

HOW WILL NEVADA-STYLE GAMING IN CARD ROOMS IMPACT MID-SIZED
LAW ENFORCEMENT AGENCIES BY 2007?

A project presented to the
California Commission on
Peace Officer Standards and Training

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This Command College Project is a FUTURES study of a particular emerging issue in law enforcement. Its purpose is NOT to predict the future, but rather to project a number of possible scenarios for strategic planning consideration.

Defining the future differs from analyzing the past because the future has not yet happened. In this project, useful alternatives have been formulated systematically so the planner can respond to a range of possible future environments.

Managing the future means influencing the future: creating it, constraining it, adapting to it. A futures study points the way.

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CHAPTER I
IDENTIFYING THE ISSUE

Introduction

With the recent passage of Proposition 1A, California continued to expand the gambling opportunities in the state to an extent that rivals Nevada. In less than a decade, California voters have passed two ballot measures to allow Nevada-style gambling, including slot machines, on Native American reservations located within the state. The passage of Proposition 5, in 1998, and Proposition 1A in 2000, came from Californians who were also in favor of a state lottery. It comes as no surprise that recent amendments to the state's constitution have been drafted to increase the opportunity to gamble.

Generating \$17.5 billion in gross revenues in 1996¹, the gaming industry is growing in popularity, especially Indian gaming. Competition over gaming revenues has forced card room owners to try and level the playing field with the expanding industry of Indian gaming. The passage of Proposition 5 set a record for campaign spending at \$88.7 million.² Funding came from California's Native American tribes on one side of the issue and from their opposition, which was largely comprised of Nevada casinos. Nevada casinos and California card room owners proved successful in their campaign to have the California Supreme Court rule that Proposition 5 was unlawful. The Court held that Indian gaming, which included slot machines, was expressly prohibited by the state's constitution.

Proposition 1A provided an amendment to California's Constitution, and allowed the governor to enter into state compacts with federally recognized Native American tribes. The compact, subject to legislative approval, allows a tribe to operate Nevada-style, or Class III, gaming that includes slot machines and percentage games such as blackjack. The compact also allows the casino to act as the bank and compete directly with the player.

It is unlawful for a California card room operator to offer slot machines and any percentage game, such as craps, roulette, or blackjack. In addition, card room owners cannot use their own house funds to cover the players' wagers, or bank the games offered for play. California card rooms are only allowed to collect a pre-determined fee that is based on the use of the facilities and services the card club provides. The fees are charged on a per-hand basis, and cannot be linked to the amount the player wagers. Players bet against each other, and the winnings are determined by the amount of money the opposing players wager on each hand.

Indian gaming casinos operate approximately 20,000 slot machines in California,³ and that number is expected to rise as more recognized tribes seek compacts with the governor. It is estimated that slot machines account for at least sixty percent of a casino's revenue. Each machine can generate up to \$300 profit per day.⁴ Some believe that the rise of Indian gaming will lead to the demise of California's card rooms, while others forecast that card rooms will eventually be granted some form of Class III gambling. During the height of California's card club expansion in 1993, there were approximately 265 licensed

card rooms.⁵ The rapid growth of the card room industry prompted the legislature to place a moratorium on card room growth that is set to expire in 2007. Recent estimates place the number of cardrooms at 113.⁶ However, the total number of tables each operates has grown. The battle over slot machines and gambling dollars has frequently placed the competing industries in the courtrooms, with the card room owners challenging the legality of Proposition 1A. Larry Flynt, who owns the Hustler Casino, argued that the state and its compacts with Native American tribes under Proposition 1A violated the equal protection clause of the state's constitution. The court disagreed and it is expected that the decision will be appealed. Other suits may follow that provide a remote possibility the card rooms could obtain Class III gaming rights.

Regardless of which way the court decides, the gambling industry in California will continue to impact law enforcement, local government, and the community. Unless the law is amended, the moratorium on card room expansion will be lifted in 2007, and will allow prospective owners to seek new California locations for card rooms. This project seeks to answer the question, "How will Nevada-style gaming in California card rooms impact mid sized law enforcement agencies by 2007?" For the purpose of this paper, a mid-sized law enforcement agency is defined as an agency having a sworn staff of 50 – 150 officers.

Historical Development

Gaming has been home to North America since King James held lotteries for English colonies in Virginia.⁷ In 1774, the Continental Congress publicly

discouraged various forms of gambling. In 1776, despite the fact that playing cards was a favorite pastime for the general, George Washington banned members of the militia from any form of gambling while at war with the British forces.⁸

The lure of finding gold and striking it rich, sparked a large migration to Northern California in the mid 1800s. The saloons and gambling houses that were established served as a form of entertainment for the miners. By 1870, mining towns and gambling halls had expanded throughout Northern California.⁹ In July of 1884, The Daily Alta California newspaper reported that the Board of Supervisors from the City of San Francisco had adopted an ordinance to halt the rapid expansion of gambling. The ordinance outlawed games such as Stud Horse Poker, and imposed a heavy license fee to operate draw poker card games. The ordinance was a reflection of the national sentiment of social reform that was prevalent with the Reformist movement of the time. In 1885, Stud Horse Poker was added to the list of prohibited games in California.¹⁰ By 1891, California Penal Code Section 330 outlawed the play of the following twelve games:

Every person who deals, plays, or carries on, opens, or causes to be opened, or who conducts, either as owner or employee, whether for hire or not, any game of Faro, Monte, Roulette, Lansquenet, Rouge et Noir, Rondo, Tan, Fan-Tan, Stud-Horse Poker, Seven-and-a-Half, Twenty-One, Hokey-Pokey, or any banking or percentage game played with cards, dice, or any devices, . . . for money, checks, credit, or other representative of value, . . . is guilty of a misdemeanor.

The statute was intended to ban the popular casino games of the time and to prohibit banked or percentage games commonly associated with casino type gambling.¹¹ The twelve prohibited games were considered games of chance that relied on luck rather than skill. The term percentage referred to the advantage the house had when playing these games. In a percentage game, the house has an automatic advantage, since it sets the odds and can draw up the rules that, over time, usually favor the casino. A banked game occurs when the house takes on all players, collects all losses, and pays all winners.

