applicants creates the risk that individuals for whom the bureau will ultimately recommend denials will inappropriately work in the industry for a prolonged period. In one extreme case, an applicant worked in the gaming industry as a registrant—a temporary status for third-party applicants—for more than five years before the bureau recommended that the commission deny his license. This applicant had failed to disclose information in his application, and his third-party business had violations that included improperly kept records and inappropriate financial transactions.

In contrast, the lengthy process for issuing licenses to card room owners can create hardships for some applicants. Although these applicants can apply for temporary licenses, the bureau's process for reviewing the temporary applications involves significant additional steps, such as reviewing the source of funds for the purchase of the card room business and a legal review of any ownership documents by IGLS. These practices are based upon procedures agreed to by the bureau and commission, and the bureau has since noted to the commission that reviewing temporary applications is time-consuming and just short of a full background investigation. Temporary licenses for card room owners are also relatively rare. As of December 2018, the bureau's licensing data indicated that it had 203 pending initial owner applications, including applications that dated back as far as 2014. Nonetheless, at that time, it had completed only 23 temporary license requests for card room owners in the previous four years and had six other temporary owner license requests in process. The delays owners and potential owners face mean they may miss opportunities to acquire card rooms or lose revenue while waiting for the licenses that would allow them to operate the card rooms.

The lengthy process for issuing licenses to card room owners can create hardships for some applicants.

Applicants for card room owner licenses are also likely to face long and inconsistent wait times in part because of the process the bureau uses to review these applications. For example, the bureau has not developed a formal process to prioritize the assigning of owner applications to staff for their review. In the absence of such a process, managers indicated that they generally assign applications

in the order in which they are received. However, when we reviewed seven owner applications, we found that the time that managers took to assign them to staff ranged from as few as 19 days to as long as 510 days and that managers did not always assign them in the order they were received. According to the bureau's card room licensing manager, the bureau may assign some owner applications out of order because of extenuating circumstances. For example, it expedited one review because of the failing health of an applicant who was requesting to transfer ownership interest to a family member. In addition, according to another licensing manager, the bureau may prioritize applications either if owners die and there is a question about who will take over the licenses or if owners have had licenses revoked or denied and the commission has set a time limit for them to sell the card rooms.

However, the bureau did not provide consistent rationales for its lengthy delays in assigning some applications but not others. For instance, it received two applications in the same month but assigned one nearly a year later than the other. A manager explained that the bureau assigned the first application 87 days after receiving it to prevent a card room license from expiring. This manager also explained that the bureau was able to assign the application so quickly because it was adequately staffed at the time. However, when we asked why the second application—which the bureau had received two days earlier—was not assigned for nearly a year, the manager cited a lack of staff.

The bureau did not provide consistent rationales for its lengthy delays in assigning some applications but not others.

The time the bureau took to assign owner applications was not the only cause of delays that we observed. As we discuss in the Introduction, until recently the bureau relied on attorneys from IGLS, another section of Justice, to review legal transaction documents associated with owner applications, such as purchase agreements. In some of the cases we reviewed, the time it took IGLS to complete its reviews significantly contributed to the lengthy application process. The senior assistant attorney general who oversees IGLS explained that unless the bureau requests IGLS to complete reviews quickly or by a certain date, they are generally a lower priority than—for example—the complex litigation with court-imposed deadlines that IGLS performs. However, even though the bureau specified due dates for four of the six IGLS

requests that we reviewed, IGLS did not meet any of those due dates. Further, we found no evidence that the bureau attempted to hold IGLS to the due dates or that it consistently followed up with IGLS on the status of its legal reviews.

In October 2018, the bureau hired an in-house attorney so that it could begin performing its own legal reviews. IGLS's senior assistant attorney general stated that the bureau is no longer sending new requests for legal reviews, and the licensing manager explained that the bureau has withdrawn some of its pending requests from IGLS and reassigned them to the in-house attorney. With only one such attorney, the bureau should take steps to ensure its prioritization of legal reviews is as consistent and transparent as possible. Its past communications to IGLS, as well as our review, indicate that it has prioritized applications based on factors other than when it received them. However, it has done so without a formal process for weighing these extenuating factors, creating the risk that it may favor some applicants without sufficient reason. Now that the bureau is transitioning to in-house legal review of transaction documents, it should develop formal procedures for prioritizing the in-house attorney's workload and periodically assessing whether one attorney is sufficient to process legal reviews in a timely manner.

The Bureau's Approach to Processing Applications for Certain Games Has Disadvantaged Some Card Room Owners

For three years, the bureau has not issued any decisions on card rooms' applications for certain types of table games known as California games, which we describe in the Introduction. Instead, according to its records as of March 2019, it had a backlog of 99 such applications.[4] According to state law, the bureau has sole responsibility for the approval of card room games and their rules. A bureau manager stated that it reviews and approves each game on an individual card room basis.

The reason the bureau has not approved any new California games applications has to do with restrictions in state law about the games that card rooms can offer. As the Introduction explains, state law prohibits card rooms from the practice of game banking, when the gaming establishment employs the dealer and acts as the house by paying the winning players and collecting from the losing players. However, state law does not consider a game to be banked if its rules include a player-dealer position held by someone who is not

[4] These applications include requests from card rooms to offer new games, as well as to change the rules of existing games.

a card room employee and if that position is continuously and systematically rotated among each of the participants during play. To help fill these player-dealer positions, card room owners may contract with third-party companies. In response to a question from gaming industry interest groups, a former bureau chief issued a letter in 2007 specifying the bureau's interpretation of the legislative intent behind the state law—which stated that as long as the opportunity to act as the player-dealer position is continuously and systematically offered to all players, the fact that at times, all players but one may decline the player-dealer position does not make the game illegal.

However, in February 2016, the bureau issued a notification to all California card rooms regarding changes in its approach to the rules of games featuring a player-dealer position. The rotation of the player-dealer position is important because if other players in a game choose not to accept the offer of the player-dealer position, then a single individual effectively becomes the house, banking the game in the process—which is prohibited. Therefore, the bureau's letter informed card rooms that it would no longer approve any new game rules if those rules permit only offering rotation of the player-dealer position. The bureau issued a notification of the revised enforcement and game-approval processes relating to the rotation of the player-dealer position on June 30, 2016. A card room and a third-party business objected and, in January 2017, submitted a petition challenging the notification to the Office of Administrative Law. The Office of Administrative Law ruled in July 2017 that the bureau's change in approach required it to enact regulations, which it has not yet done.

The bureau's decision to not act on new requests for these California games—as well as its delay in issuing regulations—has placed some card rooms at an economic disadvantage because they cannot offer games that the bureau approved for other establishments before the current suspension. Therefore, these card rooms' competitors may offer games that they do not. The bureau is currently holding workshops to receive input on rotation of the player-dealer position before it initiates the formal regulation process, and its licensing director told us that it is in the early stages of drafting regulations. Despite the fact that its moratorium on reviewing these applications has now lasted more than three years, the bureau's director stated that the bureau does not have an estimated date by which it will complete the regulations because several steps still remain in the regulatory process. However, the director also stated that the bureau plans to introduce draft regulatory language at another workshop within the next few months.

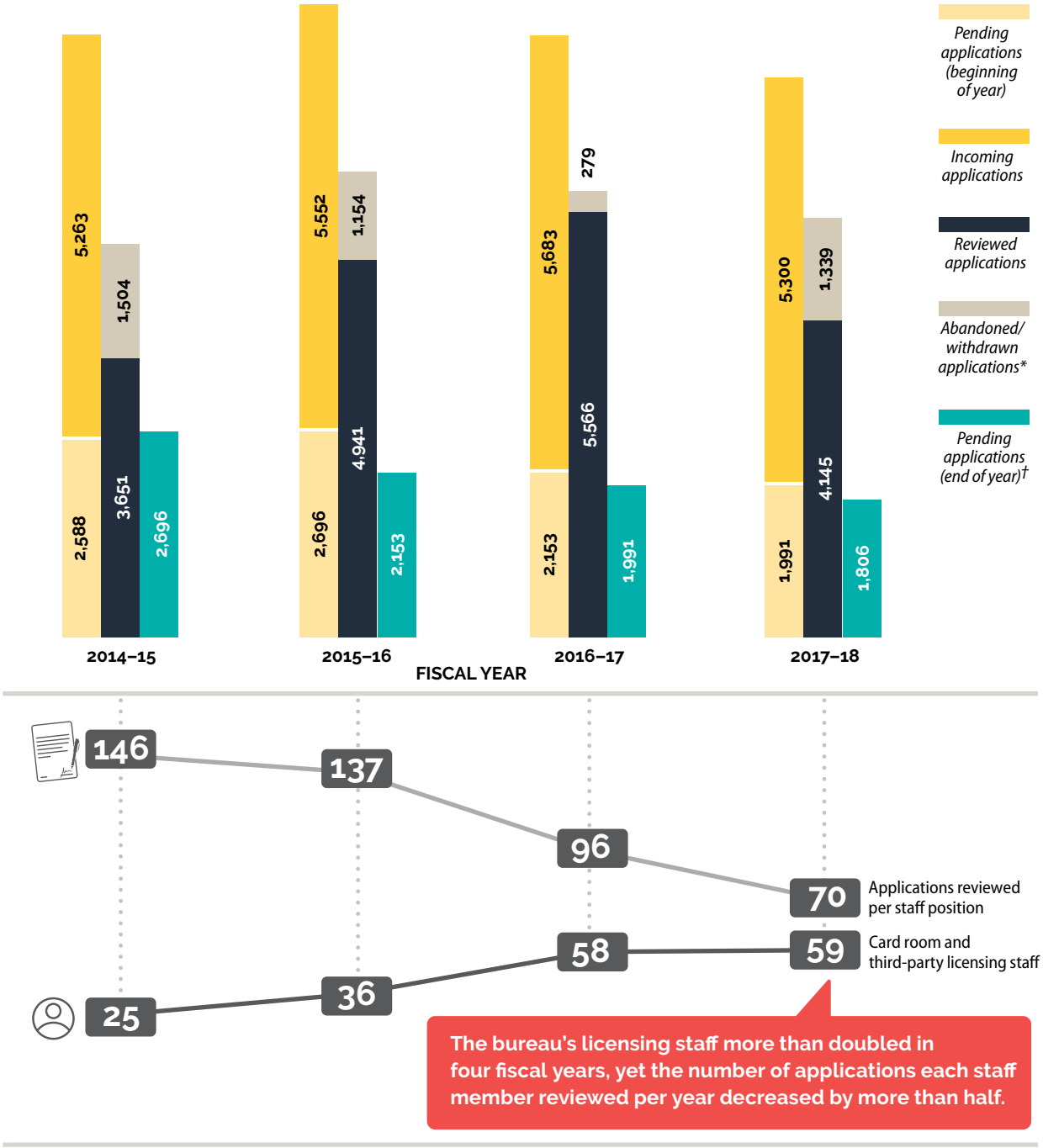
When we expressed concerns about the impact of the delays on card rooms, the licensing director stated that the bureau intends to issue temporary approvals for these types of games once it has resolved an unrelated rules issue concerning blackjack-style games. According to the director, the bureau decided to handle both the rotation of the player-dealer position and the blackjack-style game rules at the same time, and it did not begin a formal review of the blackjack-style games rules until August 2018. Because such a significant amount of time has passed since the bureau stopped issuing decisions on California games, it is critical for the bureau to act as quickly as possible to provide card room owners with equal access to approved games.

Despite Significant Staff Increases, the Bureau Has Made Only Moderate Progress in Reviewing Pending Applications

Since July 2015, the bureau has significantly increased its licensing staff. Starting in fiscal year 2015–16, the Department of Finance (Finance) and the Legislature approved the bureau's request for three years of funding for 12 additional positions. When requesting these additional positions, the bureau's justification was its large number of pending license applications—which comprise all applications that are in progress, including those that are more than 180 days old and therefore backlogged. The bureau initially projected that with this increase in staff, it would be able to complete its review of the pending applications by June 2018. The Legislature then approved three years of temporary funding for an additional 20 positions starting in fiscal year 2016–17. The bureau placed the additional staff in its card room and third-party licensing units, which are responsible for the review of pending applications. The additional positions helped the bureau to more than double its card room and third-party licensing staff, from 25 in June 2015 to 58 in June 2017.

However, the bureau has made only moderate progress in clearing its pending license applications. Figure 6 shows the bureau's workload and progress over the past several years: the number of incoming applications increased only marginally in fiscal years 2015–16 and 2016–17, and it actually decreased in fiscal year 2017–18. Despite the small growth in incoming applications and the bureau's reviewing more total applications after receiving additional staff, a sizeable number of pending applications remains. Specifically, although the number of pending applications has decreased considerably from a high of 2,700 in June 2015, the bureau still had more than 1,800 as of June 2018.

Figure 6
As a Result of Declining Productivity, the Bureau Has Continued to Have a Sizeable Number of Pending Applications



Source: The bureau's licensing data and organizational charts for fiscal years 2014–15 through 2017–18.

* The bureau believes that a large majority of these applicants are third-party registrants who did not submit license applications. According to the bureau, an application is abandoned when the bureau receives notice that the applicant is no longer employed (for example, by the third-party company). Applicants may also request to withdraw their applications.

† *Pending applications* include all applications that are not completed.

Our review found that a decrease in the average productivity per licensing staff position caused this persistently high number of pending applications. As Figure 6 shows, although the bureau's licensing staff in the card room and third-party licensing units increased from 25 in fiscal year 2014–15 to 36 in fiscal year 2015–16, the average number of applications that each staff person reviewed decreased from 146 to 137. In fiscal year 2016–17, the bureau reviewed only 96 applications per filled position; in fiscal year 2017–18, that number decreased again to just 70 applications. Thus, in the course of three years, the average number of applications each staff member reviewed dropped by more than half, significantly diminishing the relative impact of additional staffing on the license application backlog. This decrease in productivity makes us question how effectively the bureau has utilized the resources the Legislature has provided to it.

A decrease in the average productivity per licensing staff position caused this persistently high number of pending applications.

According to the licensing director, the bureau initially directed a majority of its new positions, as well as significant overtime hours, to the unit that handles third-party license applications. The initial focus on the third-party unit was to prioritize the review of third-party player applications, which comprised most of the pending applications. From fiscal years 2015–16 through 2016–17, the number of third-party player applications the bureau reviewed annually rose from 390 to 1,500. However, this number decreased to 1,000 in fiscal year 2017–18.

According to the manager for the third-party unit, this decrease occurred in part because the bureau redirected licensing staff working on third-party player applications to focus on more complex and time-consuming third-party owner applications. The manager explained that the bureau changed its focus under the rationale that third-party owners pose greater potential risk to the public if not subjected to thorough background investigations because third-party owners decide the card rooms with which to enter into financial arrangements. According to the manager, the bureau has found that some third-party owners are using outside financial arrangements to funnel money to card rooms outside of bureau-approved contracts. Although the bureau's reasoning for shifting staff is reasonable, it has not produced the expected results: the bureau did not actually complete reviews of any third-party owner applications in fiscal year 2017–18.

In addition, although the bureau has nearly doubled the number of staff in its card room unit since July 2015, that unit's overall productivity has actually decreased. In fiscal year 2015–16, the card room unit reviewed 560 initial applications. In fiscal year 2016–17, it reviewed 430 applications, and in fiscal year 2017–18, it reviewed only 400, despite adding staff each year. The manager of the card room unit stated that she was not sure why the unit's production level dropped. However, she indicated that the time required to train the new staff might have reduced the unit's productivity.

Although the bureau has doubled the number of staff in its card room unit, that unit's overall productivity has decreased.

As a result of the bureau's failure to use its additional staff to proportionately increase its productivity, many applications have been pending for years. As of December 2018, the bureau had more than 1,700 applications pending, 957 of which had been at the bureau for longer than 180 days and thus were part of its backlog. Table 2 provides the length of time applications had been backlogged as of December 2018, summarized by application type. Notably, 97 third-party license applications had been backlogged for more than five years. These numbers indicate that the bureau has struggled to clear out the older applications that it cited in its 2015 budget change proposal as the basis for requesting additional staff.

Our concerns about the decreasing productivity in the card room and third-party units is consistent with increases in the number of hours that the bureau has reported that it takes to review a single application. In its fiscal year 2015–16 budget change proposal to Finance, the bureau provided estimates of the average hours it spent reviewing a single application for each license type. In June 2018, the bureau updated its estimates for several license types, significantly increasing the average hours for each. For example, it nearly tripled the average hours to review a third-party player application, from eight to 22 hours. The average hours to complete a third-party supervisor application increased from 56 hours to 128 hours. These increases are consistent with the fact that the bureau has been reviewing fewer applications per licensing position than it was in fiscal year 2014–15. The bureau has not yet updated its per-application time estimates for reviewing many license types, including third-party owner licenses and nearly all card room licenses.

Table 2
Many Card Room and Third-Party Applications Have Been Backlogged for Years

LENGTH OF TIME PENDING (YEAR RECEIVED)	LICENSE TYPE					
	CARD ROOM			THIRD-PARTY		
	EMPLOYEES	OWNERS	OTHER	EMPLOYEES	OWNERS	TOTAL PENDING
180 Days or Fewer (2018)	77	18	2	650	5	752
181 Days to 1 Year (2018)	49	61	0	310	6	426
> 1 Year to 2 Years (2017)	49	73	0	119	12	253
> 2 Years to 3 Years (2016)	5	34	0	59	9	107
> 3 Years to 4 Years (2015)	0	16	0	30	10	56
> 4 Years to 5 Years (2014)	0	1	0	14	3	18
> 5 Years to 6 Years (2013)	0	0	0	21	8	29
Greater Than 6 Years (2010–12)	0	0	0	16	52	68
Totals	***180***	***203***	***2***	***1,219***	***105***	***1,709***
Total Backlogged (pending more than 180 days)						***957***

Source: Bureau data and analysis of pending applications as of December 2018.

The bureau has not sufficiently demonstrated the number of permanent card room and third-party licensing staff it needs to clear the backlog, prevent it from recurring, and deliver services at the lowest cost to the State. In fiscal year 2018–19, the bureau submitted a budget change proposal to Finance to make permanent the funding for the 12 positions that the Legislature approved in fiscal year 2015–16. When it did so, it provided a new estimate that it would be able to review all pending applications and thereby eliminate the backlog by June 2023. However, given its inability to meet its original goal of June 2018 and its diminishing productivity since it set that goal in 2015, we have concerns about the bureau's ability to meet this new goal.

In response to the bureau's fiscal year 2018–19 request, the Legislature chose to extend the funding for the 12 positions for an additional year rather than make it permanent. When it did so, legislative staff noted that determining the appropriate level of ongoing resources the bureau needed to eliminate the backlog and prevent future backlogs was difficult because the full impact of the positions was still unclear. Our

audit indicates that adequate staffing is not the only issue hampering the bureau's efforts to address its large number of pending applications. In the previous section, we identify inefficiencies in the bureau's current approach to reviewing applications that contribute to delays. Later in this report, we discuss our review of staff time reporting, which indicates that licensing staff spend considerable amounts of time performing activities that are unrelated to reviewing applications. With the funding for all 32 additional positions expiring in June 2019, we believe it is premature to make that funding permanent.

If the bureau addresses the inefficiencies we discuss throughout this report, we estimate that it currently has a sufficient number of total staff to clear its pending applications relatively quickly. Taking into account the number of incoming applications and using the number of licensing staff as of January 2019 and the bureau's average productivity per licensing staff over the last five fiscal years, we estimate that the bureau should be able to clear about 6,600 applications each year. This amount, which represents a 19 percent increase in reviewed applications from the bureau's projection in its fiscal year 2018–19 budget proposal, would allow the bureau to clear the existing pending applications by the end of fiscal year 2020–21. Changes in the composition of the types of applications the bureau reviews and any decrease in its filled licensing positions because of staff turnover could cause the bureau's actual number of reviewed applications to be lower. The bureau will need to account for its actual future productivity by addressing its inefficiencies and developing a formal plan for reviewing the remaining backlogged applications.

We estimate that the bureau should be able to clear about 6,600 applications each year.

Once it has cleared its pending applications, the bureau is likely to need some of the 32 positions on a permanent basis. Based on average staff productivity and the average number of incoming applications over the past five fiscal years, we estimate that it would require permanent funding for 19 of the 32 positions. However, after the bureau addresses the inefficiencies we identify in this report, this number is likely to decrease. Once the bureau clears the existing pending applications and takes steps to improve its productivity, it can reassess how many positions it needs on a permanent basis.

Beginning in fiscal year 2017–18, the commission also received approval for three temporary positions in anticipation of the bureau's forwarding it an increased number of applications. The commission's

executive director indicated that the number of applications the bureau has sent has increased; however, the commission does not currently have comprehensive data regarding the number of incoming licensing applications or the outcomes of those applications, such as how many it has denied or approved. According to the deputy director of the licensing section, the commission has thus far not needed all three temporary positions to complete its workload. However, if the bureau takes the steps we recommend, the commission will likely see an increased workload in the coming fiscal years.

The Commission's Regulatory Process for Denying Applications Has Created Delays and Inefficiencies

The commission's process for denying applications causes it to exceed regulatory time frames, which require it to approve or deny most applications within 120 days of receiving the bureau's reports. Our review of 18 applications found that the commission met the 120-day time frame for applications it approved at regular licensing meetings. However, primarily because of its practice of referring all possible denials to evidentiary hearings, it did not meet the time frame for those applications that it denied. Although the commission approves the majority of all applications, its delays in reaching denials have been significant. The commission referred seven of the 18 applications we reviewed to evidentiary hearings. Those applicants waited an average of 258 days for decisions, compared to an average of just 52 days for applicants for whom the commissioners made licensing decisions at regular meetings. According to a commission tracking document, it denies about 75 percent of all applicants it refers to evidentiary hearings.

The commission's failure to meet the required time frame is in part because of conflicting regulations that it established. In 2015 the commission amended its regulations to require hearings for all denials. When it did so, the commission established new time frames for cases it refers to hearings, requiring a minimum of 60 days' notice to an applicant in advance of a hearing and allowing up to 75 days from the hearing's conclusion to issue its decision—a total of 135 days. The allowance of 135 days introduced a potential conflict with the existing 120-day requirement. The commission's executive director told us that not updating the existing time frame when it revised its regulations related to hearings was an oversight but that it intends to make this change.

Before 2015 the commission could vote to preliminarily deny an application during its regular licensing meeting and would provide the applicant the opportunity to request a hearing if the applicant desired one. If the applicant did not request a hearing, then the commission's preliminary decision became final. We believe this

approach does not pose a due process concern for applicants because it still provides evidentiary hearings for those who request them. However, the commission's chief counsel explained that the commission amended its hearing regulations to conform to state law that requires the commission to conduct certain processes—such as taking oral evidence under oath and providing the opportunity for each party to call, examine, and cross-examine witnesses—during the meeting in which the commission approves or denies the application. To comply with this definition of a meeting, at least for denials, the commission began referring all possible denials to hearings.

Based on a review of the relevant state law, we agree that the commission's decision to require an evidentiary hearing if it contemplates a denial is reasonable, although we have concerns with the consequences of the law's requirements. Further, commission regulations still allow it to approve licenses during regular meetings; however, the law governing requirements at commission meetings does not distinguish between the requirements for approvals versus denials. Thus, by statute, both approvals and denials require an evidentiary hearing. Therefore, a clarification to the law is necessary to establish what actions the commission is authorized to take during its regular meetings so that it does not need to hold a hearing for every case.

The frequency of evidentiary hearings has increased substantially, from 12 in 2014 to 34 in 2018.

The commission's 2015 change in approach has resulted in its use of considerable additional staff resources. Although the commission refers only a small fraction of the applications that it receives to evidentiary hearings, the frequency of evidentiary hearings has increased substantially, from 12 in 2014 to 34 in 2018. At each evidentiary hearing we reviewed, an attorney from IGLS presented the bureau's license recommendation to the commission. According to a time-reporting summary that the IGLS director provided, IGLS personnel spent nearly 4,000 hours preparing for and representing the bureau at hearings, including evidentiary hearings, during fiscal year 2017–18. Further, in addition to the IGLS attorneys and the commissioners, the commission's executive director and multiple legal staff usually attend the hearings. Considering that the evidentiary hearing is generally the second time the commission considers an application—having already seen it at one of its regular meetings—these individuals' time represents a significant additional investment.

