

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 104

SPONSOR: Regulated Industries Committee & Senator Geller

SUBJECT: Cardrooms

DATE: March 28, 2001 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Caldwell	Caldwell	RI	Favorable/CS
2.	_____	_____	FT	_____
3.	_____	_____	AGG	_____
4.	_____	_____	AP	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

I. Summary:

The bill revises the conditions under which cardrooms may be operated at pari-mutuel wagering facilities in the state. The bill eliminates the \$10 pot limit and replaces it with a \$2 bet limit with a maximum of three raises per round of betting. The bill increases the hours of operation by allowing a cardroom to begin operations two hours before any parimutuel event begins and to continue business until 2:00 a.m. the following day. Cardroom operators may give away prizes to players who hold certain combinations of cards, e.g. a royal flush. The gross receipts tax paid by the cardroom operator to the state is decreased from 10% to 2% of monthly gross receipts. The amount paid from cardroom receipts as supplemental purses and prize money is increased. Each permit holder operating at a facility is required to have applied for a license to conduct a full schedule of live performances in order to receive a renewed cardroom license. Finally, the annual cardroom license fee applies to each facility rather than each permit holder at a facility.

The bill is estimated to have a negative impact on state revenue collections of approximately \$158,500 for Fiscal Year (FY) 2001-02. The bill takes effect July 1, 2001.

This bill substantially amends section 849.086 of the Florida Statutes.

II. Present Situation:

In 1996, wagering on the play of certain card games at pari-mutuel facilities was authorized. A cardroom operator or employee may not participate in any game, except as a non-playing dealer. Cardroom operators are required to provide dealers for each game conducted at the cardroom which is of the type that normally requires a dealer. No electronic mechanical devices may be used in playing any game. Only cards or game equipment and chips furnished by the cardroom operator may be used in playing and wagering on such games. Banking games, where the

cardroom operator or their employee is a participant in the game, plays winners, and collects money from losers are prohibited. The cardroom operation may choose to offer any game or combination of games that are authorized under the penny-ante game statute, s. 849.085, F.S.

Cardrooms may only operate within two hours prior to the post time of the first live event conducted at the facility on which wagers are accepted to within two hours after the conclusion of the last live event on which wagers are accepted. A permit holder can operate a cardroom only on days when it is conducting live events. A player is limited to winning in a single round, hand, or game a maximum of \$10.

The Department of Business and Professional Regulation's Division of Pari-mutuel Wagering (division) is authorized and responsible for licensing and regulating cardroom activities in the state. The division may suspend, revoke, or deny licenses or permits for violations of the statute. Since the operation of a cardroom is conditioned upon the operation of live pari-mutuel events, the division may suspend, revoke, or deny a cardroom license if the licensee's pari-mutuel permit or license is suspended or revoked. Certain violations carry criminal penalties.

Each local government is required to pass an ordinance authorizing cardroom activity in their respective county before such operation can occur in that county.

Cardroom operators are required to pay a 10 percent gross receipts tax. If a separate admissions fee is charged for entry to the cardroom, each patron must pay an admission tax equal to 15 percent of the admission charge or 10 cents, whichever is greater. Total tax is payable to the division monthly with one half of the tax revenues deposited into the General Revenue Fund and the other into the Pari-mutuel Wagering Trust Fund. Twenty-five percent of these deposits into the Pari-mutuel Wagering Trust Fund are required to be returned to the county in which the card room is located. If two or more pari-mutuel facilities are located in the same incorporated municipality, the cardroom revenue shall be distributed to the municipality. Greyhound and jai alai permit holders who operate cardrooms are required to use 4 percent of their gross receipts to supplement greyhound purses and jai alai player prize money. Thoroughbred and harness horse racing permit holders that operate cardrooms are required to distribute 50 percent of their monthly net proceeds as follows: 47 percent to supplement purses and 3 percent to supplement breeders' awards during the permit holders next meet.

Only those persons holding a valid cardroom license issued by the division are authorized to operate a cardroom. Moreover, only those persons holding an active pari-mutuel permit are eligible to apply for a cardroom license. After initial issuance of the cardroom license, application for both the pari-mutuel license and cardroom license renewal is to be made at the same time each year. To be eligible for renewal of the cardroom license, the applicant must request to conduct at least 90 percent of the total number of live performances conducted during the state fiscal year in which its initial cardroom license was issued or in the state fiscal year immediately prior thereto.

The annual cardroom license fee is \$1,000 for the first table and \$500 for each additional table to be operated in the cardroom. If the need arises, permit holders may add tables during the year upon payment of the \$500 per table license fee. For FY 1998-99, 14 pari-mutuel permit holders

operated cardrooms with 227 licensed tables. During the current fiscal year through March 30th the number of cardroom tables has decreased to 188 tables.