Draw poker, and the variation Lo-ball, and Panguingue, or Pan, was not prohibited by Section 330. Unlike the games specified in the section, it is argued that draw poker requires a certain amount of skill to evaluate the hand or combination of cards, and in interpreting the actions and mannerisms of other players in terms of the ability to bluff. Since the statute did not prohibit draw poker, the game continued as long it was not conducted as a banked or percentage game.¹² Players legally wagered amongst themselves and thus avoided the bank prohibition of the statute. Card room operators facilitated the play of draw poker by providing the table, cards, a dealer, and exchange of cash for chips. The operator could not have a monetary stake in the game, but did charge a fee to each player for conducting play of the game. In People v. Ambrose, the court affirmed that charging a fee to the players did not constitute a banking game.¹³

In 1962, legislation was passed that allowed counties and cities to adopt local regulations that controlled the play of draw poker. The legislation also

provided a ballot proposition for counties with a population over 4,000,000 that would allow the voters to outlaw the play of draw poker if they so chose.

Prior to 1984, California's card clubs existed throughout the state with little fanfare. Most were small, with less than 35 tables each. The majority of the clubs had a history in the community, and in the words of one owner, served as a social arena that catered to the draw poker player. In the early 1980s, the card room scene changed when California clubs began to offer Pai Gow.¹⁴ The game originated in ancient China, and is played with 32 tiles that are similar in appearance to dominos. Pai Gow became significant for several reasons: it attracted a new customer base to the card clubs; it opened the door to variation games like double hand, or pai gow poker, and it sparked a series of legal challenges to the California statute on gaming.

Since Pai Gow was not one of the prohibited games listed in Penal Code Section 330, some card rooms introduced the game for play, and tapped into the Asian gambling market. The popularity of the game, especially with the growing Asian population, created the need for expertise in running the game.¹⁵ Card rooms hired employees who were familiar with Pai Gow. In some instances, the employees had ties to Asian organized crime associated with robbery, loan sharking, extortion, and money laundering.¹⁶ In some cases, local law enforcement, backed by the District Attorney's Office, attempted to stop the club owners from operating Pai Gow. The District Attorney contended that the game violated the banked and percentage prohibition of the statute. The staggering

revenue derived by offering Pai Gow prompted some owners to obtain injunctions that allowed the card room to continue to offer the game.¹⁷

In Pai Gow, one player is designated as the dealer position and wagers against all other players. Non-seated participants may also wager on the game. The designated player or dealer position systematically and continuously rotates so all seated players have an opportunity to act as the designated player. The game is finished when the designated player wins or loses the original amount wagered. Card room owners argued that they were not participants in the game, did not have an interest in the outcome of the game, and merely served as hosts. An issue arose when clubs determined their fee based on the amount each player wagered. Admittedly, card clubs took a rake, or percentage of the winnings as their fee. Owners argued that because they had no stake in the outcome of the game, and since Pai Gow was not expressly prohibited, the game did not violate state law.

In the landmark case, Sullivan v. Fox, 189 Cal.App.3d 673 (1987), Fox, District Attorney for San Mateo County, argued that Pai Gow violated the percentage portion of Penal Code Section 330. The Court of Appeals ruled that the house was not a participant in the play of Pai Gow, so it did not meet the definition of a banked game. When the court examined the collection methods, it determined that the house was in the “enviable position of obtaining profit without incurring risk.” The court believed that when the house collected its fees as a percentage of the winnings, the game violated the percentage prohibition of the statute, because the house was tied directly to the outcome of the game.

When the Sullivan decision was published, card clubs merely changed their collection methods to avoid the percentage violation of the statute. By 1997, the number of card clubs in the state had grown. There were also increases in the number of tables, betting squares on each table, and the type of games available to customers.¹⁸ After a widely publicized dispute over multiple square betting, Penal Code Section 337(j) was added to define the process of how gaming establishments could collect only specified fees based on the use of space and facilities. Card club owners had successfully argued their ability to add stud poker and several variations to the games offered for play. By 1999, the state listed 210 different games in California's gambling establishments.¹⁹ There were 124 variations of poker, and 5 variations of California Aces, a game where players attempt to reach the number twenty-two. Recent approvals from the Division of Gambling Control included No Bust 21st Century Blackjack, a variation of 22, or California Blackjack.

Licensing the Card Rooms

The expansion of the card room industry during the 1980s caused several municipalities to consider ballot initiatives that would allow the clubs to continue and thereby increase local revenues by taxing the clubs. In order to address the growing industry, the Gaming Registration Act of 1983 was enacted and required anyone who owned, managed, or had a financial interest in a card room to register with the Attorney General's office. Prior to the Act, owners, shareholders, and employees who were involved in gaming operations were

licensed and regulated according to local ordinance. The Act created a state regulatory body that would conduct background investigations and financial audits on owners and key employees prior to issuing a state gambling license.

The Gaming Registration Act was based primarily on Nevada's gaming regulations, and provided the state with some regulatory oversight on gaming operations. Concerned that the growth of the gaming industry during the 1980s and 1990s would soon lead to legalized casino gambling, the California Attorney General noted that large corporations and partnerships were consuming several of the "mom and pop" card rooms.²⁰ In 1997, the Act was repealed and replaced with the Gambling Control Act. The Gambling Control Act established more stringent state control over gaming by creating the Division of Gambling Control within the Department of Justice. The Division assumed the responsibility to investigate and enforce controlled gaming activities. The Act also created the Gambling Control Commission, a panel appointed by the governor which was charged with gaming oversight for the state.

In addition to establishing licensing requirements, Senate Bill 8 required all gambling club employees to obtain a work permit. Several sections were added to the California Business and Professions Code that provided uniform criteria for determining permit eligibility. The Act also provided additional regulations of gaming in the state and established a greater regulatory control over the card room industry. The Act allowed local authorities to continue to regulate gaming in their respective municipalities, provided the local ordinances were consistent with the state's provisions. Specifically, the Act stipulated that all local

ordinances had to address the hours of operation, the number of authorized tables, and patron security and safety. Local jurisdictions were also given the authority to issue work permits for employees, as long as the criteria for suitability was consistent with state regulations. The local agency could be relieved of the extensive licensing process while still maintaining some licensing control through work permits and local ordinance control. The Gambling Control Act was also intended to put all card club owners under the same set of regulations. Those who operated legitimately hailed the regulations because they placed controls on card club owners who may not have been operating in an ethical or legal manner.

The Act also placed a temporary limit on the rapid expansion of new card clubs, by putting a moratorium on new growth until 2003. Assembly Bill 1416 extended that limit until 2007.

The Social Cost of Gaming

When California enacted the Gambling Control Act of 1997, the legislature recognized that gambling, if left uncontrolled, carried social consequences such as an increase in gambling addiction and a rise in criminal activity.²¹ Proponents of legalized gambling contend that regulated gaming is far better than the crime associated with illicit forms of gambling. They focus on the economic benefit that gaming brings, while downplaying the social ills associated with gambling.