Further, the additional resources needed to hold hearings may not provide any additional benefit in some situations. As we note previously, the commission referred seven of the 18 applicants we reviewed to evidentiary hearings. Of those seven applicants, four either informed the commission beforehand that they would not attend the hearings or stopped participating in the prehearing process. In three of these cases, the commission still held the hearings in the applicants' absence. According to its chief counsel, the commission moved forward with the hearings because the applicants did not explicitly waive their right to have a hearing. In fact, the commission does not have any official policies or procedures for determining or communicating to applicants what constitutes a formal withdrawal. We discuss the issue of holding hearings without applicants present in further detail later in this report. In addition, we see no added benefit from requiring hearings for applicants with mandatory disqualifying events, such as felony offenses. The extent to which unnecessary hearings contribute to delays and pose additional costs to the State demonstrates the need to clarify the Gambling Act.

Recommendations

Legislature

Given that the bureau has not achieved the expected benefits from adding 32 additional positions, the Legislature should not approve any requests to make funding for these positions permanent. Instead, the Legislature should extend funding for an additional two years, during which time the bureau should be able to clear its existing number of pending applications. At that point, the Legislature should reevaluate the bureau's long-term staffing needs, taking into consideration the extent to which it has implemented the recommendations in this report.

To prevent delays and the unnecessary use of resources from requiring the commission to hold evidentiary hearings in all cases in order to deny applicants, the Legislature should amend the Gambling Act to allow the commission to take action at its regular licensing meetings rather than require it to hold evidentiary hearings.

Bureau

To avoid unnecessary delays in its licensing process, the bureau should, by November 2019, begin reviewing applications for completeness upon receiving them. If it determines that an application is incomplete, it should notify the applicant immediately.

To help it identify which portions of the background investigation process most contribute to lengthy delays, the bureau should conduct an analysis of its investigation processes by November 2019 and should implement procedural changes to improve its timeliness in processing applications.

To ensure that it approaches its remaining backlog strategically and that it establishes accountability for its use of resources, the bureau should develop and initiate a formal plan by November 2019 for completing the remaining backlogged applications. The plan should identify the license types the bureau will target and the order in which it will target them, along with its rationale for the planned approach. The plan should also include clear goals that identify the numbers of applications it will complete and its time frames for doing so.

To ensure that its licensing process is transparent and consistent, the bureau should implement formal procedures for prioritizing its completion of legal reviews of ownership applications. The procedures should specify any circumstances that justify reviewing applications out of the order in which the bureau received them.

To minimize the degree to which its process to change its regulations may result in the disparate treatment of card room owners, the bureau should temporarily approve or deny its backlogged games applications by July 2019.

Commission

To ensure that it has comprehensive licensing information to determine its ongoing workload and staffing needs, the commission should implement procedures for tracking the number of license applications it receives from the bureau each fiscal year and the outcomes of those applications, such as approvals and denials.

To prevent unnecessary delays and use of resources and to ensure its compliance with state law, the commission should, following the Legislature's amendment of the Gambling Act that we recommend, revise its regulations and policies for conducting evidentiary hearings. These revisions should specify that the commission may vote at regular meetings on a final basis to approve or deny licenses, registrations, permits, findings of suitability, or other matters and that it is not required to conduct evidentiary hearings unless applicants request that it do so.

The Bureau and Commission Have Charged Fees That Do Not Align With Regulatory Costs, Resulting in an Excessive Surplus and Fairness Concerns

Key Points

- In possible violation of state law, the regulatory fees that the commission and bureau charge applicants, card room owners, and third-party company owners do not align with the costs of providing the related services. Specifically, the licensing revenue that the Gambling Fund receives from such fees covers less than half of the cost of processing license applications. In contrast, the other nonlicensing regulatory fees that card room owners and third-party company owners pay far exceed the costs of the related oversight.

- The balance in the Gambling Fund has doubled over the past five years, and the January 2019 Governor's proposed budget projects that its surplus will grow to more than $97 million by June 2020. This excessively high projected balance is more than five times larger than the fund's annual expenses.

- The bureau's licensing staff often charge only a small portion of the time they spend conducting background investigations against the deposits the bureau collects from applicants, and they inconsistently request additional money from the applicants to cover actual costs. In addition to underscoring concerns about the efficiency of the bureau's operations, this practice means that applicants pay different amounts for services of the same value and type.

- In fiscal year 2017–18, the bureau's licensing staff charged nearly half of their time to activities that did not directly relate to the review of licensing applications. The bureau's failure to ensure that staff devote as much time and attention as possible to reviewing applications has likely contributed to the persistent backlog.

The Fees That the Bureau and Commission Charge Do Not Align With Their Costs for Providing the Related Services

The Gambling Fund supports the costs that the bureau and commission incur while carrying out their respective duties and responsibilities. The Gambling Fund receives revenue primarily from licensing fees and other nonlicensing regulatory fees that the commission and bureau levy on license applicants, card room owners, and third-party company owners. Specifically, state law requires license applicants to pay nonrefundable application fees for all license types and refundable background investigation deposits for most license types. In addition, card rooms must also pay regulatory fees based on their number of gaming tables or gross revenue, while third-party owners pay fees based on their number of employees.[5]

[5] These card room fees are set in the Gambling Act as well as in the commission's regulations.

The Gambling Act defines the purposes of these fees broadly, stating that they shall be available upon appropriation by the Legislature to support the bureau and commission in carrying out their duties and responsibilities.

Regulatory fees must be reasonably related to the costs of the regulation involved. For example, state law requires that a license application include a deposit that is adequate to pay for the anticipated costs of the investigation and the processing of the application. In compliance with state law, the commission has adopted regulations that set nonrefundable fees for initial applications and renewals, and the bureau has established deposits to pay for the background investigations it conducts. For instance, an applicant for a card room owner license must pay a $1,000 nonrefundable application fee and submit a $6,600 deposit to cover the investigation. If an investigation costs less than the deposit, the bureau must refund any unused portion. If an investigation costs more, the bureau may require the applicant to deposit additional sums. Table 3 shows the costs for a selection of different licensing fees and deposits.

Table 3
Licensing Application Fees and Background Investigation Deposits Vary by License Type

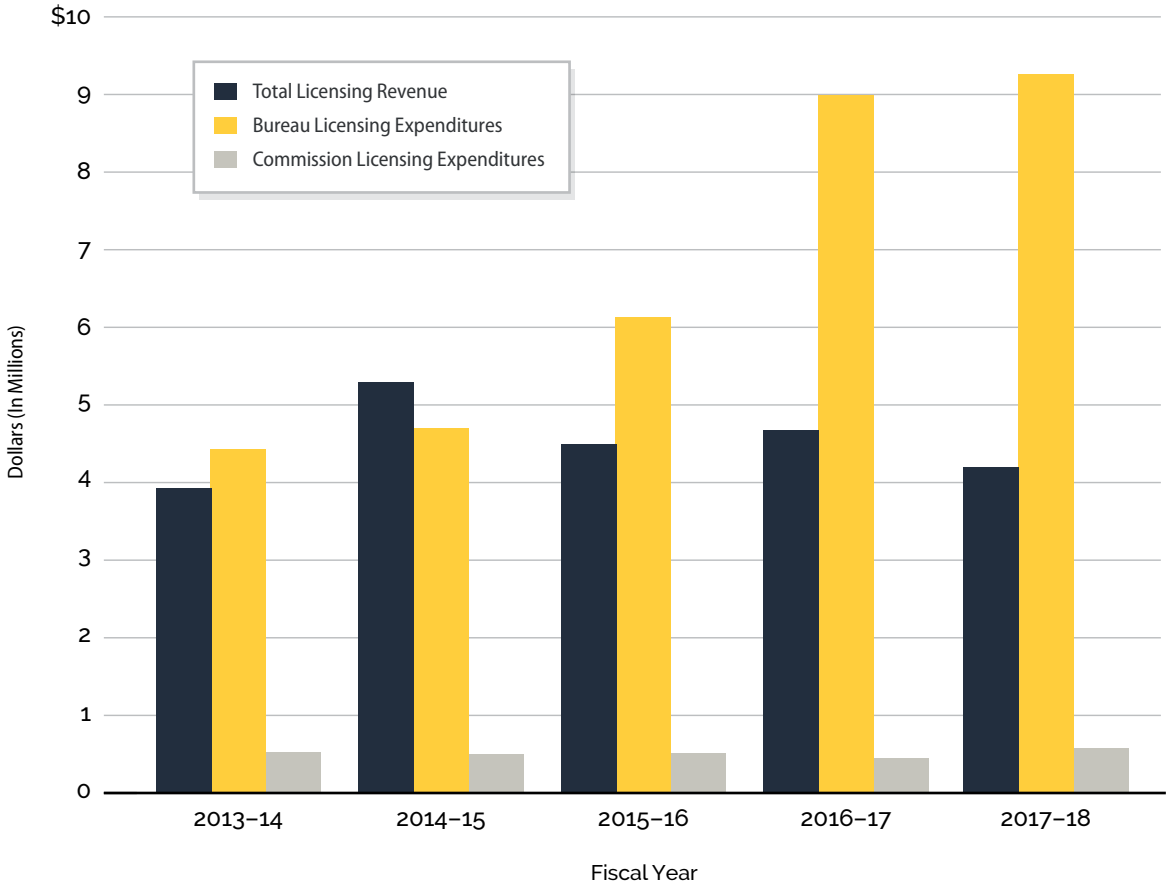
	INITIAL		RENEWAL	
APPLICATION TYPE	APPLICATION FEE	BACKGROUND INVESTIGATION DEPOSIT	APPLICATION FEE	BACKGROUND INVESTIGATION DEPOSIT
Card Room Owner (Individual or Entity)	$1,000	$6,600	$1,000	$725
Card Room Owner (Trust)	1,000	1,100	1,000	200
Card Room Key Employee	750	2,400	750	200
Card Room Work Permit	250	NA	250	NA
Third-Party Owner (Individual)	1,000	6,000	1,000	800
Third-Party Owner (Entity)	1,000	11,500	1,000	2,000
Third-Party Owner (Trust)	1,000	2,500	1,000	800
Third-Party Supervisor	750	2,500	750	450
Third-Party Player	500	315	500	NA
Third-Party Other Employee	500	315	500	NA
Third-Party Registrant	500	NA	500	NA
Games Review	500	550	NA	NA

Source: Business and Professions Code; California Code of Regulations, title 4, section 12002 et seq.; California Code of Regulations, title 11, section 2000 et seq..

NA = Not applicable.

However, the current fee structure undercharges license applicants for application fees and background investigation deposits but overcharges card room owners and third-party owners for other nonlicensing regulatory fees. Further, the gap between the revenue from licensing fees and the actual costs of the bureau's and commission's licensing activities is growing, as Figure 7 shows. In fiscal year 2017–18, the Gambling Fund received $4.2 million from application fees and background deposits. In this same year, we estimated that the bureau spent $9.3 million on licensing personnel and related operating expenditures, while the commission spent $580,000. This combined total of $9.9 million in licensing expenditures exceeded fee revenue by $5.7 million.

Figure 7
The Bureau's and Commission's Licensing Expenditures Have Increasingly Exceeded Licensing Revenue

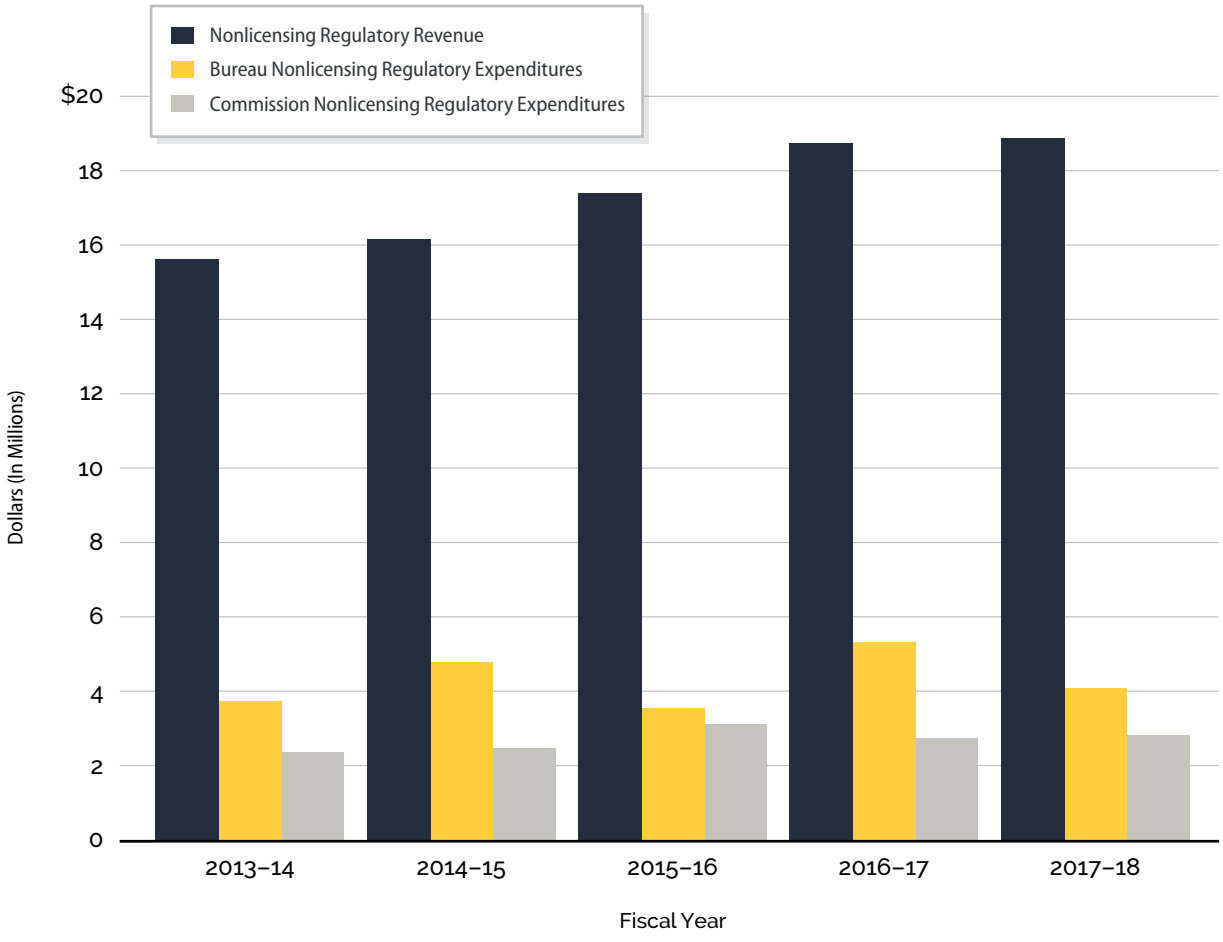


Source: Gambling Fund condition statements, fiscal years 2013–14 through 2017–18; fiscal year 2017–18 commission budget change proposal; fiscal year 2018–19 bureau budget change proposal; and analysis of staffing documentation.

Note: Expenditure amounts are estimates and do not include any licensing costs associated with staff outside of the licensing division in the bureau and commission, such as legal staff.

Even though licensing expenditures have outpaced revenue from license application fees and background deposits, the Gambling Fund's balance has continued to increase because nonlicensing regulatory fees have generated far more revenue each year than the bureau and commission have spent on the related regulatory activities, as Figure 8 shows. For example, we estimated that the bureau and commission had combined nonlicensing regulatory costs of $6.9 million in fiscal year 2017–18; however, the nonlicensing regulatory fees generated $18.9 million in revenue that year—resulting in a surplus of $12 million in fee revenue. As a result, the nonlicensing regulatory fees that card room owners and third-party owners pay each year have subsidized the bureau's and commission's licensing expenditures, indicating that these fee payers are being overcharged. As we discuss in the following section, the current imbalance is so great that it has resulted in a growing Gambling Fund surplus.

Figure 8
Nonlicensing Regulatory Fees Significantly Overcharge for the Activities They Fund



Source: Gambling Fund condition statements, fiscal years 2013–14 through 2017–18; fiscal year 2017–18 commission budget change proposal; fiscal year 2018–19 bureau budget change proposal; and analysis of staffing documentation.

The excessive revenue generated from the nonlicensing regulatory fees and the inadequate revenue generated by the licensing fees and background deposits together indicate that the commission and bureau have not aligned fee amounts with their intended purposes. When an agency uses regulatory fees to subsidize different activities because the fee structure for those activities is inadequate, the regulatory fees may be serving as taxes rather than regulatory fees—which is unlawful. Nonetheless, the commission has not updated most of its license application fees since 2008, and it last updated third-party nonlicensing regulatory fees in 2004, based on its estimates at that time of its compliance and enforcement costs. Similarly, the bureau has not evaluated the background deposits it charges since 2011 and could not provide the methodology for how it determined the deposit amounts. Given the lack of alignment that we found between fee revenue and the costs of regulation, we believe that a thorough review of the current fees is urgently needed.

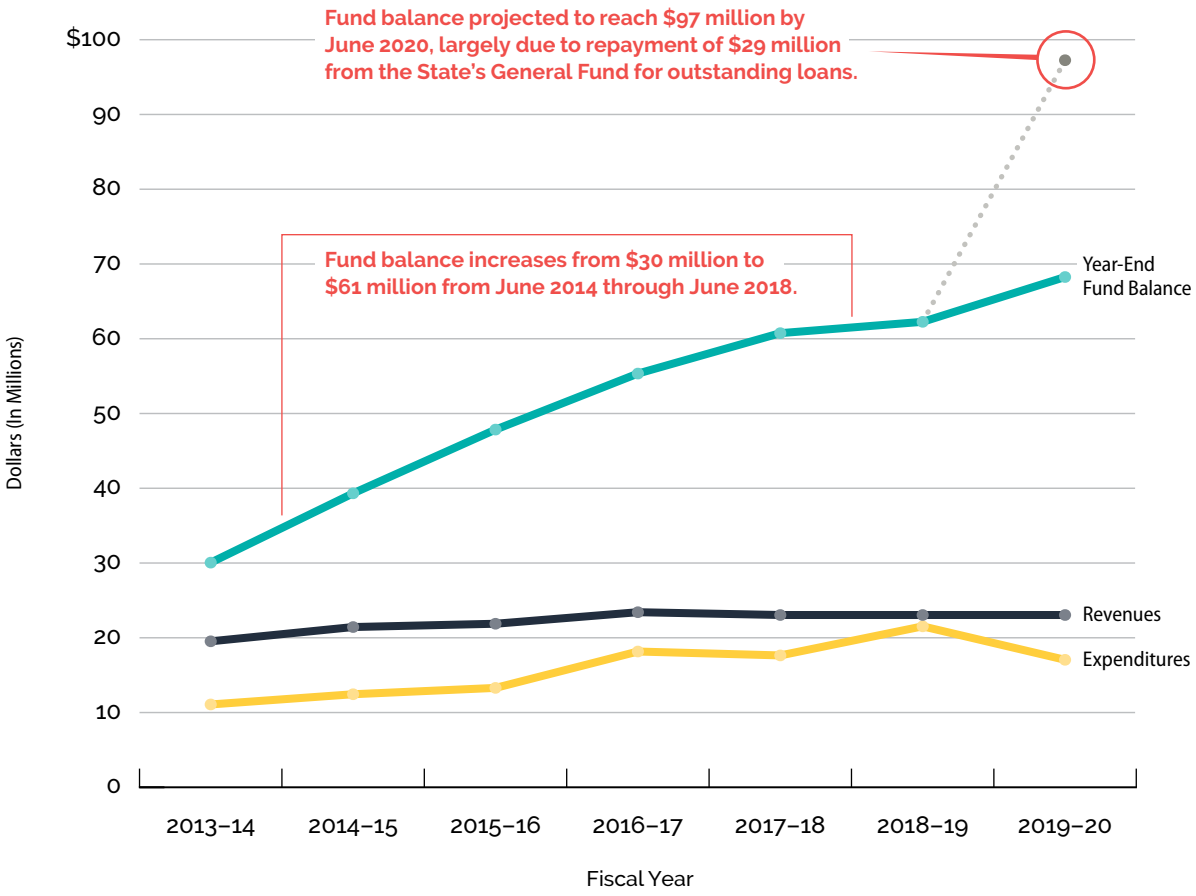
The Gambling Fund's Balance Is Excessive and Expected to Increase

One effect of the lack of alignment between the current fee structure and the costs of oversight is an excessive—and still growing—surplus in the Gambling Fund. Over the last five fiscal years, the balance in the Gambling Fund has doubled. As Figure 9 shows, the ending balance for fiscal year 2013–14 was $30 million. By the end of fiscal year 2017–18, the balance was $61 million, more than three times the bureau's and commission's combined total annual expenditures of $18 million. During this five-year period, the two entities' expenditures averaged only 66 percent of the Gambling Fund's revenue. Additionally, the January 2019 Governor's proposed budget includes the State's General Fund's repayment in fiscal year 2019–20 of $29 million it received in loans from the Gambling Fund in 2008 and 2011. As a result, the proposed budget projects that the fund balance will increase to more than $97 million by June 2020—a surplus of more than five times the bureau's and commission's projected annual expenditures.

By comparison, the Government Finance Officers Association (GFOA) recommends that entities maintain fund balances of at least two months of their operating revenue or expenditures, which for the Gambling Fund would be about $3 million. Although the GFOA acknowledges that particular situations, such as having unpredictable revenue or expenditures, may require a fund balance greater than the two-month minimum, the Gambling Fund's annual revenue has been consistently increasing for years. Further, nothing in the fund's history justifies maintaining a balance that exceeds five years of the bureau's and commission's total monthly expenditures. The bureau and the commission need to take steps to reduce this fund balance to a more reasonable level.

Although a balance equal to two months of expenditures may be insufficient, the fund balance should not exceed one year's worth of expenditures.

Figure 9
The Gambling Fund's Surplus Has Doubled Over the Past Five Fiscal Years



Source: Gambling Fund condition statements for fiscal years 2013–14 through 2017–18 and estimated amounts for fiscal years 2018–19 and 2019–20 from the January 2019 Governor's proposed budget.

The Bureau's Billing Practices Are Inconsistent and Potentially Unfair to Applicants

One result of the Gambling Fund's excess revenue is that it has allowed the bureau to engage in inconsistent billing practices that are inefficient and potentially unfair to applicants and other fee payers. To track costs against applicants' deposits, bureau licensing staff use a time-reporting system to report the time they spend reviewing license applications, including performing background

investigations, under two categories: billable hours and nonbillable hours. The bureau uses the staff's reported billable hours to calculate the cost of each background investigation and determine whether it must return a portion of the applicant's deposit. Nonbillable hours do not count against the deposit and therefore—because the staff time still represents a cost to the bureau—must be supported by other revenue. The bureau provides descriptions of the activities that staff should report as billable hours and those they should report as nonbillable hours. However, nearly all of the activities and descriptions under billable and nonbillable hours are exactly the same, and the bureau does not have written policies or other formal guidance to assist staff in determining whether hours spent on a case are billable or nonbillable.

According to the licensing director, the proportion of nonbillable hours for a given application should be relatively small. She asserted that staff discuss allocation of hours with their managers, who determine on a case-by-case basis whether work is billable or nonbillable. The licensing director told us that as a general practice, staff report nonbillable hours for time they do not feel that the applicants should pay for, such as the hours staff spend refamiliarizing themselves with applications or completing the final steps in reviews when they have expended the entire deposit.

Staff often reported considerable amounts of nonbillable time when performing background investigations.

However, likely as a result of the bureau's weak guidance, our review of time-reporting documents found that staff reported their time in a manner inconsistent with the licensing director's expectation. Specifically, staff often reported considerable amounts of nonbillable time when performing background investigations. For 28 of the 40 license applications we reviewed—which went as far back as 2008 but which the bureau mostly completed since 2016—staff reported that at least 25 percent of the time they spent on background investigations was nonbillable. For 19 of the applications, the number of nonbillable hours equaled or exceeded the number of billable hours. For 15 applications, nonbillable hours made up 75 percent or more of total hours. As Table 4 shows, the nonbillable hours for these applications represented costs to the bureau of $198,000, compared to $110,000 in billable hours covered by application deposits. In one extreme situation, staff reported 629 nonbillable hours for the review of an application, with a cost of more than $47,000.

Its staff's use of nonbillable time represents a significant expense for the bureau. To determine the extent of the issue, we reviewed a bureau report that listed all hours that licensing staff reported during fiscal year 2017–18. The report showed that staff responsible for processing card room-related applications reported more than 38,000 nonbillable hours—more than three times the total 11,000 billable hours they reported. At the bureau's billing rate of $76 per hour, these nonbillable hours represented $2.9 million in licensing costs not covered by applicants' deposits for fiscal year 2017–18 alone. When we asked the bureau about the results of our review, the licensing director described additional examples of time that staff would report as nonbillable, such as when they prepare documents for evidentiary hearings or take over applications from another analyst, requiring them to familiarize themselves with the applications. However, apart from providing these types of examples, the bureau offered no justification for why staff reported fewer billable hours than they should have. In fact, the bureau's written guidance to its licensing staff directs them to "be productive and strive to bill a minimum of six hours, when appropriate, each day as we are a reimbursable agency."