Some permitholders operate out of the same facility, for example Dania Jai Alai and Summersport Jai Alai. Although permitholders may utilize the same facility, they do not necessarily license the same number of tables. For example, of the 227 licensed tables in FY 1998-99, Dania Jai Alai licensed 23 tables and Summersport licensed 10 tables. However, all 14 permitholders with cardrooms cannot all operate at the same time and 227 tables are not operating at once in the state.

Cardroom operators are responsible financially and otherwise for the operation of the cardroom and the conduct of its employees. Each applicant for a cardroom license is required to obtain a surety bond payable to the state in the amount of \$50,000 to guarantee the redemption of the chips or tokens. The bond is required to be in force during the term of the license. In lieu of a new bond to specifically cover the cardroom operation, a cardroom license applicant may provide evidence to the division that the applicant's pari-mutuel bond has been expanded to include coverage for the cardroom operation. Cardroom employees are required to hold an occupational license in the same manner that employees of a pari-mutuel facility are required.

Players may be charged a fee by the cardroom operator for the right to participate in the games. The fee may be either a flat fee or an hourly rate for the use of the seat at the gaming table, similar to the fee charged at pool halls for the use of a pool table, or the fee may be a percentage of the amount wagered in a game. The fee charged by the cardroom for participation in a game is in addition to the pot limit.

No wagers may be made using cash or any other form of negotiable currency. Players may only wager using chips or tokens supplied by the cardroom operator. Play chips must be purchased for money before play begins and will be exchanged for money when play is over. The same pot limit provided in the penny-ante games statute, \$10, is applicable to games conducted at a licensed cardroom.

In FY 1997-98, the first full year of cardroom operations, 15 cardrooms were licensed and cardroom tax revenue totaled \$652,593. In FY 1998-99, cardrooms numbered 14 and tax revenue totaled \$559,851. During FY 1999-2000, state tax revenue fell nearly 15% over the previous year to \$475,821.

III. Effect of Proposed Changes:

The bill amends s. 849.086, F.S., by revising the conditions under which cardrooms may operate at pari-mutuel facilities and reducing the gross receipts tax. Currently only persons with a valid and active pari-mutuel permit are eligible for cardroom licenses and cardrooms may only be operated with a licensed pari-mutuel facility. The bill modifies this requirement to permitholders authorized to conduct pari-mutuel wagering activities pursuant to its valid permit or as otherwise authorized by law. The bill authorizes a harness racing permitholder to amend its license renewal application under certain circumstances.

The bill requires both permitholders operating at a shared cardroom facility to have applied for a license to conduct a full schedule of live racing. The provision requiring application for a full schedule of live races may or may not be as limiting as current statutes for jai alai or greyhound permitholders sharing cardroom operations. For example, any jai alai or greyhound permitholder sharing facilities and applying to conduct more than 112 live performances during the fiscal year in which its initial cardroom license was issued, or in the year immediately prior thereto, would realize a benefit by applying for a cardroom license under the proposed bill. For jai alai and greyhound racing, 100 live races and games constitute a full schedule, whereas under current statutes each permitholder would be required to apply for at least 101 performances (i.e., 90% of 112 performances to be conducted during the meet). The new provision is more restrictive for jai alai or greyhound permitholders conducting fewer than 110 performances.

The annual cardroom license fee is applicable to each facility rather than to each permitholder. The impact of this change would reduce tax revenue by approximately \$18,500 (see fiscal analysis). However, the decrease in cardroom table fees could be offset by increases in wagering activity and more tables added.

The bill extends and expands cardroom operation time. Operating times are expanded to allow commencement 2 hours prior to the time wagers are accepted for a pari-mutuel event, regardless of whether the event is a live race and when the facility is authorized to accept wagers on pari-mutuel events. Operations are expanded to cease at 2 a.m. on the following day rather than 2 hours after the conclusion of the last live pari-mutuel event.

The bill allows any facility operating a cardroom to award giveaways or prizes to players who hold combinations of cards specified by the cardroom operator. This provision appears to generate a greater interest in the games and increase the amount of wagering activity at each cardroom facility.

Presently, the maximum value of a pot is \$10. Under this bill, the cardroom operator may limit the amount wagered in any game or series of games, but the maximum amount bet may not exceed \$2 with a maximum of three raises in any round of betting. For a game like seven-card stud with 7 participants, the maximum pot value could potentially reach \$200 due to the number of raises and rounds played. This represents a 200 percent increase in the size of the pot from what is currently permitted. Although some games would not reach this dollar amount, pot sizes are expected to be higher, provide a greater incentive to potential participants, and increase total number of tables for cardroom operators.

The bill requires cardroom operators to pay a tax rate equal to 2 percent of the monthly gross receipts. This decrease from the current 10 percent tax rate may be mitigated by greater patron participation.