Gambling can provide a means of economic growth to depressed areas. A recent proposal to the City of Oakland, estimated that gaming could generate in excess of \$44 million a year to the local economy.²²

A controversy arises when the social costs associated with gambling exceed any economic benefit derived from legalized gambling. Shortly after the City of Detroit turned to legalized casino gaming for economic growth, the local chapter of Gamblers Anonymous reported their membership had doubled.²³ Opponents of gaming argue that it can lead to personal bankruptcy, as well as other addictions, such as drug and alcohol abuse. The cost of the addiction is inevitably shared with the addict's family, and is eventually passed to society via the increased need for social services and increased crime.

With any 24-hour operation that involves the exchange of money, there is an increased risk of criminal activity. A variety of crimes including loan sharking, corruption, robbery, theft, and organized criminal enterprises have been associated with California's card rooms. In 1990, a Federal investigation revealed that the Bicycle Club in Bell Gardens had been financed by the illegal proceeds of drug trafficking.²⁴ A portion of the club's assets were seized, and several owners were indicted on racketeering charges. Narcotic violations, thefts, and assaults rose in the neighborhood surrounding a casino in San Jose, the year after the club opened its doors.²⁵ Police also determined that the card club down played criminal activity associated with the casino.²⁶ Some experts also believe that a large portion of crime associated with gambling, such as loan

sharking, extortion, and theft, fails to get reported by the victim due to fear of retribution or embarrassment.

Proponents of gambling have argued that communities can provide some regulatory control over the crime associated with local card rooms by having a restrictive policy on gaming and sufficient law enforcement resources for oversight. The club itself is largely responsible for providing an environment that has minimal criminal activity by devoting resources to security, seeking employees with integrity, and maintaining a working relationship with law enforcement and the Division of Gambling Control. Card clubs with extensive histories have demonstrated that they can operate with minimal criminal activity related to their business.

It is not the intent of this project to advocate gaming, or to be a proponent of allowing casino gambling in California's card rooms. The gaming industry is growing in California, and the trends and events of the last two decades have expanded gambling in the card clubs. In five years, the moratorium on card room growth will be lifted. In view of the competition of Indian gaming, this project asks the question, "How will Nevada-style gaming in California's card rooms impact a mid-sized law enforcement agency by 2007?" By preparing for all types of casino gaming, an agency can become better equipped to identify a course of action for activities that fall short of Class III gaming. Chapter 2 explores what may lie ahead for the card room industry in California.

CHAPTER II

FUTURES STUDY

Nominal Group Technique

To assist with forecasting how Nevada-style gaming in California's card rooms will impact mid-sized law enforcement agencies by 2007, stakeholders in this issue were asked to participate in a Nominal Group Technique (NGT) process. The NGT provides a structured format that allows the panel to brainstorm trends and events specific to a given issue. In advance of the session, participants were provided the issue statement and a summary of the NGT process.

The panel was asked to explore a wide range of possibilities and ideas related to the issue. The participants, listed in Appendix A, included the owner of a card room, a director of security for the card room, a police captain who authored a city ordinance that regulated a card room, a police lieutenant who conducts work permit background investigations on potential card room employees, a police clerk who processes work permit applications, a police captain from a city that authorizes gambling at a horse racing track, an attorney who represents the interests of card room owners, a police captain from a city that explored and rejected the idea of allowing a card club, and a project manager who is involved in the design of new construction in close proximity to a card room. Following initial introductions, the assembled panel was briefed on the NGT process of thinking "outside the box " to anticipate and manage the potential change relative to the specified issue.

Trends

A trend is defined as a series of incidents or events taking place that seem to indicate a direction in which a particular issue may be heading. Trends may be based on the past, present or future and can be quantitative or qualitative. A roundtable discussion occurred where each member identified a trend that he or she felt was relative to the issue of gaming. The panel identified twenty-three trends that are listed in Appendix B. Each member was then asked to rank the top eight trends, which he or she believed to have the greatest impact on the stated issue. The results are listed in Table 2-1.

Table 2-1
Trend Summary

#	Trends	-5 Years	Today	+5 Years	+10 Years	Concern
1	Corporate influence in California gaming	47.5	100	350	220	8
2	Revenue for state and local government	50	100	140	175	7
3	Uniformity of state regulations	47.5	100	250	175	9
4	Social consequences of gambling	50	100	137	140	3.5
5	Level of corruption associated with Nevada style gaming	55	100	200	135	7
6	Uniformity of enforcement	47.5	100	225	300	10
7	Influence of proposition players	37.5	100	225	225	8
8	Variation of legalized games	50	100	285	160	7

The numerical values depicted in Table 2-1 reflect the median scores.

The group was then asked to assign a numerical value to rate the past, present, and future for the top ranked trends. In Table 2-1, the “-5 years” column represents the level that the trend had on the topic five years ago; “+5” represents the level five years from now, and “+10” represents the level ten years from now. To provide a gauge for the scoring process, the numeric value of 100 was assigned to the “Today” category as a baseline score for the level the trend currently receives. The “Concern” column represents the level of concern given to each trend by the panel on a scale of one to ten, with ten representing the highest. Table 2-1 contains the information about the trends identified by the panel.

Trend 1: Corporate influence in California gaming

There has been significant discussion about amending California law to allow publicly traded corporate interest in California’s gaming industry. The panel felt that this trend would increase if California became a full Class III gaming state. Some of the members saw the smaller, family owned operations being bought by corporations, or being unable to compete with the larger scale operations and forced to go out of business. The panel felt that larger corporations would seek out low-income locales. Enticed by the promise of increased revenues, local government would be receptive to the idea of allowing a casino into the area. The panel felt that the corporate influence would increase pressure on the casino to generate profits. Owners might adopt corrupt business practices in order to meet expectations or risk bankruptcy. The panel

projected that this trend would increase over the next five years and then stabilize as casinos either become established or go bankrupt.

Trend 2: Revenue for state and local government budgets derived from gambling

The panel felt that Nevada-style card rooms would eventually become reality because of the significant revenue derived from gambling. The group identified the State Lottery and Indian Class III gaming as an example of how the financial rewards of gambling can sway public opinion when it comes to legalizing gambling, specifically in financially destitute areas. The group also pointed out that becoming overly dependent on gaming revenues could be detrimental to local economies. This could place government officials in a compromising position if a casino owner seeks to over extend his or her demands on public service. The panel felt that state and local governments would continue to rely on the revenue generated by the gaming industry to supplement budgets and support local economies.

Trend 3: Uniformity of state regulations

The panel noted that Indian gaming is allowed to offer slot machines and Nevada-style table gaming. Non-Indian gaming facilities in California are prohibited from operating in such a manner. Additionally, the panel felt that provisions of the Gambling Control Act are applicable to card rooms, whereas regulations for Indian casinos are considerably less stringent. The disparity between the Indian tribes and the card room owners will continue to drive the

dispute over equal regulations into the limelight. The panel felt it would take at least ten years for a more equitable regulatory system to be in place.