Table 4
The Bureau Billed Many Applicants for Only a Fraction of Its Actual Background Investigation Costs

	BILLED	UNBILLED
Total hours charged	1,443	2,612
Percent of total	36%	64%
Highest number of hours charged for single case	223	629
Total cost for all cases	$110,000	$198,000

Source: Analysis of the bureau's billing reports for 40 applications.

The fact that staff have not followed the bureau's guidance—and managers have not enforced it, despite the requirement that they must approve the manner in which staff report their time—points to fundamental gaps in the bureau's oversight of its employees. Further, it helps explain why licensing revenue from applicants is significantly lower than the bureau's actual costs to review applications. As we discuss previously, total licensing expenditures were nearly $5.7 million more than licensing revenue in fiscal year 2017–18, and the bureau's expenditures account for $5.1 million of this difference. The bureau would be unable to sustain its practice of reporting so few billable hours if the revenue

from nonlicensing regulatory fees that card room and third-party company owners pay was not significantly higher than it should be and thus subsidizing the bureau's inefficiencies.

As we describe above, state law allows the bureau to request additional funds from an applicant if an investigation costs more than the initial deposit it collected. In theory, the ability to request additional funds should allow the bureau to fully recover its investigation costs and to avoid accruing large amounts of nonbillable time. However, we determined that the bureau was inconsistent in requesting additional funds from applicants. Bureau staff regularly spent all initial billable hours, then proceeded to report nonbillable hours until completing an application; in fact, the bureau asked only five of the 40 applicants we reviewed for additional funds, and all five were third-party owner applicants. For the other applications, staff continued their work by reporting nonbillable hours, enabling them to avoid having to justify the need to request additional funds from the applicants. If the large proportion of hours staff have reported as nonbillable reflect duplicated or otherwise unproductive work, then this nonbillable time has likely contributed to the bureau's persistent licensing backlog.

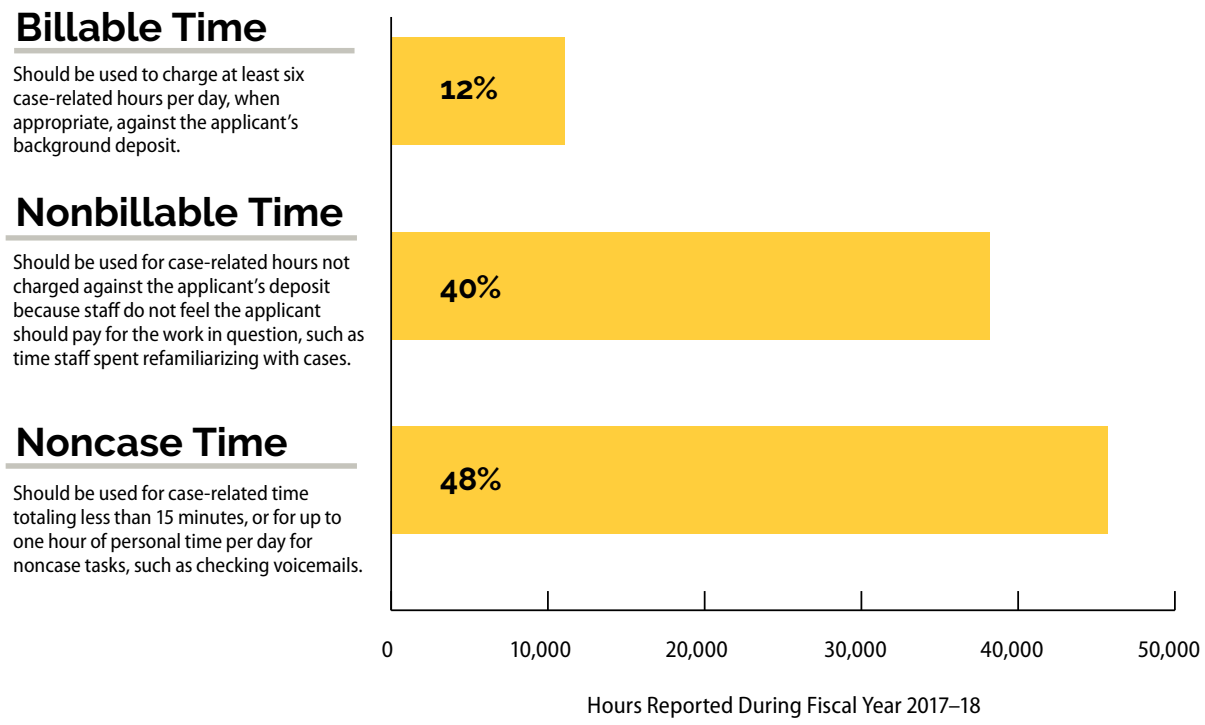
The lack of formal policies or any other clear guidance detailing the circumstances under which the bureau will request additional funds from applicants also raises questions of fairness. For example, we reviewed two applications the bureau received for the same type of license. It charged these applicants for nearly the same number of billable hours—31.25 and 31 hours—with costs of $2,375 and $2,356, respectively. However, the first application required the bureau to perform 96.5 nonbillable hours of work, representing a cost of $7,334, while the second application included only 4.5 nonbillable hours, equivalent to just $342. In this instance, staff performed significant work for the first application for which that applicant did not pay; instead, this work was in effect heavily subsidized by card room owners' and third-party company owners' nonlicensing fees. In the absence of formal policies for handling nonbillable time and a system that ensures staff comply with those policies, the licensing costs the bureau ultimately charges to individual applicants can appear arbitrary and unfair.

The Bureau's Licensing Staff Reported Spending Nearly Half Their Time on Activities Other Than Application Review

Our review of the bureau's time-reporting documentation raised additional concerns about efficiency within the licensing division. Under the bureau's time-reporting system, staff can report time under a third category, known as *noncase* time. The bureau's list of time-tracking activities describes activities for which

staff are to report noncase hours. The list is consistent with the licensing director's explanation that staff should charge noncase hours for activities such as filing and for time that is unrelated to background investigations, such as attending training. The licensing director confirmed that it would be reasonable to expect staff to report occasional hours for these activities. However, as Figure 10 demonstrates, the bureau's records show that licensing staff reported nearly half of their time—45,700 hours—as noncase hours in fiscal year 2017–18.

Figure 10
Bureau Licensing Staff Spend Only a Fraction of Their Time Performing Billable Activities



Source: Analysis of bureau timekeeping records for fiscal year 2017–18 and discussions with the bureau manager.

Note 1: At the bureau's rate of $76 per hour, billable time amounts to $841,000, nonbillable time to $2.9 million, and noncase time to $3.5 million.

Note 2: The bureau's written descriptions for nearly all activities it identifies under billable and nonbillable hours are exactly the same, which is why we obtained the above descriptions from discussions with the bureau's manager.

When we asked about the staff's high proportion of noncase time, the licensing director explained that staff also use noncase hours to account for work on application-related tasks that take less than 15 minutes to complete. She stated that the bureau is not able to quantify this time because doing so would require it to look through the notes in the system; further, she did not think that staff

included the names of every case on which they worked for less than 15 minutes. However, we do not understand how these activities could account for such a considerable amount of total time unless staff were constantly rotating among applications. Considering the persistent backlog of applications, we are concerned that staff have reported so much of their time on activities unrelated to reviewing applications and conducting background investigations.

The licensing director added that licensing staff are allowed one hour of personal time per day for noncase tasks, such as checking voicemails, reviewing emails, entering their time into the time-reporting system, and taking breaks. She stated that an hour per day per employee accounts for 12,000 hours per year. Even allowing for this personal time, however, our review found that bureau staff still reported spending more than a third of their total time on activities not directly related to reviewing applications or to performing background investigations.

Because many applicants have been waiting years for licenses and the State has considerably increased the number of bureau licensing staff to address the backlog, the bureau must take steps to ensure that its staff spend as much time as possible reviewing applications and that they correctly report this time. Its current approach provides no such assurance. Until the bureau establishes clear protocols for how staff are to spend and report their time and ensures that managers enforce those protocols, it will be unable to demonstrate that increases in staffing or licensing fees are necessary and justified.

Recommendations

Legislature

To ensure that all fees that generate revenue for the Gambling Fund have clear, stated purposes limiting their use, 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 and appropriate use of each fee type.

Bureau

To ensure that it fairly charges applicants for the cost of its licensing activities, the bureau should establish and implement policies by July 2019 requiring staff to properly and equitably report and bill time and restricting which activities staff may charge to nonbillable and noncase hours. It should also establish clear thresholds for the

proportions of time staff may charge to the various categories and require the bureau's management to review compliance with the pertinent restrictions.

Bureau and Commission

To better align the revenue in the Gambling Fund with the costs of the activities that the fund supports, the bureau and the commission should conduct cost analyses of those activities by July 2020. At a minimum, these cost analyses should include the following:

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

Using this information, the bureau and commission should reset their regulatory fees to reflect their actual costs. Before conducting its fee study, the bureau should implement our recommendations to improve its processes for assigning applications, ensuring the completeness of applications, and developing time-reporting protocols.

The Bureau's and Commission's Inconsistent Regulations and Practices Have Resulted in the Unequal Treatment of Applicants

Key Points

- Inconsistencies in the commission's regulations create wide-ranging differences in how it treats applicants. These differences include significant variations in the time frames in which applicants must submit their applications for review, in the extent to which applicants can reapply for licenses, and in the ability of applicants to work in the gaming industry while their applications are pending.
- The bureau has applied different levels of scrutiny to applicants without clear justification, often as the result of staff's inconsistently following bureau procedures or as a result of issues with the procedures themselves. The bureau's incomplete documentation prevented us from more fully assessing the consistency of its reviews of aspects of applicants' backgrounds.
- The commission does not have a clear, formal process for allowing applicants that it has referred to evidentiary hearings to opt out of those hearings. As a result, it may harm some applicants by unnecessarily including negative information about those applicants in the decisions it publishes.

The Commission Has Established Regulations That Result in the Inconsistent Treatment of Applicants

The commission is responsible for developing state regulations that govern most aspects of the licensing application and review process. However, the regulations it has established include inconsistencies across the different license types. These inconsistencies create unjustified differences in how applicants experience the licensing process and may also expose the public to risk. Table 5 summarizes some key differences in the commission's regulations for specific license types.

Several important differences exist in the way that regulations treat third-party applicants in comparison to other types of applicants. For example, as Table 5 demonstrates, license applicants from card rooms—such as owners, key employees, and employees requiring work permits—must submit full applications to be able to work during the time the bureau is reviewing their applications. In contrast, third-party applicants first apply for status as registrants—a temporary status for third-party applicants only—and do not submit applications for licensure until the bureau requests that they do so. The commission's regulations do not establish time frames in which the bureau must request registrants to apply for licensure, and our review found that it has waited years before making such requests.

Table 5
Commission Regulations Treat Applicants Differently Depending on Their License Types

	CARD ROOM			THIRD-PARTY		
	WORK PERMITEES	KEY EMPLOYEES	OWNERS	PLAYERS	SUPERVISORS	OWNERS
Applicant must submit full application to work	Yes	Yes	Yes	No	No	No
Bureau must notify whether application is complete	No	Yes	Yes	Yes	Yes	Yes
Time frame(s) exist for commission to issue a decision on an initial license	No	Yes	Yes	Yes	Yes	Yes
Applicant retains temporary license upon bureau recommendation to deny initial license	No	No	NA	Yes*	Yes*	Yes*
Applicant is eligible for license if previously denied	Yes	Yes	Yes	No	No	No

Source: California Code of Regulations, title 4, section 12002, et seq.; and bureau documentation.

NA = Not applicable. Regulations do not discuss the circumstances under which a card room owner retains or loses a temporary license.

* If the bureau recommends the denial of an initial license, regulations require the cancellation of the applicant's card room temporary license. However, under similar circumstances, a third-party applicant retains his or her temporary status pending a noticed hearing and determination to cancel by the commission.

In considering whether to grant registrant status, the bureau reviews an applicant's criminal history to identify any disqualifying criminal convictions. However, the bureau does not consider—nor does it require the applicant to provide—any of the other elements of a full background investigation, such as the applicant's previous employment or financial history. As a result, all the third-party applicants we reviewed who ultimately submitted full applications were allowed to work for some time in card rooms with only minimal background investigations. One third-party owner ran a gaming business for more than two and a half years before the bureau requested that he submit a full application. Notably, that investigation resulted in the bureau recommending the denial of the application in part because the applicant failed to disclose full and true information, and the commission ultimately concurred. Allowing individuals to work in the industry for long periods before even submitting full license applications may create risks for the public in instances when the applicants are ultimately deemed dishonest or otherwise unsuitable for licenses.

The registrant process also leads to the disparate treatment of applicants in other ways. Although card room applicants lose their temporary working status when the bureau recommends denial to the commission, third-party applicants maintain their ability to work until the commission actually denies their license applications because regulations require the commission to hold a hearing to

cancel a third-party registration. As a result, third-party applicants can continue to work in the industry even if the bureau determines they are unsuitable for licenses. In one case we reviewed, a third-party applicant was convicted of a disqualifying criminal offense during his time as a registrant but was allowed to continue working until the commission eventually held a hearing two years and eight months later. When we reviewed eight applications that the commission ultimately denied, we found that the third-party registrants worked with temporary status more than twice as long, on average, as the card room employees.

Third-party applicants can continue to work in the industry even if the bureau determines they are unsuitable for licenses.

Other differences in the regulations affect applicants' experiences both during and after the application process. For example, regulations require the bureau to notify most applicants within specific time frames whether their applications are complete. However, as the second row of Table 5 shows, no such requirement exists for applicants seeking card room work permits. Work permit applications are also not subject to the commission's decision time frames, as the third row of the Table demonstrates. Further, the regulations are inconsistent about denied applicants' eligibility for licenses in the future. As the bottom row of the Table shows, applicants whose licenses the commission denies are permanently ineligible for third-party licenses; in contrast, the regulations do not restrict denied applicants' ability to later apply for card room licenses.

These inconsistent standards foster the unequal treatment of people working in or applying to work in the gaming industry, and they do so without sufficient justification. When we asked why the regulations treat third-party applications differently from other types of applications, the commission's executive director explained that she was not working for the commission at the time it developed the regulations. However, she speculated that the commission might have taken the approach it did because it began regulating the third-party industry after it was already in existence. According to the executive director, the commission may have allowed third-party owners and employees to continue in the gaming industry with minimal background reviews to avoid significant disruptions to the gaming industry while it began licensing this large group of individuals. However, given that the regulations have now been in place for more than a decade, this

rationale for treating third-party owners and employees differently from card room applicants is no longer valid. Other inconsistencies, such as those excluding work permit applications from time frame and notification requirements, have no apparent justification.

The commission's executive director told us that the commission has been working for a couple years to update its regulations to make them more consistent across license types. She estimated that it would take roughly another year before the commission would be prepared to submit the updated regulations to the Office of Administrative Law to begin the public review process. As the commission moves forward, it must consider both fairness to applicants and the public's interest in ensuring that individuals working in the gaming industry are vetted in a timely, appropriate manner.

The Bureau's Procedures and Practices Lead to Inconsistencies in Background Investigations and the Documents Retained to Support Them

Given the broad discretion the bureau has in processing license applications and determining applicants' suitability for licenses, it is important that it has procedures for conducting background investigations that demonstrate that it treats all applicants and licensees fairly and consistently. It is also critical that staff follow those procedures. We reviewed 18 application files to determine the extent to which the bureau has such procedures and follows them. Although we found that the bureau adequately supported all of its licensing recommendations to the commission, we also identified instances when the bureau treated applicants inconsistently and unequally during background investigations without justification. Further, this inconsistent and unequal treatment affected the content of the reports the bureau issued to the commission with its licensing recommendations. The types of inconsistencies we identified included differences in the procedures the bureau performed, the questions it asked, and the information it included in its recommendation reports to the commission for some applicants.

The bureau's procedures for conducting background investigations subject applicants to different levels of scrutiny without clear justification. The bureau's licensing division has separate units for processing each license type, and each unit has its own procedures for completing its background investigations. We expected that the bureau would subject applications for some types of licenses, such as card room owners, to more thorough levels of review than others, such as work permits, because of the positions' higher levels of responsibility. However, we also expected that most units would share the same basic procedures. Nonetheless, as Table 6 shows, the

bureau's background investigation procedures vary considerably for different types of licenses and do not always reflect the associated level of responsibility.

For example, the background investigation procedures for all license types except card room owners require staff to note in its reports to the commission when an applicant has failed to appear in court when required to do so. Similarly, the background investigation procedures for most license types include specific directions to submit inquiries to the International Criminal Police Organization, the National Law Enforcement Telecommunications System, and other databases. However, the procedures do not require all such inquiries for card room owners and third-party players. The bureau acknowledged some of the discrepancies we observed and provided additional documentation in response to others. However, that documentation did not address the inconsistencies in the procedures that Table 6 lists.

Table 6
The Bureau's Procedures Inconsistently Require Background Investigation Steps

	LICENSE TYPE					
	CARD ROOM			THIRD-PARTY		
	LEVEL OF RESPONSIBILITY					
	LOW	MEDIUM	HIGH	LOW	MEDIUM	HIGH
STEP IN BACKGROUND INVESTIGATION PROCESS	WORK PERMITEES	KEY EMPLOYEES	OWNERS	PLAYERS	SUPERVISORS	OWNERS
Check absent-parent report	✓	✓	X	X	✓	✓
Request police reports for arrests subsequent to filing an application	✓	✓	X	X	X	X
*Submit all applicable database inquiries**	✓	✓	X	X	✓	✓
Review disclosure of military history	X	✓	✓	✓	✓	✓
Include failures to appear in court in the report to the commission	✓	✓	X	✓	✓	✓
Include unresolved failure to pay fines in report to the commission	✓	✓	X	✓	✓	✓
Include real property holdings in the report to the commission	NA	NA	X	NA	NA	✓

Source: Bureau background investigation procedures.

✓ = Included in procedures.

X = Not included in procedures.

NA = Not applicable to application type.

* Examples of databases include the Department of Motor Vehicles, the International Criminal Police Organization, the National Law Enforcement Telecommunications System, and the Association of Law Enforcement Intelligence Units Gaming Index.

Perhaps in part because of these inconsistent procedures, we also identified inconsistencies in the questions that staff asked applicants and the information that the bureau included in its recommendation reports to the commission. For example, the bureau's procedures for investigating third-party supervisor applicants instruct staff to obtain statements from applicants who have suspended driver's licenses describing how they get to and from work. However, the bureau's procedures for investigating third-party player applicants do not include an equivalent instruction. In one of the 18 applications we reviewed, the bureau recommended denial of a third-party player license solely because the applicant admitted to driving with a suspended license at the time she filed her application; the commission ultimately denied that application because the applicant did not attend her hearing and did not provide evidence in favor of granting a license. Because the bureau uses driving with a suspended license as a reason to recommend denial of a license application, we would expect all of the bureau's investigation procedures to include this question to ensure that it treats applicants fairly and consistently.

An inconsistency in the bureau's procedures also resulted in it including negative information in reports for two of the 18 applications we reviewed while not including similar negative information in its report for a third application. Consistent with its procedures, one of the bureau's licensing units cited as a concern that the first two applicants failed to file for their permanent key employee licenses within 30 days of receiving their temporary permits, as state regulations require. However, another licensing unit did not admonish the third applicant for working in a card room for nearly three years before submitting his application for a work permit or for working in a card room while younger than the legal minimum age of 21.

When we asked about the inconsistent handling of these cases, the licensing director acknowledged that staff should have asked questions about the third applicant's age and work history during the background investigation. However, the bureau's procedures for that license type do not require staff to ask those questions. Because they did not do so, the bureau's report to the commission makes no reference to issues that were more serious than those raised during the review of the other two applications. The commission approved the third applicant's license as the report recommended approval with no concerns cited. Although the commission approved the license of one of the other two applicants, it did not approve the other. In this last case, the bureau cited the late filing of the application among its reasons for recommending denial.

Similarly, we noted an instance in which the bureau asked one third-party owner applicant about real property purchases subsequent to his application but did not ask the same questions of

another third-party owner applicant.[6] When the bureau asked the first applicant about purchases he made subsequent to filing his application, the applicant did not disclose a purchase, and the bureau used his response as one of several reasons to deny his license. The bureau also became aware of the second applicant's real property purchases subsequent to his filing his application through a review of his financial statements, but it did not ask the second applicant whether he made those purchases—as it did with the first applicant. As a result, unlike with the first applicant, the bureau did not put the second applicant in a position in which he might fail to disclose information. By failing to ensure that it followed similar steps in its background investigations with respect to the questions it asked, the bureau risked subjecting the applicants to different levels of scrutiny and producing different—and possibly unjustified—outcomes.

In addition, we identified a report to the commission that included information that the bureau had requested from the applicant but that the applicant was not required to disclose. Specifically, the report included the applicant's two bankruptcies that were more than 10 years old, even though the bureau's procedures for this license type instruct staff to only report on bankruptcy filings within the past 10 years. Although the licensing director stated that the bureau includes bankruptcies older than 10 years when applicants have had more than one bankruptcy, this explanation is inconsistent with the written procedures.

By failing to ensure its procedures subject applicants to equal treatment, the bureau risks subjecting some applicants to greater scrutiny than others.

By failing to ensure that its procedures subject applicants to equal treatment and that staff consistently follow those procedures, the bureau risks subjecting some applicants to greater scrutiny than others without justification. The bureau's recommendations carry significant weight, as the commission often concurs with the bureau when making licensing decisions that may result in denial and may bar individuals from reapplying in the future. Consequently, it is crucial that the bureau take all steps necessary to demonstrate that it treats all applicants consistently and fairly.

[6] The bureau reviews real property purchases as a part of its financial review of third-party owner applications. The bureau's procedures for conducting background investigations of owners are the most financially focused of its procedures for third-party applicants because owners possess the greatest level of responsibility of these license types.

In addition, the bureau's inconsistent handling of records limits its ability—and ours—to determine the extent to which it has performed background investigations in accordance with its policies. We performed a detailed review of 11 of the 18 application files to determine whether the bureau had consistently performed a selection of background investigation procedures. However, six of these 11 files were missing documentation showing that investigators completed one or more required steps. For example, one application file did not contain tax returns documenting the bureau's required review of the applicant's financial history. Another file lacked a required DMV report to demonstrate that staff comprehensively reviewed the applicant's driving history. We also reviewed a renewal application that contained a checklist on which bureau staff indicated that they requested and reviewed various database reports to ensure that the applicant had incurred no new infractions since her last approval. However, because the file did not contain any of the database reports, we were unable to verify that this review took place.

When we asked about missing documentation, staff provided a list that showed that the bureau is supposed to retain only some of the documentation that staff collect and review when conducting background investigations. However, we found that staff have inconsistently followed that policy, with different staff retaining varying levels of documentation for completed cases. When we asked about the rationale for not retaining certain documentation, the licensing director said that a lack of available space in the file room might have been an issue at one time but that she was unable to determine why the bureau adopted its current approach of purging certain documentation after completing its review. Not retaining key documentation and the inconsistent manner in which staff do retain records negatively affect the bureau's ability to demonstrate that it has applied its background investigation process consistently across applicants. Therefore, we believe the bureau should reevaluate the documentation it retains and its rationale for doing so. The licensing director stated that the bureau intends to conduct such a reevaluation in the near future.

The Commission's Lack of Policies for Allowing Applicants to Opt Out of Hearings May Cause Unnecessary Harm

The commission does not have a clear, formal process for allowing applicants that it has referred to evidentiary hearings to opt out of those hearings. As a result, when it denies certain applications, the commission publishes decisions that may harm some applicants by unnecessarily providing criminal background information. As we previously discuss, the commission either approves applications at its regular meetings—as happens for the majority of applicants—or refers the applications to evidentiary hearings for further review.

The current regulations require the commission to hold evidentiary hearings when denying applications and to publish its decisions either approving or denying applications within 75 days of the conclusions of hearings. In its written decisions, the commission includes the details of each side's arguments as support for its approval or denial. The commission held 34 of these hearings in 2018.