The bill increases the percent of monthly gross receipts that each greyhound and jai alai permitholder operating a cardroom required for supplementing purses or prize payments from 4 percent to 10 percent and further requires it to be used in the permitholders' next ensuing meet.

Section by Section analysis:**Section 1. Amends s. 849.086, Florida Statutes**

Subsection (5)(b) provides that if more than one permitholder is operating at a facility, each permitholder must have applied for a pari-mutuel license to conduct a full schedule of live racing in order to receive a renewed cardroom license. Permitholders that operated a cardroom in the previous fiscal year but did not renew its request may amend its annual application to include cardroom operations. Harness racing permitholders may apply for a cardroom license if it conducted a minimum of 140 live performances during the state fiscal year immediately prior to its application.

Subsection (5)(d) provides that the annual cardroom license fee applies to each facility rather than each permitholder.

Subsection (7)(a) provides that a cardroom may only be operated at the location specified on the cardroom license and the location may only be the location at which the pari-mutuel permitholder is authorized to conduct pari-mutuel wagering activities pursuant to its valid pari-mutuel permit or is otherwise authorized by law.

Subsection (7)(b) allows cardrooms to be operated during intertrack or simulcast pari-mutuel events, as well as live performances. The time constraint within which a cardroom may operate is also expanded. Instead of two hours prior to a live performance, a cardroom operator may begin business two hours prior to an intertrack wagering, simulcast, or live wagering event. Further, a cardroom operator may continue business until 2:00 A.M. the following day, instead of two hours after the last live pari-mutuel event.

Creates a new subsection (7)(d) to allow cardroom operators to award giveaways or prizes to players who hold combinations of cards specified by the cardroom operator, e.g., a royal flush.

Subsection (8)(b) eliminates the \$10 pot limit and provides, instead, for a \$2 maximum wager with a maximum of three raises in any round of betting. The fee for playing the game can not included in the calculation of the bet size limit.

Subsection (13)(a) reduces the tax paid to the state from 10 percent to 2 percent of the monthly gross receipts.

Subsection (13)(d) increases the percentage each greyhound and jai alai permitholder is required to dedicate to supplemental purses and prize money from 4 percent to 10 percent of monthly gross receipts.

Section 2. Provides that the act will take effect on July 1, 2001.

IV. Constitutional Issues:**A. Municipality/County Mandates Restrictions:**

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:**A. Tax/Fee Issues:**

This bill will eliminate the \$10 pot limit and provides for a \$2 maximum wager with no more than three raises per round. In addition, the cardroom will be allowed to operate more frequently and for longer periods of time each day. Elimination of the \$10 cap on winnings could cause pot sizes to be three or four times larger than the \$10 cap, and potentially pot sizes could grow to a maximum of \$200, depending on the type of card game and the number of rounds of play. The division estimates the total cardroom gross receipts to the permitholders may increase from a projected \$3,500,000 to approximately \$10,500,000 during FY 2001-02. However, due to the reduction of the gross receipts tax percentage from 10 percent to 2 percent, state revenues would decline by approximately \$140,000. That equates to a \$70,000 reduction in Pari-mutuel Trust Fund receipts and a \$70,000 reduction in General Revenue receipts. Because one quarter of the Pari-mutuel Trust Fund receipts is distributed to the counties, they also will realize a negative aggregate impact of approximately \$22,125.

The bill will no longer require annual cardroom license fees for each permitholder, but rather for each facility operating a cardroom. Because many permitholders authorized to operate cardrooms conduct operations at the same facilities, the division would expect a decline of \$18,500 in table fees.

B. Private Sector Impact:

The new bet limits and additional hours of operation are expected to generate additional cardroom wagering activity. As a result, the division estimates the total cardroom gross receipts to the permitholders would increase from a projected \$3,500,000 to approximately \$10,500,000 during FY 2001-02.

Increased cardroom wagering activity will also increase the permitholder's disbursements to supplemental purses and prize money. The bill increases the percentage of cardroom gross receipts each greyhound and jai alai permitholder is required to dedicate to supplemental purses and prize money -from 4 percent to 10 percent of monthly gross receipts. Utilizing

the division's estimates, purse and prize money disbursements will increase from \$140,000 to \$1,050,000.

C. Government Sector Impact:

To the extent that the proposed legislation increases wagering activity in the cardrooms, permitholders may benefit from providing additional tables that could offset any initial decline in table fee or tax revenue. Cardroom gross receipts would need to increase to \$17,500,000 from the current \$3,500,000 gross receipts estimate to offset the proposed 8% decrease in the gross receipts tax rate. Also, 37 additional tables would be required to offset the decrease in table license fees.

VI. Technical Deficiencies:

Page 2, line 7 should be "full schedule of live racing or games" to encompass jai alai.

VII. Related Issues:

None.

VIII. Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