Trend 4: Social consequences of gambling

Panel members predicted an increase of those suffering from gambling addiction, which could result in an increase in domestic violence, theft, and alcohol related offenses. Representatives from law enforcement felt that the trend would increase over the next five to ten years, while those from the gaming industry did not see a significant increase, and pointed out that the opportunity for excess already exists. The issue of making gambling “too accessible” was discussed. It was noted that illegal forms of gambling are currently in existence, such as sports betting via bookies, which serve to satisfy those with addiction problems. Most agreed that there would be only a slight increase in five years, which will stabilize within ten years.

Trend 5: Level of corruption associated with Nevada style gaming

The panel identified a consistent trend of corruption over the next ten years associated with the implementation of Nevada style gaming. The discussion ranged from loan sharks to organized crime actively sub-leasing casino functions in order to launder proceeds of criminal activities. All members rated this trend high on their level of concern and felt there would be a significant spike in the first five years with the increase of new clubs if Nevada style gaming

went statewide. The panel felt that within ten years, corrupt casinos would be out of business, and the majority of the criminal element would have been detected.

Trend 6: Uniformity of enforcement

Non-Indian gaming is regulated by the Division of Gambling Control and by local ordinance. The interpretation of laws may vary from one jurisdiction to another, and the enforcement of such laws may deviate by agency. In order to compete with Indian gaming, card room operators will attempt to offer variations of games to attract customers. Casinos may not wait for approval from state and local authorities before offering a game, while others may not even report that they are playing the game. The panel also noted that enforcement might vary based on the amount of resources the agency has to dedicate to the gaming facility. The panel also associated the issuance of gambling club work permits to this trend. The authorization and revocation of the permit can be authorized by the Division of Gambling Control or by the local enforcement agency. The panel identified a disparity between agencies when it came time to issue and/or revoke work permits to gaming club employees, citing that some agencies may impose more stringent standards or, conversely, might interpret statutes to suit the needs of the casino. The panel placed significant concern on this trend, and predicted the trend would continue to increase as the California gaming industry grew in the next five to ten years.

Trend 7: Influence of proposition players

The panel identified the current proliferation of professional players who are hired to play in card room establishments. Proposition players are largely unchecked because they do not work for the casinos. Casinos pay a private company, who in turn send bankrolled players into the casinos. By bringing large wagers to the table, customers are drawn to the higher stakes by the proposition player. The panel felt this trend would increase over the next five years, and would eventually lead to unscrupulous employees of casinos bankrolling table games claiming they are proposition players. This would create the need for greater regulatory control that would occur within ten years.

Trend 8: Variation of legalized games

The panel identified the variation of games that have been introduced for play in California card rooms. The panel felt that games designed to rival those offered in Nevada casinos will be a continuous trend in order to compete with Indian gaming and rival card rooms. The panel projected the variety of games offered for play would increase in the next five years, and would coincide with the growth of Indian gaming. The panel felt that the number would level off in the next ten years if the state granted card rooms the ability to offer limited Class III games in order to stay competitive with Indian gaming.

Events

An event is different from a trend in that events are singular occurrences that transpire at a specific time and date, have a significant impact, and a probability of occurrence. The roundtable process was repeated and participants were asked to list events. When the panel was finished presenting their ideas, each event was reviewed and clarified when needed. The panel identified eighteen events, listed in Appendix C. Each member was asked to identify eight events that he/she felt had the most significance relative to the issue statement.

The group rated the impact of the top eight events and whether or not the impact would be positive or negative on the issue statement. Table 2-2 depicts the panel's selection of the top eight identified events. The first column in Table 2-2 represents the estimate of the first probable year the event may occur, the "+5" column represents the probability of the event occurring in five years, and the "+10" column represents the likelihood of the event occurring in ten years. The "Impact" column represents the weighted impact of the event on the topic on a scale of 1-10, with 10 representing the most impact, and the "+ or -" column represents the panel's impression of whether the impact will be positive or negative on the issue.

Table 2-2
Event Summary

#	Events	Year > 0	Year +5	Year +10	Impact + Or -
1	Organized criminal enterprise (Triad) discovered in California gambling casino	3	27.5	42.5	-7
2	Local casino falls victim to takeover robbery	2	50	50	-5
3	Supreme Court rules that local card rooms are entitled to operate similar gaming to Indian casinos under the equal protection clause	2	60	75	+5
4	State of California regulates proposition players	1	65	80	-4
5	Local card room goes bankrupt	3	52	75	-5
6	State adds gaming databank to CJIS	4	65	85	+5
7	State of California relieves municipalities of licensing burden	4	50	75	-4
8	Nevada casinos to expand operations in California	3	60	80	-3

The numerical values depicted in Table 2-2 reflect the median scores

Event 1: Organized criminal enterprise discovered in gambling casino

The sub-leasing of specific gaming areas to organized crime is not new to the industry. Historically, organized crime has sought to gain control over games that are predominantly played by Asian gamblers such as Pai Gow. The panel felt that with legalized Nevada gaming, it could happen again, especially with casino owners new to the business or those in financial trouble. All panel members saw this as having a negative impact on law enforcement if investigators failed to detect the association with criminal activity during the licensing background investigation.

Event 2: Local casino fall victim to takeover robbery

The panel felt this was a likely event to occur within the first five years of the implementation of Class III gaming in California. Most of the panel felt this would be an isolated incident. However, the majority of the panel felt this would have a significant negative impact on the issue statement. Only one member ranked the event as having little significance on the issue statement because it would be an exception, and not a crime common to casinos.

Event 3: Supreme Court rules that local card rooms are entitled to operate similar games to Indian casinos under equal protection clause

There continues to be litigation moving through the court system that challenges the government's authority to allow Indian gaming under federal law. Local card rooms are prohibited under state law to offer any banked or percentage game. This event would open the door for Class III gaming in local card rooms. The panel felt that if the event did occur, it would likely happen within five years. Panel members representing the gaming industry felt that the revenue generated would help local government funding, while law enforcement representatives felt it would bring about state regulation, relieving them of the burden of licensing employees and eliminating illegal gambling activities such as football cards and bookies.

Event 4: The State of California relieves local jurisdictions of licensing casino employees

Similar to the California Lottery, this event would place California in operational control of all gaming in the state. Law enforcement welcomed this event, as it relieved them of the licensing burden. However, they also noted the benefit of knowing who was working in the local card room. Gaming representatives felt that this would level the playing field. The group felt that some licensees might not be subjected to the same level of scrutiny because of the increase in revenue being deposited into the local economy.