As we discuss earlier, the commission referred seven of the 18 applications we reviewed to evidentiary hearings, and in four instances, the applicants elected not to attend their hearings. After deciding to hold a hearing, the commission sends a form asking the applicant to formally request or waive the right to a hearing. The form explains that the waiver of an evidentiary hearing may result in the commission making a default decision based on the bureau's recommendation report, as well as any supplemental reports or other documentation that the bureau provides. The form also states that the hearing may occur as scheduled, even if the applicant does not request a hearing.

The amount of negative information the commission included in its written decisions varied among applicants who did not attend their evidentiary hearings.

We found that the amount of negative information the commission included in its written decisions varied among applicants who did not attend their evidentiary hearings. Two of the applicants returned the forms requesting hearings but later informed the commission that they no longer wanted to attend. Although these applicants informed the commission at least two weeks in advance, the commission held the evidentiary hearings in both cases and, in doing so, asked the IGLS attorney to present the bureau's evidence against the applicants. The commission denied these two applications, and its written decisions cited the basis of the denials as the applicants' failure to attend the hearings or provide any evidence in favor of granting the applications. However, the written decisions also included the criminal background information about the two applicants that IGLS had presented at the hearing. Although the commission did not rely on the criminal background information in its reasons for denying the applications, the commission included it in the written decisions as a result of the hearings taking place. Therefore, holding evidentiary hearings when applicants do not participate may cause harm by leading to the unnecessary publication of negative information.

We found the outcomes for the remaining two cases more reasonable. Specifically, the commission's written decision for the third applicant who did not attend his hearing included significant detail. However, the commission denied this applicant because of a disqualifying criminal offense, and in such instances, the commission may need to include details about an applicant's background in its written decision to show the basis for that decision. The fourth applicant did not return the form and the commission elected not to hold an evidentiary hearing. In its written decision, the commission cited the applicant's failure to attend the default hearing—which took place at a regular commission meeting—or provide any evidence in favor of granting the application as causes for denial. This is the same reasoning it used for the two cases discussed above. However, the commission did not include any details from the bureau's background investigation in the decision. This approach is more efficient than holding an evidentiary hearing when the applicant does not want one, and it protects applicants from unnecessary disclosures of any negative findings from background investigations.

The varying degree of detail in the commission's written decisions for these four applicants creates concerns about applicants' ability to withdraw from the hearing process, particularly in light of the public nature of the commission's decisions. The commission posts its decisions on its website, where the content could negatively affect the applicants' future employment and other opportunities. The commission's chief counsel confirmed that the level of detail the commission includes depends in part on whether the commission has held an evidentiary hearing or not.

When we asked why the commission holds evidentiary hearings after applicants inform it—even in writing—that they will not be attending, the chief counsel explained that to cancel scheduled evidentiary hearings, the commission requires the applicants to explicitly waive their rights to that hearing. However, we noted that the regulations allow the commission to hold hearings even in cases when applicants have formally waived their rights. Further, the commission has not established any formal procedures to guide staff on how to handle instances when applicants opt out of the hearing process before the hearings occur, nor for providing explicit instructions to applicants on how to opt out. Given that holding unnecessary hearings is inefficient, may pose harm to applicants, and may raise questions of fairness, we believe that the commission should ensure that all applicants are given ample opportunity to forgo evidentiary hearings if they desire to do so and that it should cancel the hearings if applicants chose not to attend.

After we shared our concerns with the commission, its executive director informed us that it is taking steps to provide specific direction to applicants about their ability to withdraw from the

process, as well as to develop internal procedures for handling instances in which applicants waive their hearing rights. However, in order for the commission to take such actions without being in conflict with state law, the Legislature will need to amend the law to allow the commission more flexibility when denying applicants, a recommendation we make in the first section of this report.

Recommendations

Bureau

To ensure that its level of review is commensurate to license type, the bureau should review and revise each of its background investigation procedures as needed by November 2019.

To ensure that it treats applicants consistently, the bureau should begin conducting periodic reviews by November 2019 to determine whether staff are following procedures when conducting background investigations for applicants for all license types.

To ensure that it has the ability to justify the results of its background investigations, the bureau should develop a formal record retention policy for application documentation by November 2019. This policy should include rationales for retaining types of documents and should establish a process for ensuring staff compliance.

Commission

To increase uniformity in the licensing process, the commission should revise its current regulations and submit them to the Office of Administrative Law for public review by May 2020 to address the following areas of inconsistency:

- Application processes and time frames.
- The ability to work during the application process.
- The ability to reapply after denial.

In revising its regulations, the commission should increase consistency across application types while minimizing risk to the public.

To ensure that it does not hold hearings that may cause applicants unnecessary harm, the commission should, following the Legislature's amendment to state law that we previously recommend, establish and implement formal protocols for informing applicants how to withdraw their requests for hearings and for guiding commission staff when discontinuing the hearing process at the request of applicants.

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OTHER AREAS WE REVIEWED

To address the audit objectives approved by the Audit Committee, we reviewed the subject areas in Table 7. These areas include the bureau's compliance section's time reporting and expenditures and the commission's compliance with open meeting laws and other legal issues. The Table indicates the results of our review and presents any associated recommendations that we have not already discussed in the other sections of this report.

Table 7
Other Areas Reviewed as Part of This Audit

The Bureau's Failure to Ensure Its Employees Allocate Their Enforcement Activities to the Appropriate Funding Sources Has Contributed to the Gambling Fund's Surplus
In addition to the current fee structure, another factor has inappropriately contributed to the Gambling Fund surplus. Specifically, the bureau has not ensured that employees in its enforcement section align their activities with the funding sources for their positions. When reviewing the enforcement section's time-reporting data, we identified many instances in which employees in positions funded by the Special Distribution Fund—which supports the regulation of tribal casinos—reported performing card room-related activities. Although we also noticed instances when employees funded by the Gambling Fund reported performing tribal casino enforcement activities, the overall effect was greater on the Special Distribution Fund, which funded more than 27,000 hours of card room-related enforcement work over the last three fiscal years. According to the assistant director who heads the compliance unit, the bureau is aware that its employees are not charging their time in accordance with their positions' funding sources, and it is currently taking steps to address this problem. With the exception of two quarters in fiscal year 2018–19, the bureau has not taken steps to reconcile and reimburse the funds to date. ***Recommendations*** • *To ensure that it compensates the Special Distribution Fund for the card room-related enforcement activities for which that fund has paid, the bureau should reconcile the hours due to the Special Distribution Fund for at least the last three fiscal years by November 2019. Moving forward, the bureau should ensure that it provides prompt reimbursement when employees in positions that are funded by one source perform activities that should have been funded by another source.* • *To ensure that its employees allocate their activities to the correct funding sources, the bureau should by July 2019 formalize policies and procedures that provide clear guidelines to employees when reporting time spent on activities that relate to funding sources other than the funding sources for their positions.*

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The Bureau Closely Monitors Enforcement Agents' Funds But Could Better Track Where These Employees Spend Their Time

- Justice's law enforcement policy requires monthly audits to track amounts that enforcement agents spend in the field, and the bureau's auditors perform these audits consistently. The bureau allots $5,000 to $10,000 per month for agents in each of its two regional offices to use during their investigations. Our review of expenditures from the past three years found that each regional office generally spent considerably less than the allotted amounts and that the expenditures were consistent with Justice policy. We observed that the agents primarily used the funds for gambling while working undercover. The offices also used the funds to store, purchase, access and transport evidence; to pay informants; to purchase undercover phones; and to obtain online gambling profiles. Our testing found that the reported expenses were consistent with bureau policy and that supervisors reviewed expenditures in line with that policy.
- The audit objectives directed us to determine how much time the bureau's employees—including special agents—spend in each card room and casino when testing those establishments' compliance with state laws and regulations. However, the bureau's current approach to tracking its enforcement employees' hours prevented us from being able to analyze their time at this level of detail. Staff confirmed that the bureau's time-reporting system does not track the specific card rooms in which its employees work. The bureau has the ability to transfer some but not all of this information into the time-reporting system from a separate database that tracks specific criminal investigations, and in some cases, this information may identify a card room by name. However, even when the bureau had transferred information from the database to the time-reporting system, we found that in many cases the data were not sufficiently detailed to identify the card rooms in which employees worked.

Recommendation

To ensure that it can provide useful and accurate data on the locations where enforcement employees spend their time, the bureau should equip its time-reporting system by November 2019 with the capacity to track all hours employees spend at each card room and casino.

The Commission Generally Complies With Open Meeting Laws

- Our review indicates that the commission has substantially complied with key requirements of the Bagley-Keene Open Meeting Act. We identified minor issues in its open meeting notices, such as incomplete contact information, as well as minor procedural discrepancies related to publicly reconvening after closed meetings. However, these issues do not pose serious threats to the transparency of the commission's proceedings. We brought these issues to the commission's attention, and it is taking steps to resolve them.
- We did not find any evidence of activities that would pose conflicts of interest for commission attorneys during the meetings and hearings we reviewed.

We Did Not Identify Legal Due Process Concerns

State and federal law guarantee both substantive and procedural due process. Substantive due process protects against arbitrary government action. It prevents government from taking action that is arbitrary, discriminatory, or lacks a reasonable relation to a proper legislative purpose. The threshold for demonstrating a violation of substantive due process is extremely high. Governmental action constituting abuse must "shock the conscience." Such behavior can include that which is outrageous, egregious, truly irrational, intended to injure in some unjustifiable way, or conducted with deliberate disregard of the state's fundamental processes. Substantive due process concerns could conceivably apply to both the commission's hearing procedures and the bureau's investigative procedures. Procedural due process ensures a fair adjudicatory process before a person is deprived of life, liberty, or property. An adjudicative process that meets due process standards must, at minimum, provide reasonable notice and an opportunity to be heard.

We reviewed the hearing and investigation procedures set forth in the Gambling Control Act and related regulations. These statutes and regulations govern the substantive grounds for granting or denying a gambling-related license or work permit, and prescribe the commission's procedures for hearings and general meetings on applications. For example, title 4, section 12060 of the regulations governs the Commission's process for holding evidentiary hearings, including providing notice to the applicant in advance of a scheduled hearing. Applying the same principle and high threshold described above, our review of the relevant statutes and regulations did not identify a policy or procedure that would, by itself, serve as a basis for a due process violation.

The Same Attorney Representing Both the Bureau and the Commission Does Not Pose a Conflict of Interest or Violate the Law

The audit objectives directed us to assess whether the same attorney representing both the bureau and commission is a conflict of interest or violates the Judicial Code of Ethics or the Administrative Procedures Act (APA). The APA applies the Judicial Code of Ethics to the commission and presiding officers at commission hearings, not to attorneys appearing before the commission or representing the bureau or commission. In addition, a conflict-of-interest concern surrounding an attorney who represents multiple parties arises when the attorney obtains confidential information from one client that the attorney then uses against the client on behalf of another client. Guided by these principles, we did not find evidence of a conflict of interest in the practice of an attorney representing the bureau during a commission hearing and subsequently representing the commission upon an applicant's appeal of the commission's decision.

We conducted this audit under the authority vested in the California State Auditor by Government Code 8543 et seq. and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
California State Auditor

Date: May 16, 2019

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APPENDIX

Scope and Methodology

The Audit Committee directed the California State Auditor to perform an audit related to the bureau's and commission's policies and procedures, the Gambling Fund balance, and several other audit objectives. The table below outlines the Audit Committee's objectives and our methods for addressing them.

Audit Objectives and the Methods Used to Address Them

	AUDIT OBJECTIVE	METHOD
1	Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed relevant laws, policies and procedures, industry standards, and best practices.
2	Review the bureau's process for reviewing the backgrounds of gaming establishments and other licensees and determine whether it is performing these reviews in an efficient and effective manner and in accordance with the APA.	• Reviewed bureau policies and procedures related to performing background investigations, including any implications for the APA. • Analyzed the efficiency and effectiveness of the bureau's background investigations both in terms of their length and of the hours staff spent completing them.
3	Determine whether the commission and the bureau are complying with statutory time frames and internal goals for processing applications for licensing at gaming establishments and whether a backlog of applications exists. Determine the extent and cause of any backlog.	• Reviewed the commission's and bureau's compliance with statutory and regulatory time frames. • Analyzed past bureau reports and current bureau licensing data to identify the number and composition of its pending and backlogged applications during the past five years. • Used staffing information and licensing data to analyze the bureau's productivity reviewing applications.
4	Determine whether the commission and the bureau have and adhere to policies and procedures to ensure all applicants and licensees are treated fairly and consistently by providing timely hearings, due process, and equal protection regardless of race, national origin, or gender.	• Reviewed commission and bureau policies related to conducting licensing reviews, including background investigations. • Reviewed commission licensing meetings and evidentiary hearings to determine their timing and content. • To the extent possible, assessed commission and bureau documentation to determine whether applicants received consistent and appropriate levels of review during the licensing process, regardless of race or other characteristics.
5	Determine whether the commission or the bureau use gambling funds for any improper purposes. Determine how much time their employees spend in each card room and casino and review expenses incurred by these employees while performing their compliance testing.	• Analyzed Gambling Fund fee revenues and uses for both the commission and the bureau. • Reviewed bureau and Justice policies relevant to gaming enforcement, including allowable expenditures. • Reviewed a selection of compliance-related expenditures by the bureau's enforcement section. • Reviewed time-reporting documentation from the bureau's enforcement section.
6	Review and evaluate relevant policies and procedures of IGLS and evaluate its efficiency and consistency in reviewing contracts and documents. Determine whether IGLS has and follows policies and procedures to provide all applicants with timely reviews, basic due process, and equal protection requirements regardless of their race or national origin.	• Reviewed budgetary and time-reporting documentation from IGLS related to the different services it provides to the bureau. • Determined that IGLS has no written protocols for reviewing gaming contracts and other documents. • Reviewed time frames for contract and other document reviews at IGLS to identify any negative effects on the licensing process.

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	AUDIT OBJECTIVE	METHOD
7	For a selection of meetings, determine whether the commission complies with the Bagley-Keene Open Meeting Act. Further, for a selection of matters, identify the extent to which the same attorneys are representing both the bureau and the commission and assess whether this arrangement is a conflict of interest or constitutes a violation of the Judicial Code of Ethics or the APA.	• Examined the commission's compliance with the Bagley-Keene Open Meeting Act's requirements for both open and closed sessions. • Reviewed the use of attorneys at the bureau and commission to identify any issues regarding compliance with the Judicial Code of Ethics or the APA.
8	Identify any surplus balance in the Gambling Fund and determine whether fees paid by applicants and licensees are appropriate.	• Analyzed historical and projected fund balances to quantify any surplus funds. • Reviewed regulatory gaming fees, including licensing fees and deposits, to determine current fee amounts, revenues, and any stated purpose for those revenues. • Compared fee revenues to the commission's and bureau's estimated expenditures to identify any misaligned fees.
9	Review and assess any other issues that are significant to the audit.	• Reviewed the circumstances behind the bureau's moratorium on licensing certain games and the resulting backlog of games applications. • Determined the bureau's progress in drafting regulations to address its concerns with certain games. • Reviewed the frequency of the commission's evidentiary hearings and considered the costs of holding those hearings.

Source: Analysis of the Audit Committee's audit request number 2018-132, as well as information and documentation identified in the column titled Method.

Assessment of Data Reliability

In performing this audit, we relied on electronic data files we obtained from the database the bureau uses to track the status of license applications. The GAO, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of any computer-processed information we use to support our findings, conclusions, or recommendations. To perform this assessment, we evaluated the bureau's data against sources of corroborating documentation from its actual application files. We determined that the data were sufficiently reliable for the purposes of summarizing the number and age of pending applications at the bureau, as well as for determining how long the bureau takes to review license applications.

XAVIER BECERRA
Attorney General

State of California
DEPARTMENT OF JUSTICE

BUREAU OF GAMBLING CONTROL
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April 29, 2019

Elaine Howle*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: California State Auditor Report 2018-132; Gambling Control Fund – Revenues, Expenditures, and Use

Dear Ms. Howle:

This letter serves as the Department of Justice's (DOJ) response to the California State Auditor's (CSA) report titled "Report Regarding the Department of Justice's Bureau of Gambling Control and California Gambling Control Commission." DOJ has reviewed the report, agrees with many of the recommendations, and appreciates the opportunity to respond.

The Bureau of Gambling Control (BGC) within DOJ, in conjunction with the California Gambling Control Commission (CGCC), is responsible for ensuring that legal gambling activities in the State of California are conducted honestly, competitively, and free from criminal and corrupt elements as provided in the Gambling Control Act (Act). The Legislature has declared that all persons having a significant involvement in gambling operations must be licensed and regulated to protect the public health, safety, and general welfare of the residents of the state and that public trust and confidence can only be maintained by strict and comprehensive regulation. The State has authorized BGC to investigate the backgrounds of individuals and entities seeking to own or work in gambling establishments (cardrooms) and Third Party Providers of Proposition Player Services (TPPPPS) and BGC takes this responsibility very seriously. Its investigations lead to findings and recommendations which the CGCC considers to ultimately determine who is suitable to own or work in a cardroom.

The Act requires that individuals working in this highly regulated industry be 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 the State or to the effective regulation of controlled gambling. BGC conducts investigations on applicants seeking work permits to work as dealers in cardrooms, key employee licenses to work as managers in cardrooms, licenses to own cardrooms, and registrations and licenses for TPPPPS players, supervisors, and owners. The scope of each background investigation conducted by BGC's licensing analysts varies depending on the license type, applicant, and the complexity of the applicant's history.

The level of review in BGC's investigations varies in some respects among different license types according to the degree of influence and control that a position associated with that license type possesses. For example, an investigation for an individual seeking to become a key employee in a cardroom who has decision-making authority will be subjected to a higher level of review than one for an individual seeking a work permit to be a card dealer in a cardroom. ①

* California State Auditor's comments begin on page 75.

April 29, 2019
California State Auditor Report 2018-132
Page 2

Cardroom owners require an even higher level of review given their ability to control the operations of the cardroom, including contracts with outside entities that could influence the operations. Below is a chart that broadly summarizes the scope of the various background investigations.

Areas of Investigation	Initial Investigation for Individual					
	Cardroom			Third-Party		
	Work Permit	Key Employee	Owner Individual	Player/ Other	Supervisor	Owner Individual
CA. Criminal History	X	X	X	X	X	X
Federal Criminal History	X	X	X	X	X	X
Gaming Licensing Verification	X	X	X	X	X	X
CJIS	X	X	X	X	X	X
LEIU/Gaming Index	X	X	X	X	X	X
DMV	X	X	X	X	X	X
NLETS	X	X	X	X	X	X
Interpol	X	X	X	X	X	X
Employment History	X	X	X	X	X	X
Credit Report/Bank Statements		X	X		X	X
Military		X	X		X	X
LexisNexis		X	X		X	X
PACER		X	X		X	X
Non-Gaming License Verification		X	X		X	X
CLEAR		X	X		X	X
Litigation Review		X	X		X	X
Contracts/Agreements Review		X	X		X	X
FPPC			X			X
Full Financial Review			X			X

The time it takes to complete an investigation not only varies among the various license types, but also within them. Level I investigations are those that reveal no derogatory information and BGC recommends approval to the CGCC. Level II investigations are those that reveal derogatory information that does not rise to the level of denial and BGC recommends approval to the CGCC. Level III investigations are those that reveal derogatory information and BGC recommends denial to the CGCC. Generally, the higher the level of review, the more complicated and time-consuming the investigation is. Pursuant to statute, BGC must complete applications, to the extent practicable, within 180 days after an application and supplemental information package is determined to be complete. Over the past few years, BGC has been

April 29, 2019
California State Auditor Report 2018-132
Page 3

working diligently on reducing the number of licensing applications that exceed the 180-day requirement, which has resulted from inadequate staffing levels in previous years. BGC continues to make progress on these cases and believes that increased efficiencies as recommended by CSA, along with additional resources, will facilitate the completion of these cases so that BGC may work towards its goal of consistently meeting its mandate to complete applications within 180 days to the extent practicable. (3)

Below are charts of the cardroom and TPPPPS units' current workload, as well as a chart showing the number of applications BGC has received and completed over the current and past five fiscal years:

Age of Pending Cases as of March 31, 2019

Length of Time Pending	Third-Party Provider License Types					Total
	TPPPPS Company	TPPPPS Owner	TPPPPS Supervisor	TPPPPS Player	TPPPPS Contracts / Amendments	
Less Than 180 Days	5	7	63	679	4	758
More Than 180 Days	17	105	292	417	0	831
Total Workload	**22**	**112**	**355**	**1,096**	**4**	**1,589**

(3)

Length of Time Pending	Cardroom License Types						Total
	Gambling Establishment	Cardroom Owner	Cardroom Key	Cardroom Work Permit	Gambling Establishment Table Increase Requests	Gambling Establishment Ordinance Reviews	
Less Than 180 Days	0	12	36	51	3	1	103
More Than 180 Days	4	185	89	19	1	0	298
Total Workload	**4**	**197**	**125**	**70**	**4**	**1**	**401**

Cases Received and Completed

Workload Type	FY 13/14 Actual	FY 14/15 Actual	FY 15/16 Actual	FY 16/17 Actual	FY 17/18 Actual	FY 18/19*	Applications Received based on 3-Yr Average	Applications Received based on 5-Yr Average
Renewal Applications Received	1,328	1,765	1,568	1,437	1,208	2,301	1,649	1,656
Initial Applications Received	3,266	3,352	3,811	4,129	3,947	4,067	4,048	3,861
TOTAL APPLICATIONS RECEIVED	**4,594**	**5,117**	**5,379**	**5,566**	**5,155**	**6,368**	**5,696**	**5,517**
Percent Increase by Year		*11%*	*5%*	*3%*	*-7%*	*24%*		
Renewal Applications Completed	952	1,395	1,523	1,352	1,208	2,045	1,535	1,505
Initial Applications Completed	2,306	2,244	3,403	4,209	3,107	2,951	3,422	3,183
TOTAL APPLICATIONS COMPLETED	**3,258**	**3,639**	**4,926**	**5,561**	**4,315**	**4,996**	**4,957**	**4,687**
Percent Increase by Year		*12%*	*35%*	*13%*	*-22%*	*16%*		

(4)

*FY 18/19 Includes 9 months actual data plus 3 months projections.
As of March 31, 2019 the BGC received 1,726 renewal applications and 3,050 initial applications, for a total of 4,776 applications received.
As of March 31, 2019 the BGC completed 1,534 renewal applications and 2,213 initial applications, for a total of 3,747 applications completed.

April 29, 2019
California State Auditor Report 2018-132
Page 4

(5) BGC has already implemented many of the recommendations in the report and is actively developing plans to improve billing practices, policies and procedures for application review, tracking case statuses, and efficiency of staff resources. Our responses to the individual recommendations are as follows:

CSA Recommendation to the Legislature:

1) Temporary funding for 32 positions.

Given that the bureau has not achieved the expected benefits from adding 32 additional positions, the Legislature should not approve any requests to make funding for these positions permanent. Instead, the Legislature should extend funding for an additional two years, during which time the bureau should be able to clear its existing number of pending applications. At that point, the Legislature should reevaluate the bureau's long-term staffing needs, taking into consideration the extent to which it has implemented the recommendations in this report.

DOJ Response:

DOJ appreciates the recommendation for retention of the 32 positions while it works to implement changes to improve efficiencies and increase productivity in the Licensing Section.
(6) However, it disagrees with the recommendation for temporary two-year funding for all 32 positions and, based on recent analyses conducted, believes that permanent funding for the positions—and for additional positions—are necessary because, once those cases exceeding the 180-day requirement are completed, the positions will be needed to handle the ongoing workload within the 180-day period. Moreover, to the extent that BGC requires additional staff above and beyond the 32-position level, BGC will continue to collaborate with the Department of Finance and the Legislature to acquire supplemental resources with permanent funding. BGC expects to receive over a thousand additional applications this fiscal year from the previous year, including a significant increase in the number of renewal applications that must be renewed every two years. Even assuming a significant increase in productivity due to increased efficiencies, current data indicates that BGC will be unable to address the ongoing workload within the required timeframes without the 32 positions and additional staff.

Below are charts of the average number of hours spent on investigations for each license type.
(6) BGC will be reassessing the average hours per review. However, BGC believes that average hours should be used to determine workload as it takes into account the various levels of complexity of investigations for different types of licenses.

April 29, 2019
California State Auditor Report 2018-132
Page 5

Average Hours Per Review

Workload Type	INITIAL	RENEWAL
	Hours per Review	Hours per Review
TP Primary Provider	291.0	71.0
GE Owner-Entity	193.0	77.0
GE Owner-Person	168.0	97.0
TP Owner-Person	147.0	97.0
TP Supervisor	128.0	40.0
TP Owner-Entity	79.0	43.0
GE Key Employee Applications	76.0	34.0
Gambling Establishment	30.0	123.0
Ordinance Reviews	30.0	N/A
GE Work Permit - Initial	27.0	3.0
TP Contracts	25.0	44.0
TP Player	22.0	5.0
GE Table Increase Requests	18.0	N/A
TP Contracts - Amendments	12.5	N/A
TP Other Employee	8.0	Unknown
TP Primary Provider Registration	1.0	1.0
TP Owner Entity Registration	1.0	1.0
TP Owner Person Registration	1.0	1.0
TP Supervisor Registration	1.0	1.0
TP Player Registration	1.0	1.0
TP Other Employee Registration	1.0	1.0

Another concern about temporary funding of the positions is the negative impact it may have on BGC's ability to meet its workload demands because it impedes its ability to retain staff. The Licensing analysts are either Staff Services Analysts or Associate Governmental Program Analysts – two classifications that are widely used by all state agencies. Thus, analysts are able to transfer to other departments with vacancies for those classifications. BGC is aware that some analysts are concerned about the expiration of funding for their positions and some have begun looking for job opportunities at other departments. ⑦

When positions are vacated, the entire hiring process takes on average six to seven months to complete. Given the confidential nature of the information that the analysts receive to complete the background investigations, part of the hiring process requires BGC staff to undergo background investigations by DOJ. Thereafter, the training process generally takes six months until an analyst is competent to conduct an investigation independently on the least complicated cases, such as work permits and TPPPPS players. Moreover, experienced analysts will assist with training the new analysts, further impacting the work on background investigations. Once analysts are proficient in the least complicated investigations, they may be moved to work on

more complicated cases. Accordingly, the impact to retention of Licensing analysts will result in BGC constantly working to fill vacancies and training new staff, at a significant cost, which will negatively impact the efficiencies it is striving to achieve and maintain.

2) Clear statements about need and use of fees in regulations.

To ensure that all fees that generate revenue for the Gambling Fund have clear stated purposes limiting their use, the Legislature should require that when updating fee amounts, the bureau also update its regulations to include clear statements about the need for and appropriate use of each fee type.

DOJ Response:

DOJ agrees with this recommendation. BGC is currently working on evaluating the costs of positions to conduct background investigations and developing regulations to revise the amount of deposits required for investigations. It will include clear statements about the need for and appropriate uses of background-investigation revenue during the regulatory process. Additionally, it agrees that updates to other regulations, including application fees and annual fees set by the Commission, should include these statements as well.

CSA Recommendations to DOJ:

1) Completeness of applications and notifications.

To avoid unnecessary delays in its licensing process, the bureau should, by November 2019, begin reviewing applications for completeness upon receiving them. If it determines that an application is incomplete, it should notify the applicant immediately.

DOJ Response:

DOJ agrees with the recommendation and as of April 5, 2019, updated and implemented procedures requiring staff in the Intake Unit to review initial applications for completeness and notify applicants if their applications are complete or incomplete within the required timeframes provided in regulations. DOJ has also updated and implemented procedures as of April 5, 2019, requiring analysts assigned to individual cases to determine if the supplemental information forms are complete and to send the subsequent notifications within the mandated timeframes. Template letters have been created for each notification required for each license type. BGC is also working on automating as many notification letters as possible and determining how it can best utilize existing technology to schedule and track letters to ensure they are sent on a timely basis. BGC will ensure that upgrades to, or replacement of, its current Licensing Information System will include processes to automatically generate and track the notifications. BGC will seek appropriate funding to implement this process.

(5)

April 29, 2019
California State Auditor Report 2018-132
Page 7

2) Analysis of delays in background investigation process.

To help it identify which portions of the background investigation process most contribute to lengthy delays, the Bureau should conduct an analysis of its investigation processes by November 2019 and implement procedural changes to improve its timeliness in processing applications.

DOJ Response:

DOJ agrees with the recommendation and will conduct an analysis of its investigation process to identify delays that can be addressed. Additionally, BGC will no longer grant extensions to applicants requesting additional time to respond to requests for documents and information unless exceptional circumstances exist. BGC previously granted such requests freely, but will no longer do so to eliminate delays during this process. (8)

3) Strategic plan to address applications.

To ensure that it approaches its remaining backlog strategically and that it establishes accountability for its use of resources, the bureau should develop and initiate a formal plan by November 2019 for completing the remaining backlogged applications. The plan should identify the license types the bureau will target and the order in which it will target them, along with its rationale for the planned approach. The plan should also include clear goals that identify the numbers of applications it will complete and its time frames for doing so.

DOJ Response:

DOJ agrees with the recommendation and has begun the development of formal strategic plans for reducing the number of pending cases. BGC has reviewed its current data to determine the appropriate and additional staffing levels in the cardroom and TPPPPS units within the Licensing Section and is working on a plan to adjust resources where they are needed. Until an appropriate staffing level is in place, BGC will prioritize its workload, recognizing that it will need to constantly review and shift staff to address workload demands. BGC will formalize plans and include the issues, goals, and timeframes recommended. In addition, BGC will continue to submit Budget Change Proposals to acquire sufficient staffing resources to address increased workload demands. (9)

BGC has also reviewed the manner in which it distributes work to its Licensing Section analysts. Rather than assigning staff strictly to one of the six types of applications (cardroom owners, cardroom key employees, cardroom work permits, TPPPPS owners, TPPPPS supervisors, and TPPPPS players), BGC is assigning analysts to other types of applications when appropriate to ensure that staff is actively working on background investigations at all times.

4) Prioritization of legal review.

To ensure that its licensing process is transparent and consistent, the bureau should implement formal procedures for prioritizing its completion of legal review of ownership applications. The procedures should specify any circumstances that justify reviewing applications out of the order in which the bureau received them.

DOJ Response:

(5) DOJ agrees with the recommendation and as of April 18, 2019, has established formal policy for prioritizing legal review of transactions. As noted in the report, BGC hired a full-time, in-house Deputy Attorney General (DAG) III in October 2018 to assist with the legal review of transactional documents for compliance with laws and regulations, including purchase agreements, trusts, loan agreements, contracts for TPPPPS, and leases. The DAG's responsibilities also include other matters, such as assisting staff with regulations and policy, legislative analysis, legal research, interpretation of the Gambling Control Act, and responses to Public Records Act requests. Prior to hiring the DAG, BGC relied solely on legal services provided by DAGs in the Department's Indian and Gaming Law Section (IGLS). Because of workload demands on DAGs in IGLS, whose priority must be litigation and administrative hearings, BGC hired its own attorney to ensure that transactional reviews could be prioritized and directed by BGC to those transactional documents that require prompt legal review.

(5) BGC has implemented a policy to prioritize the DAG's review of transactional matters that are needed to complete licensing recommendations on cardroom and TPPPPS owner applications to ensure both timely completion of applications, as well as fairness to applicants. The policy directs that legal review of transactions related to owner applications must be handled in the order they are received by BGC, with some exceptions, such as the death of current owners who are distributing shares to applicants and requirements in orders or settlement agreements approved by the CGCC that require the transfer of ownership by specified dates. BGC has
(5) developed and implemented a similar policy to prioritize work on owner applications. BGC is currently working with IGLS to take back all transactional work that is currently pending and has not yet been reviewed by IGLS DAGs. The policy regarding prioritization of transactions also will be applied to all work that is reassigned to the BGC DAG.

5) Games applications.

To minimize the degree to which its processes to change its regulations may result in the disparate treatment of card room owners, the bureau should temporarily approve or deny its backlogged games applications by July 2019.

DOJ Response:

DOJ agrees with this recommendation and plans to issue temporary approvals or denials within the timeframe suggested.

April 29, 2019
California State Auditor Report 2018-132
Page 9

6) Reporting billable and non-billable time.

To ensure it fairly charges applicants for the cost of its licensing activities, the bureau should establish and implement policies by July 2019 to ensure staff properly and equitably report and bill time, including restricting which activities staff may charge to nonbillable and noncase hours. It should also establish clear thresholds for the proportions of time staff may charge to the various categories, as well as procedures for the bureau's management to review compliance with the pertinent restrictions.

DOJ Response:

DOJ agrees with this recommendation and as of April 23, 2019, implemented procedures to ensure the fair and full billing of applicants for the cost of conducting background investigations by BGC. Consistent with the audit recommendation, BGC has revised its policies and practices for billing to ensure that costs are appropriately charged for all investigation work. In addition, it has revised its criteria for non-billable work and developed policy to prohibit any non-billable work on cases unless pre-approved by managers. A report on all non-billable work is generated on a weekly basis and distributed to the Director, Assistant Director of Licensing, and all Licensing Section managers. The first report was generated and distributed on April 24, 2019. Regular meetings are being held to review and discuss all non-billable time to ensure compliance with procedures and to correct any inappropriate authorization of non-billable time. The first meeting was held on April 24, 2019. (5) (5)

As of April 23, 2019, BGC revised its policies and practices for non-case related work. While it understands the concerns and perceptions of work that is not related to specific investigations, it also notes that the time accounted for by analysts as non-case work was for work related to license applications in general, such as purging and organization of old licensing files; work appropriately assigned to analysts in the Licensing Section, such as updates to licensing procedures and assisting with Public Records Act requests; work for which BGC does not have the authority to bill, such as review of local cardroom ordinances and requests to reduce the number of tables in a cardroom; or work-related activities, such as training and staff meetings. BGC has revised its criteria for non-case work and developed policy to prohibit any non-case work unless pre-approved by managers. A report on all non-case work is generated on a weekly basis and distributed to the Director, Assistant Director of Licensing, and all Licensing Section managers. The first report was generated and distributed on April 24, 2019. Regular meetings are being held to review and discuss all non-case time to ensure compliance with procedures and to correct any inappropriate authorization of non-case time. The first meeting was held on April 24, 2019. (5) (10) (5)

BGC will establish thresholds that indicate estimates for acceptable and unacceptable proportions or amounts of time staff may charge to the various categories within the timeframe suggested.

7) Cost analyses and fees.

To better align the revenue in the Gambling Fund with the costs of the activities that the fund supports, the bureau should conduct cost analyses by July 2020 of those activities. At a minimum, these cost analyses should include the following:

- *Its personnel costs, operating costs, and any program overhead costs.*
- *Updated time estimates for its core and support activities, such as background investigations.*
- *The cost of its enforcement activities.*

Using this information, the bureau should reset its regulatory fees to reflect its actual costs. Before conducting its fee study, the bureau should first implement our recommendations to improve its processes for assigning applications, ensuring the completeness of applications, and developing time-reporting protocols.

DOJ Response:

DOJ agrees that application fees and annual fees assessed on cardroom and TPPPPS owners should be reviewed to determine the appropriate level, utilizing the factors suggested in order to better align the cost of activities with the revenue in the Gambling Control Fund. Because these fees are imposed pursuant to regulations developed by the CGCC, BGC will work with the CGCC to provide all necessary information to assist in the development of appropriate fees.

With respect to the deposits BGC receives for background investigations, the amounts are being adjusted to reflect current costs of the positions performing the work. BGC will notify cardroom and TPPPPS representatives before any rate modifications are effective. Additionally, as noted above, it is working on developing regulations to revise the amount of investigation deposits required for investigations and will utilize the data available once recommendations are fully implemented to support adjustments to the deposit amounts.

8) Background investigation policies and procedures.

To ensure that its level of review is commensurate to license type, the Bureau should review and revise each of its background investigation policies as needed by November 2019.

To ensure that it treats applicants consistently, the bureau should also begin conducting periodic reviews by November 2019 to determine whether staff are following procedures when conducting background investigations for applicants for all license types.

DOJ Response:

(5) DOJ agrees with this recommendation. As of April 25, 2019, BGC updated its procedures to correct some differences noted in the report. As of April 25, 2019, it has also combined procedures for work permits, TPPPPS players and supervisors, and key employees into a single set of procedures, and is currently developing a single set of procedures for cardroom and TPPPPS owner license reviews. These procedures will provide additional consistency among

April 29, 2019
California State Auditor Report 2018-132
Page 11

some of the investigation steps involved in each of the license types and will also allow for additional steps for licenses that require a higher level of review. Additionally, BGC will conduct periodic reviews to determine staff's compliance with procedures within the timeframe suggested.

While BGC understands the need for consistency among application reviews to ensure fairness, it also recognizes that analysts must ask additional questions and sometimes seek other information or documentation to ensure they can adequately assess an applicant's character and support suitability recommendations to the CGCC. Applicants should be treated fairly and consistently, but analysts should consider more than a single issue or piece of information when making conclusions about an individual's character. One issue may not be the only derogatory finding in an individual's background investigation. For example, BGC may not recommend denial for an individual seeking a key employee license who had a single derogatory finding of a bankruptcy within the last ten years, but it may recommend denial for an individual who had a derogatory finding of a bankruptcy within the last ten years, along with multiple delinquent accounts and a history of charge-off accounts. Likewise, BGC may not recommend denial for an individual with a single derogatory finding of a conviction for driving with a suspended license, but it may recommend denial for an individual with a conviction for driving with a suspended license who admits to driving a car to work every day. Each case must be assessed individually and take into account all information. The analysts are required to use their investigative skills, analytical abilities, and articulate their rationale for recommending approval or denial of applications to the CGCC. (11)

While procedural changes have been made, BGC provides the following input on some of the individual issues addressed by CSA: (12)

- Check absent parent report: BGC removed this check from procedures as it was duplicative since CGCC checks the absent parent report list.
- Request all applicable database inquiries: BGC agrees that procedures for two license types did not explicitly direct analysts to run checks through the International Criminal Police Organization and National Law Enforcement Telecommunications System, but notes that all other common databases, such as the California Department of Motor Vehicles and the Federal Bureau of Investigations' National Crime Informational Center were included in the investigation steps.
- Review disclosure of military history: BGC agrees that the work permit procedures did not require review of military history, but notes that applicants do not need to disclose military history. BGC now requires a check on military history if information regarding prior employment discloses that the applicant worked or served in the military.
- Include failures to appear and unresolved failures to pay in report: BGC agrees that the cardroom owner procedures did not explicitly direct analysts to include these matters in the report to the CGCC, but notes that these issues would appear in the standard database inquiries for a cardroom owner. (13)
- Include real property holdings: BGC agrees that TPPPPS owner procedures noted that real property holdings should be included in the report. In January 2019, this step was removed from future investigations.

9) Records retention.

To ensure that it has the ability to justify the results of its background investigations, the bureau should develop a formal record retention policy for application documentation by November 2019. This policy should include rationales for retaining types of documents and should establish a process for ensuring staff compliance.

DOJ Response:

DOJ agrees that BGC must ensure consistent retention of documents for all applications. As of April 22, 2019, BGC simplified its imaging procedures by combining multiple procedures for different license types into one set of procedures. On April 23, 2019, staff was retrained on imaging procedures for files. BGC will develop a formal policy on this matter and include rationales for retaining the various types of documents and a process for ensuring staff compliance within the timeframe suggested.

10) Reconciliation of funds and time reporting.

To ensure that it compensates the Special Distribution Fund for the card room-related enforcement activities for which that fund has paid, the bureau should reconcile the hours due to the Special Distribution Fund at least for the last three fiscal years by November 2019. Moving forward, the bureau should ensure that it provides prompt reimbursement when employees in positions that are funded by one source perform activities that should have been funded by another source.

To ensure that its employees allocate their activities to the correct funding sources, the bureau should formalize policies and procedures by July 2019 that provide clear guidelines to employees when reporting time spent on activities that relate to funding sources other than the funding sources for their positions.

DOJ Response:

DOJ agrees with this recommendation and has already taken steps to reconcile the personnel hours supported by the Gambling Control Fund and the Special Distribution Fund when staff time is split between the two fund sources. BGC began reviewing this matter last year and implemented a procedure to correct the allocation of expenditures quarterly beginning in the second and third quarters of Fiscal Year 2018-19. During this process, BGC provided additional direction to staff in its Compliance and Enforcement Section regarding accurate time reporting, which it has incorporated into policy as of April 26, 2019. Additionally, BGC has corrected expenditures for Fiscal Years 2016-17 and 2017-18 and the first quarter of Fiscal Year 2018-19. BGC will conduct an ongoing review of expenditures after every quarter (three months) and submit requests to reconcile funds between the Gambling Control Fund and the Special Distribution Fund to DOJ's Accounting Office pursuant to a procedure issued on April 26, 2019, outlining this process.

April 29, 2019
California State Auditor Report 2018-132
Page 13

11) Time tracking at cardrooms and casinos.

To ensure that it can provide useful and accurate data on the locations where enforcement employees spent their time, the bureau should equip its time-reporting system by November 2019 with the capability to track all hours employees spend at each cardroom and casino.

DOJ Response:

DOJ agrees with the recommendation and is working to determine the necessary modifications to the current time-reporting systems to track all hours that staff in the Compliance and Enforcement section spends at each cardroom and casino. BGC will seek appropriate funding to implement this process.

Thank you again for the opportunity to review and comment on the draft audit report. If you have any questions or concerns regarding this matter, please contact me at the telephone number listed above.

Sincerely,

STEPHANIE SHIMAZU
Director

For XAVIER BECERRA
Attorney General

cc: Sean McCluskie, Chief Deputy Attorney General
Kevin Gardner, Chief, Division of Law Enforcement
Chris Ryan, Chief, Division of Operations
Chris Prasad, CPA, CFE Director, Office of Program Oversight and Accountability

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Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE DEPARTMENT OF JUSTICE'S BUREAU OF GAMBLING CONTROL

To provide clarity and perspective, we are commenting on the bureau's response to the audit. The numbers below correspond to the numbers we have placed in the margin of its response.

Although we acknowledge on page 46 that we expected that the bureau would subject applicants for some types of licenses to more thorough levels of review than others, we go on to state on pages 46 and 47 that we found that the bureau's background investigation procedures vary considerably for different types of licenses and do not always reflect the associated level of responsibility. ①

The bureau's presentation of its background investigation procedures in this table is inconsistent with the results of our review. Specifically, as Table 6 on page 47 demonstrates, the bureau's background investigation procedures for card room owners and third-party players do not contain all relevant database inquiries. The bureau acknowledges this inconsistency, among others, on page 71. ②

We disagree with the bureau's characterization that it continues to make progress on its backlogged cases, but needs additional resources to complete them all. As we explain on page 21, despite already receiving significant staff increases, the bureau has made only moderate progress in reviewing pending applications. Further, although we have not reviewed the bureau's data as of the March 31, 2019 date it reports here, we note that the number of backlogged applications it reports—those older than 180 days—has increased since the December 2018 date of the data we reviewed, from 957 to more than 1,100. ③

We are uncertain how the bureau obtained the numbers it presents in this table, which are slightly different than those we calculated. Specifically, the bureau's numbers for incoming applications for fiscal years 2014–15 through 2017–18 are up to 3 percent lower and its numbers for reviewed applications are 4 percent higher for fiscal year 2017–18 than the audited numbers we present in Figure 6 on page 22. When the bureau provided its fiscal year 2018–19 budget change proposal to us, which included the same numbers it reports here, we asked for and received the data it used to compile the licensing statistics in the proposal. We then performed an independent analysis of this data to arrive at the numbers we include in this report and in Figure 6. Although we stand by the data ④

and analysis in our report, we also note that the bureau's numbers lead to the same conclusions we reach in our report regarding its decreasing productivity.

(5) Throughout its response, the bureau references changes to its policies, practices, and procedures it has made as a result of our recommendations. The changes it describes are very recent—some as recent as the period of the bureau's review of our draft report. Therefore, we have not received and reviewed any documentation to substantiate them. We look forward to reviewing the adequacy of these changes as part of the bureau's 60-day response to our audit report, which should detail its progress in implementing our recommendations.

(6) Although the bureau disagrees with our recommendation to extend temporary funding for two years rather than making the funding permanent, it has not provided us with any analysis justifying a permanent staffing level that includes the 32 positions, despite our request. It also did not provide this information in its response. As we state on page 25, the bureau has not sufficiently demonstrated the number of permanent card room and third-party licensing staff it needs. Specifically, the bureau has not updated its per-application time estimates for many license types since 2015, and for those it has updated, the bureau's per-application estimates increased significantly. Finally, although the bureau references increases in the number of incoming applications during fiscal year 2018–19, this is not information the bureau provided previously; therefore, we cannot comment on its validity. As we note on page 21, the number of incoming applications increased only marginally in fiscal years 2015–16 and 2016–17 and actually decreased in fiscal year 2017–18.

(7) Although the bureau expresses concern about temporary funding for the positions because it impedes its ability to retain staff, our review found that the bureau's filled licensing positions increased each year over the period we reviewed from fiscal year 2014–15 through fiscal year 2017–18. Further, although we understand that the bureau may face administrative challenges related to temporarily funded positions, we do not believe that those challenges justify addressing what should be a temporary project—clearing the backlog of applications—with permanent funding. As we state on page 26, once it has cleared its pending applications, the bureau is likely to need some of the 32 positions on a permanent basis. However, determining the appropriate number of positions will require the bureau to take steps to improve its productivity and then reassess how many positions it needs on a permanent basis.

We are concerned by the bureau's statement that it will no longer grant extensions to applicants requesting additional time to respond to requests for documentation and information unless exceptional circumstances exist. As we state on page 16, the bureau has not completed a review to determine what steps of its background investigation process may be contributing to delays. Also, we explain on page 15 that the bureau's failure to promptly assess the information it requests likely exacerbated overall delays. Consequently, we believe it is premature for the bureau to conclude that applicants' requests for extensions should no longer be granted. (8)

The bureau asserts it has reviewed current data to determine appropriate additional staffing levels. As we discuss in comment 6 above, the bureau's current data in this area are outdated, having not been updated for many license applications types since 2015. Its failure to update this data is one of several reasons we discuss throughout the report why the bureau has not sufficiently demonstrated what an appropriate staffing level should be. As we state on page 26, once it has cleared its pending applications, the bureau is likely to need some of the 32 positions on a permanent basis. After it clears these applications and takes steps to improve its productivity, it will be better positioned to reassess how many positions it needs. Although implementing a formal plan is an important part of that process, we stand by our recommendation that the Legislature not approve any requests to make permanent any temporary funding for the bureau's positions, and should reevaluate the bureau's long-term staffing needs in two years' time, taking into account the extent to which it has implemented the recommendations in this report. (9)

The bureau's response attempts to minimize our finding by stating that the time accounted for by analysts as noncase work was for work related to license applications in general and by providing various other activities for which this time accounts. However, this noncase time represents 45,700 hours of staff time in fiscal year 2017–18—nearly half of all reported staff time in the licensing division. As we state on page 41, considering the persistent backlog of applications, we are concerned that staff have reported so much of their time on activities unrelated to reviewing applications and conducting background investigations. (10)

The bureau's statement that each case must be assessed individually does not absolve it of its responsibility to ensure that all applicants receive consistent treatment. This need for consistent treatment is especially true since—as we state on page 46—the bureau has broad discretion in processing license applications and determining applicants' suitability. Therefore, we stand by our recommendations (11)

that it review and revise each of its background investigation procedures and also begin periodically reviewing whether its staff follow those procedures for all license types.

(12) We appreciate that the bureau indicates that it has taken steps to address some of the inconsistencies in its background investigation procedures. Although the bureau's response tries to downplay the bad effects of these inconsistencies, we stand by our conclusion on page 49 that, by failing to ensure its procedures subject applicants to equal treatment and that staff consistently follow those procedures, the bureau risks subjecting some applicants to greater scrutiny than others without justification.

(13) The bureau misses the point of our finding. The bureau's response states that these issues would appear in the standard database inquiries for a card room owner applicant. However, our finding, as Table 6 on page 47 illustrates, is that the bureau's procedures do not consistently require staff to include the results of these inquiries in bureau reports to the commission.

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May 1, 2019

Elaine M. Howle, CPA*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: Audit Report 2018-132

Dear Ms. Howle:

The California Gambling Control Commission (Commission) has reviewed the redacted draft California State Auditor's (CSA) report regarding the Department of Justice's Bureau of Gambling Control (Bureau) and the California Gambling Control Commission.

As you are now aware, the Commission is a small, yet highly productive agency. The Commissioners and 29 staff members take great pride in our work and take our role and responsibilities seriously. The Commission-specific recommendations provided are appreciated, and align with our ongoing regulatory efforts. We agree that some of the recommendations would require the legislature to amend existing laws.