Event 5: Last card room in California goes bankrupt

Citing the expansion of Indian gaming, and the inability to compete with Class III gaming casinos, card rooms would inevitably be forced into bankruptcy. Some panel members felt that this would result a rise in unemployment and a reduction in revenues, which would be an economic detriment to the state and the local economy. The law enforcement representatives felt it would be less detrimental if the local government was not as reliant on the revenues derived from the gaming establishment. All panel members agreed that this event could expand the market for illicit gaming.

Event 6: Gaming database added to the California Department of Justice,
Criminal Justice Information System (CJIS)

The panel felt that in order to meet the increased responsibility of regulating the gaming industry, a database would be created that would link the Division of Gambling Control to local law enforcement. This could allow the immediate sharing of information related to the licensing of gambling club employees. The panel reported that a large number of gaming club employees have worked at a variety of casinos, all of which are required to conduct a background check to determine suitability for the issuance of a gambling club work permit. The creation of a database would assist law enforcement and regulatory agencies in quickly identifying those who may have been denied a permit in the past due to unscrupulous activity such as loan sharking or cheating. The panel identified a need for such a system today, but felt it would be three years before a system would be developed.

Event 7: State of California to license proposition players

The panel felt that the state would soon license proposition players in California's card rooms. Proposition players are hired by the cardroom to play a given game. The "prop" player cannot play with house monies, so they must seek funding from outside sources. The panel felt that this group would have to be licensed by the state and/or local authorities, preferably both, as the need for outside funding increases the risk of corruption and criminal activity.

Event 8: California's card rooms allowed to offer percentage games

The panel felt that this would be a likely step prior to California going to full Class III gaming. The panel also felt this could occur in an attempt to appease the state's card room operators. If allowed to offer limited percentage games such as blackjack, this might pacify some owners by making them somewhat competitive with Indian casinos.

Cross Impact Analysis

To assist with the futures study, a cross-impact analysis was conducted on the listed trends and events. Examining the relationship between trends and events provides an opportunity to consider alternative futures and determine what the implications would be. The top listed trends were compared to the identified events, and the participants were asked to assign a numerical score representing the level of impact each trend would have on the event. Table 2-3 reflects the top trends and events on a scale of one to five, with five representing the highest impact and one representing the lowest impact. Additionally, the impact is presented as having either a positive or a negative influence on the issue of "How will Nevada-style gaming in card rooms impact mid-sized law enforcement agencies by 2007?" The results are used to identify the trends and events which are most likely to impact the agency's ability to regulate Nevada-style gaming by 2007.

revenue sources derived from gambling for state and local governments would be compromised if a criminal element were discovered inside the casino. The social consequences of gambling (T4), would also suffer from an organized criminal element in a casino. Extortion, loan sharking, and crimes of violence are common to organized crime.

The panel felt that a court ruling placing Class III gaming in California's card rooms would encourage more municipalities to offer gaming and capture some of the increased state and local revenues (T2) created by the expansion of the gaming industry. Most of the panel agreed that the expansion of Class III gaming would have a positive economic impact that would reach law enforcement budgets and potentially fund additional positions to deal with the impact of gaming. The panel felt that the rise in gambling would also lead to an increase in the social consequences associated with gambling (T4). The rapid expansion of gaming would also create the need for uniform regulations (T3).

The availability of state resources would relieve local jurisdictions from the burden of licensing local casino employees (E4). State resources could provide local law enforcement with investigative assistance and training in recognizing crimes associated with casinos (T5). This would also provide consistent approval and uniform implementation when examining requests for variations of existing games (T8). State controlled gaming could also mandate additional social resources designated for the treatment of gambling addiction.

There are examples of municipalities that rely on casinos for economic survival. It could create economic hardship if the local card room filed for

bankruptcy (E5). The surrounding businesses that derive benefits from the casino's customers could also suffer. The financial failure could create a potential blight area as a result of the bankruptcy (T2). The absence of the casino could have a positive impact on the social consequences of gaming (T4). This could alleviate a portion of the local population impacted by gambling addiction. The absence of the casino may cause local charities to revive bingo games, which were unable to compete when the casino was in business. Some members felt that bankruptcy would lead to the closure of the casino and the elimination of corruption (T5). Others pointed out that casino owners who are headed for bankruptcy become a prime target for corruption in order to avoid financial loss

Allowing California's card rooms to offer limited percentage gaming would be a likely step in the direction of Class III gaming (E7). The panel felt that this would increase the corporate influence in gaming (T1), and increase the number of gamblers through heavy advertisement leading to increased local revenues (T3). The popularity of percentage games such as Blackjack would also increase the level of corruption (T5) and the magnitude of social consequences (T4). Other panel members downplayed the potential increase in gamblers because of the close variations of games that are currently available.

Scenarios

Scenarios are developed and used to forecast alternative futures.

Information gathered from the NGT process is utilized to present three alternative forecasts for analysis. Creating hypothetical futures can provide realism and highlight dramatic changes and events that can help to formulate a strategic plan for the future. Scenarios are intended to allow the reader to focus on alternatives, not one set future. The three scenarios presented below describe pessimistic, optimistic and normative perspectives.

Pessimistic

On January 1, 2007, the City of Greed became the first California city to implement Nevada-style gaming after a recent court decision gave the state's card rooms the same rights as Indian casinos. The City of Greed, which suffered a \$1 million deficit in last year's fiscal budget, imposed a gross receipt sales tax on the casino. Members of the City Council hoped the casino would provide a majority of the City's General Fund revenues from this tax.

Local residents have not found the casino's existence quite as rewarding as the City Council. Crimes of theft, prostitution, and alcohol related offenses have seen a dramatic increase since the casino opened. Police Chief Stu Kinarut advised that in addition to addressing the recent surge in crime, his department has been overextended by responding to an increase in calls for service generated from the casino. Additional staff time has also been expended

trying to comply with the casino employees' work permit requirements under state law.

Chief Kinarut would not comment on the allegations that the casino has ties to reputed Asian organized crime lord Won Big Sum, stating that the Division of Gambling Control has been asked to investigate the matter. Sources from within City Hall claim that the chief has been under pressure from the council to ignore the casino's indiscretions because of the large amount of revenue derived from the casino.

Optimistic

The California Division of Gambling Control recently announced its 2007 operational plan to prepare for the implementation of Nevada-style gaming approved by the legislature in November of 2006. California was forced to allow card rooms to operate Class III gaming as a result of a lawsuit that reached Federal court. Under emergency legislation that was supported by the California League of Cities and the California Police Chiefs Association, the Division of Gambling Control will conduct licensing of all casinos and their employees in the state.