In response to the CSA's Commission-specific recommendations identified in the draft report, the Commission submits the following response and important context:

CSA Recommendation:

To prevent delays and the unnecessary use of resources, the commission should, following the Legislature's amendment to the law that we recommend, revise its relevant regulations to specify that it is not required to hold evidentiary hearings unless applicants request that it do so.

Commission Response:

The Commission agrees with this recommendation, in part.

The Commission is in support of a recommended change to existing law to allow swifter denial actions – in some circumstances – at a regular public meeting, rather

* California State Auditor's comments begin on page 87.

than through a separate evidentiary hearing. As the recommendation and various sections of the report point out, applicants must be afforded due process before the Commission can take adverse action against an individual. When a licensing decision takes longer than the self-imposed 120 days, it is because the Commission is complying with the existing due process requirements of the Gambling Control Act. Existing regulations require the Commission to allow applicants no less than 60 days from the date of hearing notice to prepare for the hearing. This requirement seeks to
① balance the need for swift action with the opportunity for applicants to prepare for the hearing, particularly the majority of applicants who are not represented by an attorney. The Commission supports potential modifications to timelines so long as the twin goals of speedy action and due process can both be achieved. To that end, we are working to address this issue and posted a public notice about a potential regulatory change to Title 4, California Code of Regulations Division 18 sections 12221.87, 12235, 12342 and 12350. The proposal, in part, would modify these sections so that the Commission takes ***action on*** an application within 120 days after the corresponding Bureau report is submitted to the Commission.

In addition to maintaining the applicants' continued right to request an evidentiary hearing, it is imperative that the Commissioners also retain discretion to hold an evidentiary hearing when more information is needed to determine the applicant's suitability for licensure. A separate hearing ensures the applicant provides testimony under oath and has an opportunity to submit evidence in support of his or her application. While these aforementioned elements could be introduced at a licensing
② meeting, it is unclear whether doing so would save time or would simply change the forum where the dialog with an applicant is conducted. For example, an applicant may still want to introduce evidence and call witnesses subject to cross examination. Regardless, the Commission strongly supports exploring potential new ways to adjudicate licensing matters in a fair and efficient manner.

CSA Recommendation:

To ensure it has comprehensive licensing information to determine ongoing workload and staffing needs, the commission should implement procedures for tracking the number of license applications it receives from the bureau each fiscal year and the outcomes of those applications, such as denials.

Commission Response:

The Commission agrees with this recommendation.

The Bureau's Licensing Information System (LIS) contains all application data. The Commission has been working with the Bureau on its effort to potentially modify and update LIS. With certain changes, the Bureau's LIS could be utilized to track the number of applications and their outcome. We will continue to support any such
③ effort. In addition, in July 2018 the Commission created an internal database to track information about actions taken at Commission licensing meetings. The Commission

will continue to endeavor towards more robust reporting through this database, which will also include the tracking of all licensing outcomes on applications received by the Bureau.

CSA Recommendation:

To prevent unnecessary delays and use of resources, and to ensure its compliance with state law, the commission should, following the Legislature's amendments of the Gambling [Control] Act that we recommend, revise its regulations and policies for conducting evidentiary hearings. These revisions should specify that the commission may vote at regular meetings on a final basis to approve or deny licenses, registrations, permits, findings of suitability, or other matters and that it is not required to conduct evidentiary hearings unless applicants request that it do so.

Commission Response:

The Commission agrees with this recommendation, in part.

As stated above, the Commission's hearing regulations are in place specifically to comply with current statutory requirements within the Gambling Control Act, to ensure applicants are provided due process, and provide sufficient time for applicants sent to an evidentiary hearing to prepare their case before the Commission. As stated above, the vast majority of individual applicants are not represented by an attorney or representative. The Commission welcomes a statutory revision that would allow the Commissioners to approve or deny applicants at its regular meetings and also continue to allow for separate hearings when necessary for the Commission to reach a decision or when requested by an applicant. (4)

As it relates to this particular section of the audit report, it's important to provide the following context:

In two places, the audit report states that the Commission approves a "majority" of applicants at a regular licensing meeting, but, in fact, the Commission approves 99% of applicants at its regular licensing meetings within the previously mentioned self-imposed 120 day time frame. In other words, only 1% of applicants today require an evidentiary hearing for the Commission to make a licensing decision. In one place, the report more accurately states that the "commission refers only a small fraction of the applicants…to evidentiary hearing." However, in the same section, the report states that seven of the 18 applications reviewed by the CSA were referred to an evidentiary hearing (over 38%). Again, that ratio is not representative of the actual percentage of applicants that are referred to an evidentiary hearing, which is approximately 1% of all applications received. Moreover, this recommendation ignores the very real possibility that most, if not all, applicants that are ostensibly denied would still request an evidentiary hearing as reflected by the large number of applicants who currently request an evidentiary hearing. (5) (6) (7)

CSA Recommendation:

To better align the revenue in the Gambling [Control] Fund with the costs of the activities that the fund support, [redacted text] the commission should conduct cost analyses by July 2020 of those activities. At a minimum, these cost analyses should include the following:

- *Their personnel costs, operating costs, and any program overhead costs.*
- *Updated time estimates for their core and support activities, such as background investigations.*
- *The cost of their enforcement activities.*

Using this information, the [redacted text] commission should reset their regulatory fees to reflect their actual costs.

Commission Response:

The Commission agrees with this recommendation, in part.

The audit report asserts that existing licensing fees are not high enough to recover the associated expenditures and that the non-licensing fees exceed corresponding expenditures. It is important to highlight that the licensing fees are associated with the application and background fees primarily paid by individual applicants, including individuals who are making minimum wage. In regards to the non-licensing fees being in excess of the corresponding expenditures, these are annual fees paid by owners of the cardrooms and Third-Party Providers of Proposition Player Services businesses. Once the new fees are identified and prior to revising its regulations, the Commission will need to identify the impact any increased fees may have on the industry as a whole—not just owners and businesses, but also the individual applicants.

(8) In any event, the Commission's costs are known and defined. In any discussion of fee adjustment, the Bureau and the Legislature (through the budget process) should evaluate and determine how much it costs to effectively regulate gambling in California. For example, such assessment could help determine the appropriate funding and resources required to protect the public, such as: additional agents for compliance checks; additional analysts to eliminate the existing backlog of licensing applications; additional attorneys to reduce the time associated with conducting legal reviews and handling administrative proceedings; and forensic accountants to analyze increasingly complex financial transactions. This determination by the Bureau, working with the Legislature, is a necessary part of any assessment of the fees used to support the cost of effective regulation. This assessment is complicated by the fact that entities, which are not under the Commission's jurisdiction, will be an essential component of this task.

(9) Based on these factors, we anticipate that December 2020 is a realistic completion target date.

Regardless of the outcome of this assessment, there are fees that the Commission does not have discretion to change. For example, the non-licensing annual fees are set in statute. In those cases where statutory changes are necessary, the Commission will work with the Legislature on any proposed statutory changes. (10)

CSA Recommendation:

To increase uniformity in the licensing process, the commission should revise its current regulations and submit them to the Office of Administrative Law for public review by May 2020 to address the following areas of inconsistency:

- *Application processes and time frames.*
- *The ability to work during the application process.*
- *The ability to reapply after denial.*

In revising its regulations, the commission should increase consistency across application types while minimizing risk to the public.

Commission Response:

The Commission agrees with this recommendation, in part.

The ongoing revision of the Commission's licensing regulations is arguably its largest and most all-encompassing regulatory package to date – it alone currently stands at approximately 200 pages. For context, the length of all currently enacted Commission regulations stands at roughly 218 pages, meaning that the forthcoming package would affect nearly 92% of all regulations currently adopted by the Commission. This is a significant undertaking not to be taken haphazardly.

The Commission has held multiple meetings with stakeholders and consultations with the Gaming Policy Advisory Committee to ensure the package delivers better consistency across license types and clarifies processes. Each meeting has resulted in significant changes to the package. The Administrative Procedures Act requires agencies to develop regulations that are complex or contain a large number of proposals that would not be easily reviewed during the comment period to involve stakeholders prior to public notice with OAL.

We are on schedule to submit these regulatory improvements in June 2020 through a process that ensures opportunity for the public to review and comment on the regulations and for further revisions to be based if necessary. In particular, the Commission works with its partnering agencies and industry to seek input prior to the formal rulemaking process to provide an extra opportunity for engagement and sufficient time for all stakeholders to evaluate the proposal and consider any potential impacts on existing business practices. This process may include multiple periods of public input before noticing a regulation to OAL. (11)

CSA Recommendation:

To ensure that it does not hold hearings that may cause applicants unnecessary harm, the commission should, following the Legislature's revisions of state law that we previously recommended, establish and implement formal protocols for informing applicants how to withdraw their requests for hearings and guiding commission staff when discontinuing the hearing process at the request of applicants.

Commission Response:

The Commission agrees with this recommendation, in part.

⑫⑬ Prior to the audit, the Commission had a policy of what constituted a formal withdrawal of an applicant's request for a hearing, which is noted in the final draft report on page ⑭ 36. In response to the auditor's recommendation, that policy has now been included in internal written procedures. The Commission also previously provided information on withdrawing a hearing request to applicants in specific circumstances, such as when the applicant didn't show for their scheduled pre-hearing conference. Again, in response to the auditor's recommendation, the Commission has implemented formal protocols to ⑭ inform ***all*** applicants how to withdraw their hearing requests and to guide Commission staff when discontinuing the hearing process.

While the Gambling Control Act gives the Commission broad discretion in making ⑮ determinations about individual applicants, the Commission also strives to avoid unnecessary disclosure of embarrassing or harmful information about an applicant in its published decisions. However, a request by an applicant to avoid the hearing process should not, for the sake of efficiency or consistency, unduly limit the Commission's ability to take evidence submitted by the Bureau on an applicant's suitability (i.e., character, integrity, honesty, or the threat to the effective control of controlled gambling).

Simply put, there are circumstances where a decision on the merits is in the best ⑮ interest of the public, even if an applicant seeks to withdraw their request for a hearing. For example, the public may be better protected by a detailed factual finding on the record for an applicant who was terminated for embezzlement from a gambling establishment, but never criminally prosecuted. Without the discretion to make fact based decisions, even when an applicant seeks to avoid the process, some applicants' misdeeds would go unrecorded and unestablished for possible future applications within the jurisdiction of the Commission and/or others, gambling related or otherwise. This policy is accurately reflected with respect to the limited ability to withdraw an application following the Bureau issuing its recommendation, as mandated by the Legislature, and the broad discretion provided to the Commission in considering the requests (Business and Professions Code Section 19869). Moreover, while evidence can be lost over time, evidence submitted through documents and testimony provided at a Commission's evidentiary hearing is preserved as it becomes part of the official record.

Elaine M. Howle, State Auditor
May 1, 2019
Page 7 of 7

Finally, while the Commission strives for efficiency and consistency it also takes seriously the due process protections that ensure an applicant who has requested a hearing is afforded a hearing. Once an application is referred to an evidentiary hearing, the hearing notice time and the process for an applicant to withdraw a request for a hearing are designed to ensure the applicant's due process rights are protected. While this process may not always be efficient, it is necessary to ensure all applicants receive notice and a fair opportunity to be heard. Our revised written hearing notices help ensure that if these applicants later change their mind, they are informed how to officially notify the Commission of their desire to withdraw their request for a hearing. (14)

Thank you for the opportunity to review and comment on the draft audit report. If you have any questions, you may contact me at (916) 263-0700.

Sincerely,

STACEY LUNA BAXTER, Executive Director
California Gambling Control Commission

cc: Commissioners
R. Todd Vlaanderen, Chief Counsel
Adrianna Alcala-Beshara, Deputy Director, Licensing Division
Alana Carter, Deputy Director, Administration Division

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Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CALIFORNIA GAMBLING CONTROL COMMISSION

To provide clarity and perspective, we are commenting on the commission's response to the audit. The numbers below correspond to the numbers we have placed in the margin of its response.

The commission conflates the statutory requirements in the Gambling Act with those in its own regulations. The time frames that the commission specifies are of those in its regulations. As we discuss on page 27, when the commission amended its regulations in 2015 it established new time frames for cases it refers to evidentiary hearings, requiring a minimum of 60 days advance notice to applicants and an allowance of up to 75 days to issue a decision after the hearings—a total of 135 days. This allowance of 135 days introduced a potential conflict with the 120-day requirement in its existing regulations. Moreover, the commission's proposal to modify regulations will not help address the delays we identified. Instead, the proposed changes would relieve the commission of the current requirement to approve or deny an application within 120 days. Finally, as we state on page 28, the commission's regulations allow it to approve licenses during regular meetings, whereas the law requires the same meeting standards for approvals and denials. Therefore, legislative action, which we recommend on page 29, is necessary to allow the commission to make needed adjustments to its regulations and policies. (1)

We do not agree with the commission's claim that it is unclear whether our recommendation would save time, nor does the recommendation attempt to constrain the commission's discretion for holding evidentiary hearings when necessary. Instead, our recommendation on page 30 is intended to address the extent to which unnecessary hearings contribute to delays and the use of state resources. As we discuss on page 28, the frequency of evidentiary hearings increased from 12 in 2014 to 34 in 2018 and that an evidentiary hearing is generally the second time the commission considers an application. In addition, as we state on page 29, of the seven applicants we reviewed whom the commission referred to evidentiary hearings, four informed the commission beforehand that they would not attend the hearings or stopped participating in the prehearing process, yet the commission still held three of those hearing in the applicants' absence. As such, the additional and unnecessary costs in time and resources under the current approach are apparent. (2)

③ The commission provided its internal database to us but, as we note on page 27 of our report, the commission does not currently have comprehensive data regarding the number of incoming licensing applications or the outcomes of those applications, such as how many it has denied or approved. As such, the need for our recommendation on page 30 remains.

④ The commission's statement that its hearing regulations are in place specifically to comply with current statutory requirements within the Gambling Act is misleading. The commission's regulations do not fully comply with the Gambling Act because, as we describe in comment 1 above and state on page 28, commission regulations allow it to approve licenses during regular meetings, whereas the law requires the same meeting standards for approvals and denials.

⑤ The commission's critique of our report text and its statement that it approves 99 percent of applicants at its regular licensing meetings are disingenuous. The text we use is appropriate because, as we state on page 27, the commission's executive director confirmed that the commission does not currently have comprehensive data regarding the number of incoming licensing applications or the outcomes of those applications, such as how many it has denied or approved. This was the basis for our recommendation on page 30 that the commission implement procedures for tracking this information—a recommendation with which the commission agrees. Therefore, if the commission possesses this information, it has not provided it to us and we are unable to speak to its validity.

⑥ The commission misunderstands the purpose of our review. Our selection of applicants for review included both approved and denied applications from a variety of licensing types in order to review the commission's handling of those applications and to determine whether any improper or inconsistent use of the commission's processes contributed to unequal treatment. It was not a statistical sample, as the commission implies.

⑦ Contrary to the commission's statement about our recommendation, we did consider whether most, if not all, applicants that are denied would still request an evidentiary hearing. As we state on page 51, after deciding to hold a hearing, the commission sends a form asking applicants to formally request a hearing. Therefore, applicants wanting to obtain a license will most likely return the form to request a hearing because a hearing represents their only opportunity to be considered for a license. If the commission was able to consider and deny applications at regular meetings, applicants might not insist on additional proceedings. Further, even under the current approach, as we state on page 29, four of the seven applicants we reviewed whom the commission referred to hearings subsequently decided not

to attend their hearings. Further, as we explain on page 28, the number of hearings—and therefore, presumably, hearing requests—increased substantially when the commission began its current approach, from 12 in 2014 to 34 in 2018. Therefore, we stand by the recommendation's potential to increase efficiency.

The commission's statement that its costs are known and defined—in the context of the specific activities that correspond to fee amounts—is inaccurate. The reason we took the approach we did to estimate licensing and nonlicensing expenditures, and the reason we make our recommendation on page 42, is because the commission had not conducted cost analyses in these areas. (8)

We are concerned with the commission's claims about how long it anticipates it will take to implement our recommendation. The recommendation, on page 42 of the report, is directed at both the commission and the bureau, and fully contemplates their need to work together to align fees and their uses. However, we take issue with the commission's claim that the need to work together justifies a time frame of more than a year and a half. Ensuring fee amounts are appropriate is not a new responsibility for the commission. However, the commission did not take action regarding its misaligned fees while the Gambling Fund balance more than doubled from $30 million at the end of fiscal year 2013–14 to $61 million at the end of fiscal year 2017–18, as we explain on page 35. Also on page 35, we discuss that the January 2019 Governor's proposed budget includes loan repayments to the Gambling Fund and that will increase the fund balance to more than $97 million by June 2020—a surplus of more than five times the bureau's and commission's projected annual expenditures. Given the urgency and magnitude of the issue and the commission's lack of action to date, we urge the commission to do all it can to meet the time frame of July 2020 that we set in our recommendation on page 42. (9)

To clarify the commission's statement, not all nonlicensing annual fees are set in statute. As we explain in the footnote on page 31, card room fees are set in the Gambling Act as well as in the commission's regulations. However, nonlicensing fees paid by third-party company owners, which generate the majority of nonlicensing revenue, are only in the commission's regulations. Regardless, the commission is responsible for ensuring fees are appropriate, and we appreciate that the commission indicates that it will fulfill this responsibility by proposing statutory changes where necessary. (10)

The commission appears to disagree with the implementation date of May 2020 of our recommendation for revising its licensing regulations and submitting them to the Office of Administrative Law (11)

for public review, as it states that it is on schedule to submit them in June 2020. To increase uniformity in the licensing process and address current consistencies as soon as possible, we urge the commission to do all it can to meet the May 2020 time frame.

(12) The commission's response uses page number references from a draft copy of our report. Since we provided the commission the draft copy, page numbers have shifted.

(13) The commission's response mischaracterizes our report text as well as its own practices at the time of our audit. The text the commission references, now on page 52 of the report, does not conclude that the commission had a policy in place regarding what constituted a formal withdrawal of an applicant's request for a hearing. Instead, it relays an explanation by the chief counsel that to cancel evidentiary hearings, the commission requires applicants to explicitly waive their rights to that hearing. Later in the same paragraph, we note that the commission has not established any formal procedures to guide staff on how to handle instances when applicants opt out of the hearing process before the hearings occur, nor for providing explicit instructions to applicants on how to opt out.

Further, the commission's response states that it previously provided information on withdrawing a hearing request to applicants. We reviewed this information during our audit and determined it did not contain clear guidance about how to withdraw from the hearing process. Specifically, the information instructs applicants to contact the commission if they do not plan to attend their hearing or if they would like to withdraw their request for a hearing, but does not make it sufficiently clear that these are two different things; as we state on page 51, even though applicants we reviewed told the commission at least two weeks in advance that they no longer wanted to attend, the commission held the hearings in both cases. Further, information the commission provides to applicants instructs them to contact the commission via telephone, even though the commission's chief counsel told us it requires applicants to withdraw their requests in writing.

(14) We have not had the opportunity to review these new procedures. As we state on pages 52 and 53, after we shared our concerns with the commission, its executive director informed us that it was taking steps to provide specific direction to applicants, as well as to develop internal procedures. The commission very recently shared its new procedures with us during the period of its review of our draft audit report. As a result of this timing, we are unable to conclude whether those procedures adequately address our concerns; we look forward to doing so during our review of the

commission's 60-day response to our audit, which should detail its progress in implementing our recommendations. Also, we note that fully resolving this issue will ultimately require the Legislature to amend the law to allow the commission more flexibility when denying applicants, as we conclude on page 53.

We take issue with the commission's claim that it strives to avoid unnecessary disclosure of embarrassing or harmful information about applicants in its published decisions; we observed instances in which its decisions included this information unnecessarily. Further, the commission's argument that there are circumstances where a decision on the merits is in the best interest of the public is not responsive to the circumstances that led to this recommendation, despite our clearly stating them in our report. We do not dispute that the commission may reasonably decide an application on the merits, even if an applicant does not participate. In fact, we clearly state on page 52 that in these instances the commission may need to include details about an applicant's background in its written decision to show the basis for that decision. However, as we explain on page 51 of the report, we identified two instances in which the commission's written decisions included criminal background information about the applicants even though the commission did not rely on this information in its reasons for denying the applications. These are the situations our recommendation on page 53 is intended to prevent. (15)

EXHIBIT 5

0820 Department of Justice

FUND CONDITION STATEMENTS †

	2023-24*	2024-25*	2025-26*
0012 Attorney General Antitrust Account S			
BEGINNING BALANCE	$3,521	$49,606	$41,554
Prior Year Adjustments	111	-	-
Adjusted Beginning Balance	$3,632	$49,606	$41,554
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4163000 Investment Income - Surplus Money Investments	1,344	79	79
4173400 Settlements and Judgments - Anti-Trust Actions (Attorney General)	57,394	9,310	9,310
Total Revenues, Transfers, and Other Adjustments	$58,738	$9,389	$9,389
Total Resources	$62,370	$58,995	$50,943
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	11,786	16,819	17,046
9892 Supplemental Pension Payments (State Operations)	52	40	40
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	926	582	1,032
Total Expenditures and Expenditure Adjustments	$12,764	$17,441	$18,118
FUND BALANCE	$49,606	$41,554	$32,825
Reserve for economic uncertainties	49,606	41,554	32,825
0017 Fingerprint Fees Account S			
BEGINNING BALANCE	$49,921	$55,144	$63,999
Prior Year Adjustments	454	-	-
Adjusted Beginning Balance	$50,375	$55,144	$63,999
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4127400 Renewal Fees	281	281	281
4129400 Other Regulatory Licenses and Permits	29	29	29
4132000 Fingerprint Identification Card Fees	105,186	105,186	105,186
4163000 Investment Income - Surplus Money Investments	1,961	880	880
Transfers and Other Adjustments			
Loan from the General Fund (0001) to the Fingerprint Fees Account (0017) per Item 0820-011-0001, Budget Act of 2022	-	135	-
Total Revenues, Transfers, and Other Adjustments	$107,457	$106,511	$106,376
Total Resources	$157,832	$161,655	$170,375
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	95,773	93,344	101,850
9892 Supplemental Pension Payments (State Operations)	726	461	461
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	6,189	3,851	4,566
Total Expenditures and Expenditure Adjustments	$102,688	$97,656	$106,877
FUND BALANCE	$55,144	$63,999	$63,498
Reserve for economic uncertainties	55,144	63,999	63,498
0032 Firearm Safety Account S			
BEGINNING BALANCE	$1,925	$2,487	$2,972
Prior Year Adjustments	-45	-	-
Adjusted Beginning Balance	$1,880	$2,487	$2,972
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4143500 Miscellaneous Services to the Public	907	859	859
4163000 Investment Income - Surplus Money Investments	85	44	44
Transfers and Other Adjustments			

*** Dollars in thousands, except in Salary Range. Numbers may not add or match to other statements due to rounding of budget details.**

	2023-24*	2024-25*	2025-26*
Loan repayment from the General Fund (0001) to the Firearm Safety Account (0032) per Item 0820-011-0032, Budget Act of 2020	-	-	6,400
Total Revenues, Transfers, and Other Adjustments	$992	$903	$7,303
Total Resources	$2,872	$3,390	$10,275
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	355	395	493
9892 Supplemental Pension Payments (State Operations)	6	3	3
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	24	20	20
Total Expenditures and Expenditure Adjustments	$385	$418	$516
FUND BALANCE	$2,487	$2,972	$9,759
Reserve for economic uncertainties	2,487	2,972	9,759
0142 Department of Justice Sexual Habitual Offender Fund [S]			
BEGINNING BALANCE	$3,909	$3,641	$2,774
Prior Year Adjustments	-4	-	-
Adjusted Beginning Balance	$3,905	$3,641	$2,774
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4143500 Miscellaneous Services to the Public	2,435	2,484	2,484
4163000 Investment Income - Surplus Money Investments	148	62	62
4172500 Miscellaneous Revenue	-47	15	15
Total Revenues, Transfers, and Other Adjustments	$2,536	$2,561	$2,561
Total Resources	$6,441	$6,202	$5,335
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	2,545	3,212	3,231
9892 Supplemental Pension Payments (State Operations)	67	53	53
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	188	163	168
Total Expenditures and Expenditure Adjustments	$2,800	$3,428	$3,452
FUND BALANCE	$3,641	$2,774	$1,883
Reserve for economic uncertainties	3,641	2,774	1,883
0158 Travel Seller Fund [S]			
BEGINNING BALANCE	$1,821	$1,472	$1,476
Prior Year Adjustments	-1	-	-
Adjusted Beginning Balance	$1,820	$1,472	$1,476
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4143500 Miscellaneous Services to the Public	672	1,612	1,612
4163000 Investment Income - Surplus Money Investments	71	71	71
4173500 Settlements and Judgments - Other	24	-	-
Total Revenues, Transfers, and Other Adjustments	$767	$1,683	$1,683
Total Resources	$2,587	$3,155	$3,159
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	999	1,588	1,592
9892 Supplemental Pension Payments (State Operations)	19	14	14
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	97	77	80
Total Expenditures and Expenditure Adjustments	$1,115	$1,679	$1,686
FUND BALANCE	$1,472	$1,476	$1,473
Reserve for economic uncertainties	1,472	1,476	1,473
0256 Sexual Predator Public Information Account [S]			
BEGINNING BALANCE	$39	$28	$15
Adjusted Beginning Balance	$39	$28	$15
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			