The legislation also places a limit on the number of casinos that may be operated in the state. Restrictions will focus on geographic region and population, and will permit casinos only where local ordinance allows. The Division will open up field offices similar to the Department of Motor Vehicles in each area where gaming is allowed. The field offices will conduct background

checks on all casino owners and employees. Working in conjunction with the Nevada Gaming Commission, employees of the Division and local law enforcement will receive extensive training in the operation of Class III gaming and in the investigation of related crime. Application fees that are imposed on casino operators will fund the training. In addition to funding the Division of Gambling Control, casino operators will be required to pay a percentage of their gross profits to fund local charities that have been impacted by casino operations including local chapters of Gamblers Anonymous.

It is anticipated that the Division will restrict the number of casinos by geographic area and will allow an equal number in the northern, central and southern portions of the state.

Normative

On January 3, 2007, a Superior Court Judge ruled that California could not prohibit local card rooms from playing percentage games that are allowed in Indian gambling casinos. The ruling has removed another hurdle in the process of California moving to Nevada-style gambling. In addition to the ruling, legislation that prohibits card room growth is scheduled for repeal at the end of this year. Some communities and their local law enforcement officials are concerned over the impact Class III gaming may bring. At least one local city appears to have prepared for the change.

On October 21, 2006, Council Members from the City of Anticipation voted unanimously to restrict the number of gambling permits in the city to the one

license that is currently in existence. The council also placed a limit on the number of authorized tables the club may operate. Acting on a recommendation from the Chief of Police, the council took this action to limit gaming expansion within the city.

Chief of Police Ben Expected stated that his department has been in the planning stages for quite some time, and was prepared for either decision the court may have ruled. The chief recently met with city officials, local business owners, the Division on Gambling Control, and the owner of the Legit Card Casino. Chief Expected advised that the representatives of the above-mentioned groups will work to develop an operational plan that will minimize the impact to the community, deter criminal activity associated with gaming, and add additional department resources to adequately address all aspects of Class III gaming. Chief Expected stated that the department would also maintain the level of service and trust to which the community is accustomed.

Summary of the NGT Process

The Nominal Group Technique identified a pattern with trends and events likely to have a significant impact on the issue of Nevada-style gaming in California's card rooms. The following chapter will describe how law enforcement agencies can adapt, and develop potential solutions to address Nevada-style gaming in the card clubs of this state.

CHAPTER III

STRATEGIC PLANNING AND TRANSITION MANAGEMENT

Strategic Planning

Law enforcement agencies often have to adapt to a changing environment. The pressing issues of today may not be of relevance tomorrow. Just as the agency needs to handle its present demands, it also needs to plan for the future. In order to prepare for future trends and events, such as those identified by the Nominal Group Technique panel, a vision of the desired outcome is needed. A vision statement should convey a clear message of what the organization hopes to achieve in relation to a specific issue.

The vision statement is the desired outcome and the strategic plan provides a course of action for where the agency will direct its resources. The vision must be developed within the organization and be the result of a team effort. In order to address the potential issue of Nevada-style gaming in an existing card room, a mid sized law enforcement agency may adopt a vision similar to the optimistic scenario described in chapter 2. Successful organizations will utilize a strategic planning method in which they can adapt to change, manage anticipated events and achieve a desired future.

To assist in developing a strategic plan, the agency must examine external and internal factors that will have an effect on the organization's ability to achieve desired results. The "STEEP" method scans for external signals in the social, technological, economic, environmental, and political arenas, and examines how each area may impact the agency's mission. Another method,

known as WOTS UP, examines the organization's weaknesses and strengths, and looks at the external opportunities and threats, which may affect the underlying planning.

External Analysis – The STEEP Model

The STEEP model is a tool used to assist in planning a desired future by examining the external environment for social, technological, environmental, economic, and political signals that may play a role in an organization's future. Through scanning, organizations can evaluate what role a particular issue will play in its future. This allows the agency to make the necessary preparations to manage the change or allow the agency to influence the trends and create a desired effect on a particular event.

Social

The constant change of demographics can influence the field of gaming. Several card club games are specifically tailored to an Asian clientele. California continues to be a major immigration point for the Pacific Rim countries.²⁷ At least one card room operator attributes a portion of the decline in the card room customer base to an aging population.²⁸ A new generation growing up with television and video games may not seek the social aspects associated with playing cards.

Technological

The growing field of Internet gambling carries a wide range of implications, some of which include fraud, money laundering, and easy access to gaming by minors and gambling addicts. There continues to be a debate as to whether federal law prohibits the wire transmission of wagering information,²⁹ and several credit card companies will not honor payment for on-line gambling. Most experts agree that the billion-dollar industry of cyber-casinos is in desperate need of regulation.³⁰

Environmental

Voters who were in favor of allowing Indian casinos in rural locales may not have been so amenable had the casino been placed in their city. The NIMBY (Not In My Back Yard) theory is alive and well in the gaming industry. Gaming strip cities like Las Vegas are popular as vacation spots because they are an end location. People like to visit casinos but do not necessarily want them as neighbors.

The question of Indian casinos and sovereign land has also reached a metropolitan level. Landless tribes of Native Americans have sought to acquire urban and rural land in California. The Lytton band is still involved in litigation over their attempt to purchase the land upon which the card club Casino San Pablo sits.³¹

Economic

The gambling industry provides many cities with an economic boost in tax revenues and tourist dollars, while providing employment opportunities for residents. When the automotive industry in Detroit declined, the city turned to gaming opportunities.³² Opponents argue that gambling will increase crime and corruption in addition to increasing gambling addiction problems.³³

Political

With legalized gambling comes regulation and the need to enact legislation to control the gaming industry. California's card clubs have frequently asked the courts to decide on a variety of issues involved with gambling, including methods of fee collection and legality of certain games. A California assemblyman recently introduced a bill to allow the playing of 21 in card rooms in response to the numerous variations being played.³⁴ California also lacks specific statutory law that addresses casino cheating.

A "WOTS UP" Assessment

Organizations must constantly examine and take responsibility for decisions made today that will impact the level of service and method of response for the future. This includes the organization's ability to anticipate, learn and adapt. The agency must always conduct an internal examination and ask if the service provided today will be right for tomorrow. A part of this assessment should include the following:

Weaknesses

For most law enforcement agencies with card clubs in their jurisdictions, only a small percentage of police employees are familiar with the state and local regulations that govern gaming operations. Law enforcement also lacks general knowledge about the games being played. Large portions of card club patrons are of Asian descent. Communication with crime victims may be hampered by cultural diversities, which include a language barrier, and a reluctance to report crime due to shame or distrust of authorities. Society has also, at times, viewed gambling as a victimless crime. Some members of law enforcement agencies may share this lack of empathy for victims of loan sharking and extortion.