*** Dollars in thousands, except in Salary Range. Numbers may not add or match to other statements due to rounding of budget details.**

	2023-24*	2024-25*	2025-26*
Revenues:			
4143500 Miscellaneous Services to the Public	-	184	184
4163000 Investment Income - Surplus Money Investments	2	2	2
Total Revenues, Transfers, and Other Adjustments	$2	$186	$186
Total Resources	$41	$214	$201
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	-	189	189
9892 Supplemental Pension Payments (State Operations)	1	-	-
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	12	10	10
Total Expenditures and Expenditure Adjustments	$13	$199	$199
FUND BALANCE	$28	$15	$2
Reserve for economic uncertainties	28	15	2
0288 The Registry of International Student Exchange Visitor Placement Organizations Fund [S]			
BEGINNING BALANCE	$180	$193	$206
Adjusted Beginning Balance	$180	$193	$206
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4143500 Miscellaneous Services to the Public	6	6	6
4163000 Investment Income - Surplus Money Investments	7	7	7
Total Revenues, Transfers, and Other Adjustments	$13	$13	$13
Total Resources	$193	$206	$219
FUND BALANCE	$193	$206	$219
Reserve for economic uncertainties	193	206	219
0378 False Claims Act Fund [S]			
BEGINNING BALANCE	$1,988	$122,525	$95,945
Prior Year Adjustments	558	-	-
Adjusted Beginning Balance	$2,546	$122,525	$95,945
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4163000 Investment Income - Surplus Money Investments	1,900	126	126
4170700 Civil and Criminal Violation Assessment	138,730	3,021	3,021
Total Revenues, Transfers, and Other Adjustments	$140,630	$3,147	$3,147
Total Resources	$143,176	$125,672	$99,092
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	18,833	28,025	28,327
9892 Supplemental Pension Payments (State Operations)	309	195	195
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	1,509	1,507	1,344
Total Expenditures and Expenditure Adjustments	$20,651	$29,727	$29,866
FUND BALANCE	$122,525	$95,945	$69,226
Reserve for economic uncertainties	122,525	95,945	69,226
0460 Dealers Record of Sale Special Account [S]			
BEGINNING BALANCE	$30,592	$18,961	$6,431
Prior Year Adjustments	-1,062	-	-
Adjusted Beginning Balance	$29,530	$18,961	$6,431
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4129400 Other Regulatory Licenses and Permits	5,104	4,602	4,694
4143500 Miscellaneous Services to the Public	30,889	27,854	28,408
4163000 Investment Income - Surplus Money Investments	1,237	428	428
Transfers and Other Adjustments			

*** Dollars in thousands, except in Salary Range. Numbers may not add or match to other statements due to rounding of budget details.**

	2023-24*	2024-25*	2025-26*
Loan Repayment from the Dealer's Record of Sale Special Account (0460) to the Firearms Safety and Enforcement Fund (1008) per Item 0820-012-1008, Budget Act of 2017	-	-2,588	-
Loan Repayment from the Dealers' Record of Sale Special Account (0460) to the Firearms Safety and Enforcement Fund (1008) per Item 0820-011-1008, Budget Acts of 2017, 2018, 2019	-	-3,256	-
Total Revenues, Transfers, and Other Adjustments	$37,230	$27,040	$33,530
Total Resources	$66,760	$46,001	$39,961
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	45,527	37,087	32,890
0820 Department of Justice (Local Assistance)	28	28	28
9892 Supplemental Pension Payments (State Operations)	666	491	491
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	1,578	1,964	3,331
Total Expenditures and Expenditure Adjustments	$47,799	$39,570	$36,740
FUND BALANCE	$18,961	$6,431	$3,221
Reserve for economic uncertainties	18,961	6,431	3,221
0566 Department of Justice Child Abuse Fund [S]			
BEGINNING BALANCE	$1,027	$956	$891
Adjusted Beginning Balance	$1,027	$956	$891
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4143500 Miscellaneous Services to the Public	466	466	466
4163000 Investment Income - Surplus Money Investments	38	38	38
Total Revenues, Transfers, and Other Adjustments	$504	$504	$504
Total Resources	$1,531	$1,460	$1,395
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	533	536	540
9892 Supplemental Pension Payments (State Operations)	13	7	7
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	29	26	30
Total Expenditures and Expenditure Adjustments	$575	$569	$577
FUND BALANCE	$956	$891	$818
Reserve for economic uncertainties	956	891	818
0567 Gambling Control Fund [S]			
BEGINNING BALANCE	$13,330	$6,944	$48,250
Prior Year Adjustments	-707	-	-
Adjusted Beginning Balance	$12,623	$6,944	$48,250
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4127400 Renewal Fees	472	472	472
4129200 Other Regulatory Fees	21,017	21,017	21,017
4129400 Other Regulatory Licenses and Permits	475	475	475
4143500 Miscellaneous Services to the Public	1,110	1,110	1,110
4163000 Investment Income - Surplus Money Investments	486	512	512
4171400 Escheat - Unclaimed Checks, Warrants, Bonds, and Coupons	37	37	37
Transfers and Other Adjustments			
Interest Loan Repayment from the California Bingo Fund (3131) to the Gambling Control Fund (0567) per Provision 1, Item 0855-001-0567, Budget Act of 2010	185	-	-
Loan Repayment from the California Bingo Fund (3131) to the Gambling Control Fund (0567) per Provision 1, Item 0855-001-0567, Budget Act of 2010	939	-	-
Loan repayment from the General Fund (0001) to the Gambling Control Fund (0567) per Item 0820-011-0567, Budget Act of 2020	-	45,000	-
Tribal Vendor Reimbursement	-6,005	-	-
Total Revenues, Transfers, and Other Adjustments	$18,716	$68,623	$23,623

*** Dollars in thousands, except in Salary Range. Numbers may not add or match to other statements due to rounding of budget details.**

	2023-24*	2024-25*	2025-26*
Total Resources	$31,339	$75,567	$71,873
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	17,389	20,087	19,611
0855 California Gambling Control Commission (State Operations)	4,536	5,005	5,018
9892 Supplemental Pension Payments (State Operations)	402	314	314
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	2,068	1,911	1,413
Total Expenditures and Expenditure Adjustments	$24,395	$27,317	$26,356
FUND BALANCE	$6,944	$48,250	$45,517
Reserve for economic uncertainties	6,944	48,250	45,517
0569 Gambling Control Fines and Penalties Account S			
BEGINNING BALANCE	$7,743	$6,282	$14,395
Prior Year Adjustments	3	-	-
Adjusted Beginning Balance	$7,746	$6,282	$14,395
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4163000 Investment Income - Surplus Money Investments	291	132	132
4173000 Penalty Assessments - Other	250	1,225	200
Transfers and Other Adjustments			
Loan repayment from the General Fund (0001) to the Gambling Control Fines & Penalties Account (0569) per Item 0820-011-0569, Budget Act of 2020	-	7,300	-
Total Revenues, Transfers, and Other Adjustments	$541	$8,657	$332
Total Resources	$8,287	$14,939	$14,727
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	1,977	465	470
9892 Supplemental Pension Payments (State Operations)	6	2	2
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	22	77	201
Total Expenditures and Expenditure Adjustments	$2,005	$544	$673
FUND BALANCE	$6,282	$14,395	$14,054
Reserve for economic uncertainties	6,282	14,395	14,054
1008 Firearms Safety and Enforcement Special Fund S			
BEGINNING BALANCE	$9,967	$10,518	$12,986
Prior Year Adjustments	122	-	-
Adjusted Beginning Balance	$10,089	$10,518	$12,986
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4143500 Miscellaneous Services to the Public	8,907	8,664	8,664
4150500 Interest Income - Interfund Loans	32	-	-
4163000 Investment Income - Surplus Money Investments	463	227	227
Transfers and Other Adjustments			
Loan Repayment from the Dealer's Record of Sale Special Account (0460) to the Firearms Safety and Enforcement Fund (1008) per Item 0820-012-1008, Budget Act of 2017	-	2,588	-
Loan Repayment from the Dealers' Record of Sale Special Account (0460) to the Firearms Safety and Enforcement Fund (1008) per Item 0820-011-1008, Budget Acts of 2017, 2018, 2019	-	3,256	-
Loan repayment from the General Fund (0001) to the Firearms Safety and Enforcement Special Fund (1008) per Item 0820-011-1008, Budget Act of 2020	1,500	-	5,000
Total Revenues, Transfers, and Other Adjustments	$10,902	$14,735	$13,891
Total Resources	$20,991	$25,253	$26,877
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	9,569	11,503	11,595
9892 Supplemental Pension Payments (State Operations)	236	157	157
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	668	607	626

*** Dollars in thousands, except in Salary Range. Numbers may not add or match to other statements due to rounding of budget details.**

	2023-24*	2024-25*	2025-26*
Total Expenditures and Expenditure Adjustments	$10,473	$12,267	$12,378
FUND BALANCE	$10,518	$12,986	$14,499
Reserve for economic uncertainties	10,518	12,986	14,499
3016 Missing Persons DNA Data Base Fund [S]			
BEGINNING BALANCE	$4,510	$5,584	$4,604
Prior Year Adjustments	725	-	-
Adjusted Beginning Balance	$5,235	$5,584	$4,604
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4135000 Local Agencies - Miscellaneous Revenue	3,410	3,410	3,410
4163000 Investment Income - Surplus Money Investments	236	95	95
Total Revenues, Transfers, and Other Adjustments	$3,646	$3,505	$3,505
Total Resources	$8,881	$9,089	$8,109
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	4,452	5,676	5,944
9892 Supplemental Pension Payments (State Operations)	63	52	52
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	246	204	220
Less funding provided by General Fund (State Operations)	-1,464	-1,447	-1,610
Total Expenditures and Expenditure Adjustments	$3,297	$4,485	$4,606
FUND BALANCE	$5,584	$4,604	$3,503
Reserve for economic uncertainties	5,584	4,604	3,503
3053 Public Rights Law Enforcement Special Fund [S]			
BEGINNING BALANCE	$5,976	$69,769	$64,009
Prior Year Adjustments	302	-	-
Adjusted Beginning Balance	$6,278	$69,769	$64,009
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4163000 Investment Income - Surplus Money Investments	1,501	125	125
4173500 Settlements and Judgments - Other	74,934	12,161	12,161
Transfers and Other Adjustments			
Loan from the Public Rights Law Enforcement Special Fund (3053) to the California Unflavored Tobacco List Fund (3440) per pending statute	-	-	-872
Total Revenues, Transfers, and Other Adjustments	$76,435	$12,286	$11,414
Total Resources	$82,713	$82,055	$75,423
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	11,760	17,195	17,492
9892 Supplemental Pension Payments (State Operations)	268	183	183
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	916	668	876
Total Expenditures and Expenditure Adjustments	$12,944	$18,046	$18,551
FUND BALANCE	$69,769	$64,009	$56,872
Reserve for economic uncertainties	69,769	64,009	56,872
3086 DNA Identification Fund [S]			
BEGINNING BALANCE	$2,997	$6,289	$6,153
Prior Year Adjustments	3,723	-	-
Adjusted Beginning Balance	$6,720	$6,289	$6,153
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4163000 Investment Income - Surplus Money Investments	1,205	324	324
4172500 Miscellaneous Revenue	3	3	3
4173000 Penalty Assessments - Other	37,748	37,193	35,743
Total Revenues, Transfers, and Other Adjustments	$38,956	$37,520	$36,070

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	2023-24*	2024-25*	2025-26*
Total Resources	$45,676	$43,809	$42,223
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	87,513	80,882	81,763
9892 Supplemental Pension Payments (State Operations)	1,322	1,719	1,719
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	3,989	1,155	315
Less funding provided by General Fund (State Operations)	-53,437	-46,100	-46,100
Total Expenditures and Expenditure Adjustments	$39,387	$37,656	$37,697
FUND BALANCE	$6,289	$6,153	$4,526
Reserve for economic uncertainties	6,289	6,153	4,526
3087 Unfair Competition Law Fund S			
BEGINNING BALANCE	$11,834	$357,197	$296,294
Prior Year Adjustments	774	-	-
Adjusted Beginning Balance	$12,608	$357,197	$296,294
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4163000 Investment Income - Surplus Money Investments	6,918	283	283
4173000 Penalty Assessments - Other	372,090	119,383	119,383
Transfers and Other Adjustments			
Loan from the Unfair Competition Law Fund (3087) to the General Fund (0001), per Item 0820-011-3087, 2023 Budget Act	-	-130,000	-
Total Revenues, Transfers, and Other Adjustments	$379,008	-$10,334	$119,666
Total Resources	$391,616	$346,863	$415,960
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	32,017	48,757	51,278
9892 Supplemental Pension Payments (State Operations)	268	173	173
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	2,134	1,639	2,683
Total Expenditures and Expenditure Adjustments	$34,419	$50,569	$54,134
FUND BALANCE	$357,197	$296,294	$361,826
Reserve for economic uncertainties	357,197	296,294	361,826
3088 Registry of Charities and Fundraisers Fund S			
BEGINNING BALANCE	$7,936	$17,385	$18,667
Prior Year Adjustments	94	-	-
Adjusted Beginning Balance	$8,030	$17,385	$18,667
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4143500 Miscellaneous Services to the Public	11,820	11,633	11,633
4163000 Investment Income - Surplus Money Investments	507	507	507
4171400 Escheat - Unclaimed Checks, Warrants, Bonds, and Coupons	1	1	1
4173000 Penalty Assessments - Other	5,787	-	-
Total Revenues, Transfers, and Other Adjustments	$18,115	$12,141	$12,141
Total Resources	$26,145	$29,526	$30,808
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	8,227	10,220	10,520
9892 Supplemental Pension Payments (State Operations)	111	85	85
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	422	554	592
Total Expenditures and Expenditure Adjustments	$8,760	$10,859	$11,197
FUND BALANCE	$17,385	$18,667	$19,611
Reserve for economic uncertainties	17,385	18,667	19,611
3131 California Bingo Fund S			
BEGINNING BALANCE	$708	-	-
Adjusted Beginning Balance	$708	-	-

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	2023-24*	2024-25*	2025-26*
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Transfers and Other Adjustments			
Interest Loan Repayment from the California Bingo Fund (3131) to the Gambling Control Fund (0567) per Provision 1, Item 0855-001-0567, Budget Act of 2010	-185	-	-
Loan Repayment from the California Bingo Fund (3131) to the Gambling Control Fund (0567) per Provision 1, Item 0855-001-0567, Budget Act of 2010	-939	-	-
Total Revenues, Transfers, and Other Adjustments	-$1,124	-	-
Total Resources	-$416	-	-
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	-	41	-
Less funding provided by General Fund (State Operations)	-416	-41	-
Total Expenditures and Expenditure Adjustments	-$416	-	-
FUND BALANCE	-	-	-
3132 Charity Bingo Mitigation Fund [S]			
BEGINNING BALANCE	-	-	-
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Transfers and Other Adjustments			
Interest Loan Repayment from the Charity Bingo Mitigation Fund (3132) to the Indian Gaming Special Distribution Fund (0367) per Chapter 353, Statutes of 2013 (SB 820)	-$429	-	-
Loan Repayment from the Charity Bingo Mitigation Fund (3132) to the Indian Gaming Special Distribution Fund (0367) per Chapter 353, Statutes of 2013 (SB 820)	-1,475	-	-
Total Revenues, Transfers, and Other Adjustments	-$1,904	-	-
Total Resources	-$1,904	-	-
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	-	258	-
Less funding provided by General Fund (State Operations)	-1,904	-258	-
Total Expenditures and Expenditure Adjustments	-$1,904	-	-
FUND BALANCE	-	-	-
3136 Foreclosure Consultant Regulation Fund [S]			
BEGINNING BALANCE	$18	$19	$20
Adjusted Beginning Balance	$18	$19	$20
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4129200 Other Regulatory Fees	1	1	1
Total Revenues, Transfers, and Other Adjustments	$1	$1	$1
Total Resources	$19	$20	$21
FUND BALANCE	$19	$20	$21
Reserve for economic uncertainties	19	20	21
3240 Secondhand Dealer and Pawnbroker Fund [S]			
BEGINNING BALANCE	$2,868	$2,827	$2,598
Prior Year Adjustments	-3	-	-
Adjusted Beginning Balance	$2,865	$2,827	$2,598
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4127400 Renewal Fees	397	397	397
4129400 Other Regulatory Licenses and Permits	131	131	131
4163000 Investment Income - Surplus Money Investments	118	53	53
Total Revenues, Transfers, and Other Adjustments	$646	$581	$581
Total Resources	$3,511	$3,408	$3,179
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	577	754	761
9892 Supplemental Pension Payments (State Operations)	10	6	6

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	2023-24*	2024-25*	2025-26*
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	97	50	12
Total Expenditures and Expenditure Adjustments	$684	$810	$779
FUND BALANCE	$2,827	$2,598	$2,400
Reserve for economic uncertainties	2,827	2,598	2,400
3285 Electronic Recording Authorization Fund [S]			
BEGINNING BALANCE	-	$31	$104
Adjusted Beginning Balance	-	$31	$104
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4135000 Local Agencies - Miscellaneous Revenue	$376	383	383
4163000 Investment Income - Surplus Money Investments	4	4	4
Total Revenues, Transfers, and Other Adjustments	$380	$387	$387
Total Resources	$380	$418	$491
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	330	300	300
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	19	14	15
Total Expenditures and Expenditure Adjustments	$349	$314	$315
FUND BALANCE	$31	$104	$176
Reserve for economic uncertainties	31	104	176
3297 Major League Sporting Event Raffle Fund [S]			
BEGINNING BALANCE	$2,420	$2,799	$2,800
Prior Year Adjustments	-13	-	-
Adjusted Beginning Balance	$2,407	$2,799	$2,800
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4129200 Other Regulatory Fees	91	91	91
4129400 Other Regulatory Licenses and Permits	577	577	577
4163000 Investment Income - Surplus Money Investments	134	50	50
Total Revenues, Transfers, and Other Adjustments	$802	$718	$718
Total Resources	$3,209	$3,517	$3,518
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	361	676	682
9892 Supplemental Pension Payments (State Operations)	7	2	2
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	42	39	9
Total Expenditures and Expenditure Adjustments	$410	$717	$693
FUND BALANCE	$2,799	$2,800	$2,825
Reserve for economic uncertainties	2,799	2,800	2,825
3300 Ammunition Vendors Special Account [S]			
BEGINNING BALANCE	-	-	-
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4129200 Other Regulatory Fees	-	72	72
Total Revenues, Transfers, and Other Adjustments	-	$72	$72
Total Resources	-	$72	$72
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	-	72	72
Total Expenditures and Expenditure Adjustments	-	$72	$72
FUND BALANCE	-	-	-
3303 Ammunition Safety and Enforcement Special Fund [S]			
BEGINNING BALANCE	$511	$2,525	$4,565
Prior Year Adjustments	-89	-	-

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	2023-24*	2024-25*	2025-26*
Adjusted Beginning Balance	$422	$2,525	$4,565
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4127400 Renewal Fees	38	-	-
4129400 Other Regulatory Licenses and Permits	47	-	-
4143500 Miscellaneous Services to the Public	1,400	1,299	1,299
4163000 Investment Income - Surplus Money Investments	39	47	39
Transfers and Other Adjustments			
Loan from the General Fund (0001) to the Ammunition Safety and Enforcement Special Fund (3303) per Item 0820-014-0001, Budget Acts of 2023 and 2024	4,300	4,300	-
Total Revenues, Transfers, and Other Adjustments	$5,824	$5,646	$1,338
Total Resources	$6,246	$8,171	$5,903
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	3,610	3,478	3,478
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	111	128	139
Total Expenditures and Expenditure Adjustments	$3,721	$3,606	$3,617
FUND BALANCE	$2,525	$4,565	$2,286
Reserve for economic uncertainties	2,525	4,565	2,286
3320 Department of Justice Subaccount, Tobacco Law Enforcement Account, CA Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund [S]			
BEGINNING BALANCE	$47,298	$64,043	$48,405
Adjusted Beginning Balance	$47,298	$64,043	$48,405
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4163000 Investment Income - Surplus Money Investments	4,785	-	-
4171400 Escheat - Unclaimed Checks, Warrants, Bonds, and Coupons	53	-	-
Transfers and Other Adjustments			
Revenue Transfer from California Healthcare Research and Prevention Tobacco Tax Act of 2016 Fund (3304) to Justice Tobacco Law Enforcement Account (3320) per RTC 30130.57(e)(1)&(4)	25,952	22,153	20,713
Total Revenues, Transfers, and Other Adjustments	$30,790	$22,153	$20,713
Total Resources	$78,088	$86,196	$69,118
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	4,303	8,985	8,985
0820 Department of Justice (Local Assistance)	9,606	28,500	28,500
9900 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	136	306	374
Total Expenditures and Expenditure Adjustments	$14,045	$37,791	$37,859
FUND BALANCE	$64,043	$48,405	$31,259
Reserve for economic uncertainties	64,043	48,405	31,259
3421 California Tobacco Directory Fund [S]			
BEGINNING BALANCE	$22	$50	$78
Adjusted Beginning Balance	$22	$50	$78
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4129200 Other Regulatory Fees	27	27	27
4163000 Investment Income - Surplus Money Investments	1	1	1
Total Revenues, Transfers, and Other Adjustments	$28	$28	$28
Total Resources	$50	$78	$106
FUND BALANCE	$50	$78	$106
Reserve for economic uncertainties	50	78	106
3440 California Unflavored Tobacco List Fund [S]			
BEGINNING BALANCE	-	-	-

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0820 Department of Justice - Continued

	2023-24*	2024-25*	2025-26*
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Transfers and Other Adjustments			
Loan from the Public Rights Law Enforcement Special Fund (3053) to the California Unflavored Tobacco List Fund (3440) per pending statute	-	-	872
Total Revenues, Transfers, and Other Adjustments	-	-	$872
Total Resources	-	-	$872
EXPENDITURE AND EXPENDITURE ADJUSTMENTS			
0820 Department of Justice (State Operations)	-	-	872
Total Expenditures and Expenditure Adjustments	-	-	$872
FUND BALANCE	-	-	-

† Savings resulting from SEC. 4.05 and/or SEC. 4.12 of the 2024 Budget Act are currently being recorded as an unallocated statewide set-aside. As a result, this department's budgetary displays may reflect overstated expenditures and may also potentially reflect negative fund balances in particular programs and funds.