Opportunities

There is currently a moratorium on new card clubs in California that will remain in effect until 2007. Existing card rooms are limited in the number of tables they can operate. This moratorium provides the opportunity to prepare. Agencies can consult with the Division of Gambling Control and their law enforcement counterparts in Nevada regarding implementation of policies and procedures to address casino related issues. Law enforcement agencies can collaborate with policy makers to develop appropriate regulations at the state and local level to address the potential pitfalls of gaming expansion in 2007.

Threats

Attempts are underway to modify existing legislation that would allow publicly traded corporations to have an interest in gaming establishments. This

may bring new owners to existing card rooms. Although the Division of Gambling Control regulates gaming club licensees, many municipalities require local licensing in order to provide additional scrutiny and to identify those persons involved in gambling operations. A proposition player is a person who is paid to play in a card game. Proposition players usually work for a company that is hired by the card club. The player uses the company funds to wager at the card table, and retains all winnings and pays all losses. Proposition players pose a potential threat of criminal association if they are allowed to enter a local card room without enduring the same scrutiny to which permitted card room employees are subjected.

Strengths

By involving the entire organization in the strategic planning process, everyone becomes involved in creating the vision. There are several law enforcement organizations that assign personnel to oversee gaming within their jurisdictions. Utilizing trained personnel to facilitate the planning of goals and objectives for the organization can create a sense of ownership for the group. These personnel already have established a working relationship with outside resources that include the Division of Gambling Control. Impartial regulation of gambling clubs and maintaining the highest ethical standards sets the tone for gaining public trust. Having a municipality that has diversified sources of revenue makes the organization less dependent on revenues generated from gaming clubs.

Identification of Stakeholders and Analysis

Those individuals or groups who will play a role in the implementation of the strategic plan are known as stakeholders. Any participant may be overlooked or seem insignificant. However, he or she can play a major part in the success or failure of the desired outcome. Listed below are the potential stakeholders and their possible roles in the strategic plan.

- Voters of the State of California

As they have in the past, voters may be asked to make decisions on initiatives that would allow the expansion of gambling at a state or local level. The voters also elect representatives who will cast their votes for a variety of bills impacting gaming.

- Governor of the State of California

The governor is responsible for appointing members to the Gambling Control Board. The governor also negotiates state compacts with Native American tribes to allow gambling, and has veto power regarding legislation.

- California Gambling Control Commission

Along with the Division of Gambling Control, the Commission has oversight of gambling operations in the state, which includes gaming license suitability, as well as issuance and suspension of gambling club licenses.

- State Attorney General

The Attorney General has oversight of the State Department of Justice and the Division of Gambling Control. The Attorney General's Office also issues opinions regarding the legality of gambling club operations, which include the legality of games offered for play.

- Division of Gambling Control

The Division determines findings of suitability regarding a person's ability to hold a state gaming license and gambling club work permits. The Division also has primary investigative and enforcement responsibility for the state's controlled gambling activities.

- Local Elected Officials

Elected county supervisors and/or city council members enact local ordinances that can allow, prohibit and also regulate gaming activity in their jurisdictions. These officials also have the final votes on how dependent the city or county will be on gaming revenues.

- Local Government

Revenue derived from local gaming contributes to a city's general fund, thus supporting local government services. City and county managers have to advise elected officials on recommendations for regulations and fees charged to local gaming clubs.

- Local Law Enforcement

Law enforcement agencies are tasked with monitoring and policing gambling club facilities. In addition, the jurisdiction may take on the responsibility of issuing work permits to gambling club employees.

- Local Charities

Local charities that operate bingo games may be impacted by the expansion or reduction in local gaming activities, which may cause a decrease or increase in charitable gaming.

- Social Services and Local Chapter of Gamblers Anonymous

An increase or decrease in gaming activity will directly influence social service operations. Groups like Gamblers Anonymous can also influence public policy in the realm of expanding gaming activity.

Snail Darters

A snail darter is an unforeseen individual or group that can adversely impact a strategic plan at a critical moment. The key is to identify who they may be, and anticipate their particular issues.

- Indian Casinos

At least one recognized Native American tribe has attempted to purchase an existing card club within a municipality. Whether it was by purchase or discovery, the potential recognition of sovereign land would open the door to Indian gaming that is subject to considerably fewer regulations than card rooms and their employees.

- Proposition Players

Companies who offer card rooms the services of proposition players pose a regulatory control problem because these individuals are not required to obtain work permits and are not subjected to the same scrutiny as other gaming employees.

- Citizen Activists

While some citizens may have tolerated the local card rooms, expansion into percentage gaming may spark groups to protest. Law enforcement may be able to mitigate concerns by explaining the strategic plan or regulatory control.

Development of Alternative Strategies

By examining the history of the card room detailed in chapter 1, and exploring the scenarios from chapter 2, three alternative strategies have been developed to address the uncertainty of California's card rooms in the year 2007.

Demise of Card Club Strategy

With the rise of Indian gaming and the decreasing number of card rooms, the possibility exists that California's card clubs could dwindle to extinction. The loss of general fund revenues could equate to a reduction in law enforcement budgets. This could prove detrimental if the card club's demise impacted the local economy and resulted in a blighted area. This may create a higher demand for police services than the card clubs require. Those units of government which survive will have revenues from a variety of sources and have a sound economic development plan that seeks to attract a diversified base of funding. Given that the history of card clubs dates back to the Gold Rush, planning for established card clubs to file bankruptcy may not be a likely scenario.

Status Quo Card Club Strategy

Taking no action to address the card room industry may be the simplest course of action. This strategy is applicable for those with existing practices in place, or those who do not have a card room in existence at the present time. Although this may be a common and simple alternative, this strategy does not prepare the department for the year 2007, when card room expansion will likely occur in the state. A failure to plan for tomorrow leaves the agency's future in someone else's hands.

Nevada Style Card Club Strategy

The current uncertainty of the industry warrants an examination of banked and percentage gaming in the card room. Law enforcement may be better served if it examined the local ordinances regulating card clubs in their jurisdiction and made recommendations for revision where appropriate. This may include a prohibition on slot machines and specific non-card games such as roulette and craps. The city or county may want to impose a limit on the number of licensed gaming establishments allowed within the territorial limits. A strategic plan for Class III gaming should include an impact study that includes demands on the infrastructure, addition of personnel for licensing, criminal activity, clerical support, and a cost recovery mechanism. If not already in place, the Division of Gambling Control requires a local ordinance to address the type of games played, hours of operation, wagering limits, and the number of tables.