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EXHIBIT 6

Lucky Chances Settlement

Project Requirements and Estimated Volumes

Total Notice Population	300
Email Notice Population	300
Percentage of Undeliverable email	15%
Mail Notice Population	300
Percentage of Undeliverable mail	15%
Toll-Free Phone with IVR	Yes
Contact Center Agent Support	No
Settlement Website	Yes
Claim Response Percentage	75%
Estimated Claims Received	225
Digital Payment Percentage	0%
Case Duration (Months)	12
Mailing Packet Content	12-image Notice & Claim Packet
Mailing Packet Format	Inserted into a Windowed Envelope

Summary Estimate

	Total Amount	
Data Standardization and Class Notice	$	13,050
Project Management and Reporting	$	24,190
Settlement Website	$	4,400
Toll-Free Contact Center	$	4,715
Claims Processing and Claimant Support	$	5,233
Distribution and Fund Management	$	4,968
Postage and Expenses	$	6,598
Total Estimate	$	63,154

Detailed Estimate

Lucky Chances Settlement

Activity	Unit	Rate	Volume	Amount
Data Standardization and Class Notice				
Supplemental Media Program	See Attached			$ 5,000
Import and Standardize Data*	Per File	$ 750	1	$ 750
Data Analyst	Per Hour	$ 155	20	$ 3,100
Email Notice (includes setup, delivery and undeliverable processing)	Flat Fee	$ 450	1	$ 450
Mailing Notice (includes setup, NCOA, printing, undeliverable processing, address research and remails)	Flat Fee	$ 2,500	1	$ 2,500
*Data provided must meet Epiq data standards. Epiq can standardize data at additional cost of $165/hr.				**$ 13,050**
Project Management				
Project Manager	Per Hour	$ 165	67	$ 11,055
Project Coordinator	Per Hour	$ 100	80	$ 8,000
Data Analyst and Reporting	Per Hour	$ 155	17	$ 2,635
				$ 24,190
Website and Reporting				
Static Website Deployment and Testing	Per Language	$ 2,000	1	$ 2,000
Website Hosting	Per Month	$ 200	12	$ 2,400
				$ 4,400
Toll-Free Contact Center - IVR Only				
IVR Configuration and Recording	Per Language	$ 2,000	1	$ 2,000
IVR Maintenance Fee	Per Month	$ 225	12	$ 2,700
IVR Minutes of Use	Per Minute	$ 0.25	60	$ 15
Message Recording Fee (IVR Script Change)	Per Hour	$ 125	-	$ -
				$ 4,715
Claims Processing and Claimant Support				
Complex Claim - Intake and OCR	Per Claim	$ 3.50	225	$ 788
Scanning and Image Storage	Per Image	$ 0.12	675	$ 81
Claims Review	Per Hour	$ 65	38	$ 2,438
Quality Assurance	Per Hour	$ 80	2	$ 150
Claimant Notification Letters (Payment Appeal)	Per Letter	$ 0.75	23	$ 17
Claimant Correspondence Review and Response (including review of payment appeals)	Per Hour	$ 65	24	$ 1,560
Opt Out and Objection Reporting	Per Document	$ 10	20	$ 200
				$ 5,233

Lucky Chances Settlement

Activity	Unit	Rate	Volume	Amount
Distribution and Fund Management				
Escrow Management	Per Year	$ 3,500	1	As incurred
Programming Distribution Calculation	Per Hour	$ 155	8	$ 1,240
Payment Run Coordination (w/2 Reissue Runs)	Per Hour	$ 65	30	$ 1,950
Account Management and Reconciliation	Per Hour	$ 80	18	$ 1,440
Print 1-image Paper Check with Stub	Per Check	$ 0.50	225	$ 113
TIN Matching - IRS Verification of SSNs	Per TIN	$ 0.50	225	$ 113
Print Form 1099-MISC	Per Form	$ 0.50	225	$ 113
				$ 4,968
Total Estimated Administration Fee				**$ 56,555**
Postage and Expenses				
Post Office Box - Dedicated	Per 6 Months	$ 800	2	Waived
Postage* - Notice/Letter/1099s	Blended Total			$ 378
Postage* - USPS Priority Flat Rate Envelope with Signature Requirement	Per Piece	$ 17.85	225	$ 4,016
Photocopies, Delivery and Box Storage	As Used			$ 204
Translation	As Used			$ -
Bank Fees - Account	Per Month	$ 250	6	Waived
Settlement Fund (QSF) Income Tax Return	Per Year	$ 2,000	1	$ 2,000
*Discounted rates as applicable				**$ 6,598**
Total Estimated Costs				**$ 6,598**
Total Estimate				**$ 63,154**

Estimate does not include sales tax where applicable.

Lucky Chances Settlement

Standard Rates

Clerical and Data Entry	$	50.00
Contact Center (Dedicated)	$	55.00
Contact Center (Shared Per Minute)	$	1.15
Claims Analyst/Check & Mailing Coordinators	$	65.00
Correspondence	$	65.00
Claims Specialist/Account Reconciliation	$	85.00
Project Coordinator	$	110.00
Project Specialist/Contract Attorney	$	125.00
Data Analyst and Reporting/Legal Notice Specialist	$	165.00
Disbursement/Contact Center Manager	$	175.00
Project Manager	$	175.00
Sr. Project Manager/Software Engineer	$	195.00
Notice Manager	$	200.00
Project Director/Solutions Architect	$	250.00
Client Services Managers/Notice Director	$	275.00
Vice President/Sr. Solutions Architect	$	325.00
Executive Management and Testimony	$	450.00
Photocopy or Image	$	0.12
Box Storage (Per Box/Per Month)	$	10.00
Long Distance, Per Minute		As Used

Estimate Valid Until: 3/17/2025

Lucky Chances, Inc., et al. v. The State of California, et al.
Notice Plan Proposal
Proprietary and Confidential
May 19, 2025

Print (Newspaper)	Insertions	Distribution	Ad Size	Cost
Los Angeles Times	14 Consecutive Issues	Los Angeles, CA	2 col x 3.25"	$18,896
Sacramento Bee	14 Consecutive Issues	Sacramento, CA	2 col x 4"	$11,345
			Plan Total:^	**$30,241**

^Expert and professional time to be billed separately.

Quote valid for 60 days from issue date. All advertising is subject to publisher's approval and availability at the time of the buy.

EXHIBIT 7

RUTAN

RUTAN & TUCKER, LLP

DAVID LANFERMAN

Partner

Land Use, CEQA, Environmental Law & Litigation

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Dave Lanferman is a land use lawyer, whose practice emphasizes real estate development, land use approvals, regulatory and development mitigation fees and a wide range of litigation involving regulatory requirements. His land use expertise includes the California Mitigation Fee Act, California Environmental Quality Act (CEQA), and regulatory compliance, environmental mitigation, planning, zoning and subdivision approvals and litigation, development impact fees, and appropriate conditions of approval.

He is an editorial advisor and update author for CEB's authoritative treatise on California Land Use Practice, and has served as Vice Chair of the State Bar's Real Property Law Section. Dave's clients include developers, property owners, home builders, public agencies, public interest groups, and industry associations.

Areas of Practice

Land Use: Mr. Lanferman's practice includes virtually all facets of land use planning, zoning, subdivision and development permitting and extensive experience under CEQA, entitlements analysis, and other conditions of development approval. Mr. Lanferman is one of the preeminent attorneys in California practicing in the areas of the Mitigation Fee Act, environmental mitigation impact fees, development fees, dedications, and exactions.

Litigation: Mr. Lanferman has extensive experience in all aspects of land use and real estate litigation in both state and federal courts and a wide range of land use writs and appeals. Recent litigation matters include CEQA, development fees, subdivision map issues, air quality regulation, prescriptive rights and eminent domain. He has an extensive appellate practice, including appearances before the California Supreme Court. Many of his cases have involved significant issues of land use and environmental law, including appellate decisions involving CEQA, the Mitigation Fee Act, air quality regulation, the Subdivision Map Act, vested rights, and the validity of mitigation fees or conditions of approval imposed on new development.

Related Services

- Land Use and Entitlement
- Government and Regulatory
- Affordable Housing and Economic Development
- Environmental
- Land Use and Natural Resources
- Municipal Law General and Special
- Real Property Litigation

Related Industries

- Builders and Land Developers
- Environmental and Natural Resources
- Public Entities and Municipalities
- Water

Bar & Court Admissions

- State Bar of California
- California State Courts
- U.S. Court of Appeals for the Ninth Circuit

Mr. Lanferman has also been lead counsel in several of the most significant cases involving land use and real estate development such as impact fees and exactions, affordable housing, vested rights, CEQA review, Clean Air Act and air emission mitigation, and local initiatives and referenda.

Entitlements: Mr. Lanferman has assisted public agencies and developers in planning, CEQA and environmental review, and in obtaining entitlements from local governments, and regional, state, and federal regulatory agencies for major residential, commercial, and institutional projects.

Mr. Lanferman's practice includes development, permitting and real estate transactional planning, negotiation and documentation; due diligence analysis, development agreements, annexation and LAFCO compliance; infrastructure finance; environmental review, mitigation and compliance; water supply analysis; mitigation of air emissions; wetlands and natural resources permitting; subdivision map processing; Williamson Act contracts; and CEQA compliance.

Administrative agencies: Mr. Lanferman's practice also features extensive local government and administrative agency experience on land use issues, including specialized environmental and regulatory practices such as air quality, water resources, flood control, historic resources, endangered species, Local Agency Formation Commissions (LAFCO), and the Coastal Act. Mr. Lanferman frequently appears before local, regional and state administrative and regulatory agencies. His practice includes city and county boards and administrative agency hearings (e.g., California Coastal Commission; Regional Water Quality Control Boards; Regional Air Pollution Control Districts; Commission on State Mandates; LAFCO).

Publications

- Advisory Board and Update Editor, *California Land Use Practice* (CEB)
- Advisory Board, *Practice Under the California Environmental Quality Act* (CEB)
- Contributing Editor, *California Real Estate Reporter* (Lexis-Nexis Publishing)
- "California Supreme Court Clarifies BMR Housing Law," The Registry, November 2013
- "Inclusionary Zoning: Legal Questions and Issues," Real Property Law Journal, 2011
- "New Law Automatically Extends Subdivision Map Approvals (Again)," Real Property Law Section e-Bulletin, September 2011
- "Assessments: California Supreme Court Raises the Bar in Silicon Valley Taxpayers Case," The Real Estate Finance Journal, September 1, 2008
- "Recent Court Challenges Question Impact Fees," Land Development (National Association of Home Builders, Summer 2007)
- "Streamlining CEQA Review for Housing Developments," Builder Digest, Feb/Mar 2003
- "Clear as Mud: New Water Supply Laws Cloud The Development Process" California Real Estate Journal, February 2002
- Impact of New Water Laws on Development in California, January 29, 2002
- "Water Supplies and Land Use Planning," Associated General Contractors'
- U.S. District Court for the Central, Eastern and Northern Districts of California
- U.S. Supreme Court

Education

- University of California, Hastings College of the Law (J.D., 1976)
- University of California, Davis (B.A., 1973), high honors, Phi Beta Kappa

Journal, December 2001
- Editorial Consultant, “Rights and Responsibilities of Adjoining Landowners,” California Pleading and Practice (Matthew Bender Publ.)
- Editorial Consultant, “Good Faith Improver of Real Property,” California Forms of Pleading and Practice (Matthew Bender Publ.)

Real Estate, Land Use & Environmental Law Blog Articles

- “Real Estate 101: Land Use Practice” for the State Bar of CA (January 2014)
- “Affordable Housing in California” (Building Industry Super Conference (November 2013)
- “Inclusionary Zoning: Superior Court Strikes Down City of San Jose’s “Inclusionary Housing” Ordinance,” July 20, 2012
- “Inclusionary Zoning In California: Legal Questions And Issues,” October 6, 2011
- “New Law Automatically Extends Subdivision Map Approvals (Again),” July 25, 2011
- “‘Pay Under Protest’ Procedure for “Other Exactions” Is Not Applicable to All Development Exactions,” April 11, 2011
- “Supreme Court Refuses to Hear Palmer Case – Are Inclusionary Zoning Practices Due for Change?”, October 29, 2009
- “Regulatory Takings Law: Ninth Circuit Panel Holds A Mobile Home Rent Control Ordinance Is Subject To A “Facial Challenge” And Awards Compensation To Property Owners”, October 1, 2009
- “Administrative Fee for Tax Collection is an Unconstitutional Hidden Tax”, August 28, 2009
- “New Law Automatically Extends Existing Tentative Maps For Two Years, But Also Creates New Pitfalls, And Reduces Some Protections For Recorded Maps”, July 18, 2009
- “Appellate Court Decision Invalidating Unjustified “Affordable Housing In Lieu Fees” Is Now Final”, June 19, 2009
- “Decision Overturning City’s “Affordable Housing in Lieu Fee” Ordered Published by Court of Appeal”, March 10, 2009
- “Affordable Housing In Lieu Fees Must Be Shown To Be Reasonably Related, And Limited, To “Deleterious Impacts Of New Development” Like Other Development Fees”, February 9, 2009
- “Supreme Court Raises The Bar: Holds Prop. 218 Requires Court To Exercise Independent Judgment Regarding Validity Of Assessments And Places Burden Of Proof On Assessing Agency”, July 18, 2008
- “New Law Automatically Extends Existing Vesting Tentative Maps, But Don’t Celebrate Too Soon: There Are Pitfalls For The Unwary”, July 16, 2008
- “California Supreme Court Upholds Use of ‘Common Sense’ Exemption, Says that CEQA May Require Consideration of the Effects of ‘Displaced Development’”, June 26, 2007
- “New State Fees for Water Rights Permits and Licenses Unconstitutional Due to Failure to Demonstrate Reasonable ‘Proportionality’ to Fee Payors”, January 29, 2007

Presentations

- "Current Issues in Development Impact Fees", Lorman Education Services, August 2020
- Adventures in Inclusionary Housing", Presented at the APA California 2014 Conference, Anaheim, CA, September 13-16, 2014
- "Takings" Law Viewed Against Local Inclusionary Housing Mandates in California, Presentation for the 12th Annual Building Industry Law and Policy Conference, October 2, 2013
- "CEQA Compliance" (October 2013)
- "Legally Defensible Environmental Review Under CEQA," (February 2012)
- "Inclusionary Zoning in California," Sacramento County Bar Association (September 2011)
- "Affordable Housing Programs After the Crash: What Next?" State Bar, Real Property Section Retreat (May 2011)
- "Subdivision Map Act Practice," State Bar of California Annual Conference (September 2008)
- Impact Fees Update – California Building Industry Association's Major Builders' Conference (August 6, 2008)
- "Impact Fees: A Practical Approach to Smart Growth," State Bar of California, Real Estate Section Retreat (May 2-4, 2008)
- Mitigation Fees on New Housing Development as "Indirect Sources" of Air Emissions — California Building Industry Association Select Committee on Industry Litigation (May 3, 2008)
- "Development Impact Fees – Dirty Sexy Money," State Bar of California, Real Estate Section (April 2008)
- "How Much Is Too Much? Analysis of Impact Fees," State Bar of California, Real Estate Section (March 2007)
- "Land Use Regulation and Development," California Continuing Education of the Bar (November 2006)
- "Development Impact Fees – Recent Litigation and Legislation," Building Industry Legal Defense Foundation Super Conference (October 2006)
- "Air Quality Mitigation Fees on New Development," Building Industry Association (April 2006)
- "Special Taxes, Fees, and Connection Charges," California Building Industry Association/University of Southern California CEB (October 2004)
- "Recent Developments in Development Fees & Exactions," California Building Industry Association (October 2003)
- "Smart Growth vs. Land Use Initiatives and Referenda" Hastings College of the Law, West-Northwest Environmental Law Journal, Symposium on Land Use (April, 2001)
- "Establishing and Litigating Development Impact Fees," Bay Area City Attorneys' Association (March 2000)
- "CEQA for Public Agency Attorneys," County Counsels' Association (September 1999)
- Associate Professor, Environmental Law, California State University Extension

Awards & Honors

- Super Lawyers Northern California – Land Use & Zoning, 2019 – 2023

- The American Lawyer, Top Rated Lawyer in Real Estate Law, 2019
- AV® Preeminent™ rating with LexisNexis/Martindale Hubbell
- Home Builders Association, Associate of the Year
- Best Lawyers in America, 2022-2025

Memberships & Associations

- Member, Executive Committee, State Bar Real Property Section
- Vice-Chair, Land Use & Zoning Subsection, State Bar, Real Property Law Section
- Editorial Advisory Board, California Land Use Practice (Cal. CEB)
- Former Chair, Real Estate Section, Alameda County Bar Association
- Board of Directors, Alameda County Bar Association
- President, Southern Alameda County Bar Association
- Chair, Governmental Relations Committee, Fremont Chamber of Commerce
- Chair, City of Fremont Library Advisory Commission
- Commissioner, City of Fremont City Charter Commission
- Commissioner, Alameda County Library Commission
- Board of Trustees, Voluntary Legal Services Program, Alameda County Bar Association

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EXHIBIT 8

RUTAN

RUTAN & TUCKER, LLP

STEVEN GOON

Partner

Litigation and Trial

Orange County

(714) 662-4699

SGoon@rutan.com

Steve Goon is a partner in the Litigation and Trial Section, specializing in business, real estate and construction litigation since joining Rutan & Tucker in October of 1994.

Areas of Focus

- Real Estate Litigation
- Construction Litigation

Representative Matters/Cases

- Representation of former officers, directors and shareholders in dispute with publicly traded theater chain over termination following sale of control shares
- Representation of corporate seller of wholly owned subsidiary in dispute with corporate buyer over contractual indemnity for environmental liabilities present on cement manufacturing facilities
- Representation of National Bank in defense of unfair business practices claim brought by customer as private attorney general on behalf of general public
- Representation of roof vent manufacturer in defense of patent infringement action brought by patent holder
- Representation of property owners in landslide litigation against insurers, public agencies and neighboring property owners
- Representation of Contractor in successful challenge to public agency's award of $150 million construction contract in violation of competitive bidding
- Representation of Contractors in contract claims involving both public and private works of improvement
- Representation of professional engineering firm in malpractice claim brought by public agency involving construction of $1 billion freeway project
- Representation of shopping mall developer in partnership dispute concerning outlet mall project
- Representation of telecommunications equipment manufacturer in contract claims involving sale and installation of telecommunications equipment
- Representation of law firm in malpractice claim involving multi-unit residential

Related Services

- Appellate Practice Group
- Litigation and Trial
- Business and Commercial Litigation
- Construction
- Infrastructure, Public-Private Partnerships (P3)
- Intellectual Property Litigation
- Real Property Litigation
- Unfair Competition and Class Action Defense Group

Related Industries

- Automotive
- Builders and Land Developers
- Construction
- Infrastructure/Public-Private Partnerships (P3)
- Food and Beverage
- Restaurants and Hospitality
- Wholesale and Manufacturers

real estate project in Southern California

Representative Case/Published Decisions

- Carroll Morris v. Redwood Empire Bancorp, 128 Cal. App. 4th 1305 (2005)
- Cardinal Health 301, Inc. v. Tyco Electronics Corporation et al. 169 Cal. App. 4th 116 (2008)

Memberships & Associations

- American Bar Association
- Orange County Bar Association

Bar & Court Admissions

- State Bar of California
- U.S. District Court, Central and Eastern Districts

Education

- University of California, Hastings College of the Law (J.D., 1994)
- University of California, Los Angeles (B.A., 1990), Economics

EXHIBIT 9

RUTAN & TUCKER, LLP

LUCAS HORI

Partner
Litigation and Trial

Orange County
(714) 641-3491
lhori@rutan.com

Lucas Hori practices in the firm's trial department. Clients seek his representation in connection with a range of disputes. He is a member of Rutan & Tucker's Unfair Competition and Class Action Defense Group, and strategically counsels businesses in class actions, mass actions, and unfair business practices litigation. Mr. Hori has successfully defended significant class actions in many fields, including finance, technology, and education. He has also been counsel to real estate developers and other local and national businesses in a variety of industries at all stages of litigation and appeal. Based on Mr. Hori's commitment to obtaining strong results for his clients, he has been consistently recognized by Best Lawyers in America as one of the "Best Lawyers: Ones to Watch" for 2021, 2022, 2023, 2024, and 2025 and was also recognized in Southern California Super Lawyers' Rising Stars Edition for 2023, 2024, and 2025.

Mr. Hori served as a law clerk to the Honorable Karen E. Scott of the U.S. District Court, Central District of California and as a judicial extern to the Honorable Stephen V. Wilson in the Central District. He attended law school at UCLA and received his undergraduate degree from Pepperdine University, summa cum laude. He is also actively engaged in the community, and currently serves on the Board of Directors of Community Legal Aid SoCal.

Representative Matters

- Representation of national technology corporation in class action alleging claims relating to robotic vacuums.
- Representation of packaged foods company in putative class action alleging false advertising.
- Representation of homebuilder in action arising from dispute over affordable housing requirements.
- Representation of national technology corporation in class action alleging trespass and related claims arising from toner in printer cartridges.
- Representation of Fortune 500 homebuilder in actions by former executives alleging failure to pay out profit participation under their respective executive

Related Services

- Business and Commercial Litigation
- Unfair Competition and Class Action Defense Group

Bar & Court Admissions

- California State Courts
- U.S. District Court for the Central, Eastern, Northern and Southern Districts of California

Education

- University of California, Los Angeles (J.D., 2013)
- Pepperdine University (B.A., 2010) summa cum laude

compensation agreements.
- Representation of defendant in putative class action alleging false advertising and unfair business practices related to client's career training services.
- Representation of real estate developer in dispute concerning unit prices at mixed-use development.
- Representation of metal forging company in class action alleging personal injury and property damage arising from hexavalent chromium emissions.
- Representation of national technology corporation against class action claims of consumer misrepresentation arising from printer functionality.
- Representation of national financial services provider against class action claims of statutory violations in connection with loan practices.
- Representation of seller in connection with dispute arising from sale of aerospace company.
- Representation of national corporation against claims of fraud and breach of fiduciary duty in multi-plaintiff action arising from syndicated real estate transaction.
- Representation of parties asserting and defending patent and trademark claims.
- Representation of parties in business contract, real estate title, and collection disputes.

Recent Publications

- Bons Mots, Buffoonery, and the Bench: The Role of Humor in Judicial Opinions, 60 UCLA L. Rev. Discourse 16 (2012).

Memberships & Associations

- Board of Directors, Community Legal Aid SoCal
- Member, Orange County Bar Association

Awards & Honors

- Southern California Super Lawyers, Rising Stars Edition, 2023 – 2025
- Best Lawyers in America: Ones to Watch, 2021 – 2025

PROOF OF SERVICE

STATE OF CALIFORNIA, COUNTY OF ORANGE

I am employed by the law office of Rutan & Tucker, LLP in the County of Orange, State of California. I am over the age of 18 and not a party to the within action. My business address is 18575 Jamboree Road, 9th Flr., Irvine, CA 92612. My electronic notification address is dcorwin@rutan.com.

On June 9, 2025, I served on the interested parties in said action the within:

PLAINTIFFS' NOTICE OF MOTION AND MOTION FOR PRELIMINARY APPROVAL OF CLASS ACTION SETTLEMENT; MEMORANDUM OF POINTS AND AUTHORITIES

DECLARATION OF LUCAS K. HORI IN SUPPORT OF PLAINTIFFS' MOTION FOR PRELIMINARY APPROVAL OF CLASS ACTION SETTLEMENT (Exs. 1-9)

DECLARATION OF JARHETT BLONIEN IN SUPPORT OF PLAINTIFFS' MOTION FOR PRELIMINARY APPROVAL (Exs. 10-11)

[PROPOSED] ORDER GRANTING MOTION FOR PRELIMINARY APPROVAL OF CLASS ACTION SETTLEMENT

as stated below:

Daniel Robertson, Esq.
Michael Sapoznikow, Esq.
Rob Bonta, Esq.
Molly K. Mosley, Esq.
Jennifer Henderson, Esq.
Office of the Attorney General
1300 I Street, Suite 125
P.O. Box 944255
Sacramento, CA 94244-2550

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Email: Daniel.Robertson@doj.ca.gov; Michael.Sapoznikow@doj.ca.gov; Rob.Bonta@doj.ca.gov; Molly.Mosley@doj.ca.gov; Jennifer.Henderson@doj.ca.gov

Jarhett P. Blonien — ***VIA EMAIL ONLY***
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☒ (BY MAIL) by placing a true copy thereof in sealed envelope(s) addressed as shown above.

In the course of my employment with Rutan & Tucker, LLP, I have, through first-hand personal observation, become readily familiar with Rutan & Tucker, LLP's practice of collection and processing correspondence for mailing with the United States Postal Service. Under that practice, I deposited such envelope(s) in an out-box for collection by other personnel of Rutan & Tucker, LLP, and for ultimate posting and placement with the U.S. Postal Service on that same day in the ordinary course of business. If the customary business practices of Rutan & Tucker, LLP with regard to collection and processing of correspondence and mailing were followed, and I am confident that they were, such envelope(s) were posted and placed in the United States mail at Costa Mesa, California, that same date. I am aware that on motion of party served, service is presumed invalid if postal cancellation date or postage meter date is more than one day after date of deposit for mailing in affidavit.

☐ (BY FEDEX) by depositing in a box or other facility regularly maintained by FedEx, an express service carrier, or delivering to a courier or driver authorized by said express service carrier to receive documents, a true copy of the foregoing document in sealed envelopes or packages designated by the express service carrier, addressed as shown above, with fees for overnight delivery provided for or paid.

☒ (BY E-MAIL) by transmitting a true copy of the foregoing document(s) to the e-mail addresses set forth above.

Executed on June 9, 2025, at Costa Mesa, California.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Debbie Corwin	*/s/ Debbie Corwin*
(Type or print name)	(Signature)