A strategic plan allows the organization to change directions, concentrate resources on top priorities, and also provides a framework for budgets and operations. Developing a strategic plan allows the leader to establish accountability, enhance internal coordination, and take control of the agency's future. After the ideal strategy has been determined, the agency needs to begin the process to put the plan in place. Transition management is the transformation process that allows the organization to implement its strategic plan.

Transition Management

Once a strategic plan has been developed, leaders may need to implement change in the organization. There are a variety of methods that will take the agency from its current state into a desired future. How the agency manages the transition is the responsibility of the leaders who comprise the decision-making nucleus in the organization. This project will utilize John P. Kotter's "Eight-Stage Process of Creating Major Change."³⁵ The transition process incorporates some of the measures used when the strategic plan was developed, and can assist in directing the organization into change. The eight stages are as follows:

Establish a Sense of Urgency

As previously mentioned, scanning the environment is one method used to identify external factors that can impact a law enforcement agency. Monitoring court cases that challenge Indian gaming and the increased variations of games available at card rooms, as well as keeping apprised of legislative bills, such as efforts to allow publicly traded corporations to own card rooms, can illustrate the importance of the topic, and create buy-in from those in the organization.

Create the Guiding Coalition

The selection of key personnel to participate in the developmental stages is critical to the success of any plan. This includes members of the organization who are involved with the card room work permit process, vice units, crime

analysis personnel, and those who demonstrate an enthusiasm towards leading a change in the way the agency addresses gaming. There must also be a leader who is credible and trusted within the organization.

Developing a Vision and a Strategy

As previously mentioned, the leadership of the law enforcement agency needs to set a vision of what it wants the organization to accomplish. The vision may be as simple as the ability to regulate Class III gaming in the card room with minimal criminal impact to the community, while maintaining the same level of quality and ethical police services for the citizens. The strategic plan develops short-term goals that will help the organization reach its vision.

Communicating the Change Vision

An easy way to communicate the vision to the organization is to keep it free from complicated jargon. The leadership should hold publicized meetings with the coalition, and insure that everyone in the organization knows they are invited to attend. By communicating that the vision is important to the organization, and by behaving in a manner that is consistent with this, the organization becomes familiar with what needs to be accomplished.

Empowering Broad-Based Action

Personnel should be encouraged to remove any obstacles that were identified during the strategic planning process. Internal weaknesses that exist in policy, procedures, and training, should be strengthened. Key members of the coalition should be encouraged to work with external organizations to develop non-traditional solutions for every problem identified. Examples may include the following: the Division of Gambling Control regarding work permit issues, local neighborhood groups and chapters of Gamblers Anonymous to address and share planning efforts, and key personnel in the card club to provide patron safety and identify criminal activity.

Generating Short-term Wins

Providing simple goals that can be readily achieved in a short period of time provides validity to the planning process, and encourages those involved in the plan to forge ahead. Short-term wins also provide feedback to the organization to help determine whether the strategies put in place were effective or require modification. In *Leading Change*, author John Kotter stated a short-term win had three characteristics: the result is visible for large numbers to see, the results are instantly recognizable, and they are part of an effort towards change. Short-term wins also provide an opportunity to convert “Nay Sayers” into willing participants.

Consolidating Gains and Producing More Change

The leadership in the organization can use the achievement of short-term goals to facilitate a broader base of change. This may include the development of a gaming unit within the organization, or even expand into a regional unit, which meets quarterly to discuss the impacts that the gaming industry has on law enforcement. This could include members from state, county and local law enforcement, and representatives from private sector gaming interests, including card clubs and Indian gaming.

As the organization brings about change that achieves a desired future, the opportunity exists to incorporate change as a common practice for the organization. Hiring, promoting, and developing personnel who can bring about change in the organization can accomplish this. The timing may also be right to introduce new projects and ideas.

Anchoring New Approaches in the Culture

A transition management plan can help an organization implement a strategic plan that brings about a desired future. The agency has also demonstrated its willingness and ability to incorporate the change process as part of its culture.

Summary

The strategic plan and transition management process allows an agency to embrace change, support a strong leader, and build a foundation of trust. A self-examination and evaluation process has also been provided to the organization. By scanning the external and internal environment, members of the organization can ask if what they are doing today is going to meet the demands of tomorrow. Chapter 4 provides a recommended course of action for law enforcement to act upon, and explores the implications if the issue goes ignored.

CHAPTER IV
RECOMMENDATIONS AND CONCLUSIONS

Summary

Despite the current freeze on gaming licenses in the state, the status of California's gambling industry is currently unsettled. Card club owners are in a battle with Indian casinos, and are trying to minimize the impact that Proposition 1A has on their business. On one front, card club owners are making legal challenges to the Indian gaming industry. The governor's compact allows Native American tribes to offer banked and percentage games like Blackjack, Craps, and Roulette, and to operate up to 2,000 slot machines per casino. It is unlawful for the card clubs to offer banked and percentage gaming, and slot machines are illegal everywhere else in California. Several challenges to the legality of the compact are working their way through the court system.

The card room industry is also trying to win back its share of gamblers by trying to imitate casino gaming while staying within the limits of the law. The card clubs have expanded the variety of games to resemble those offered in Nevada casinos. Complicated game rules are varied slightly to avoid the prohibition status, as in No Bust 21st Century Blackjack that is currently being played in some California card rooms. The object of the game is to reach the number twenty-two; and minor technicalities allow the card room to offer the game. Each variation requires the Division of Gambling Control to scrutinize the game and determine if it is lawful to play. Additionally, there are a number of clubs which utilize the services of companies who employ proposition players. Proposition

players draw customers by bringing large wagers to the table. Because the funds are not from the card club, it is not construed as operating a banked game.

State law has placed a moratorium on card room growth for the next five years. The Gambling Control Commission cannot issue a new gaming license until that time, and expansion of more than twenty-five percent of existing tables requires voter approval that cannot take place until the year 2007. Statutory law also prohibits anyone who operates casino gambling in another state from obtaining a gaming license in California. Additionally, regulations under the Gambling Control Act require that all shareholders who have an interest in a gaming club be licensed. This has effectively kept publicly traded companies out of the gaming business. The limits placed by law were designed to prevent the expansion of gaming by keeping large financial resources out of card clubs and to prevent the potential infiltration of organized crime.³⁶ In April of 2002, the Little Hoover Commission reviewed the issue of ownership limitations and concluded that publicly traded corporations and out of state gaming interests would not add an increased risk of organized crime to the card room industry.³⁷

Implications

The current uncertainty of the industry, combined with the long history of gambling and the expansion of the card room industry over the last two decades, indicates that the issue of card room gambling will continue to carry implications for law enforcement, specifically in the year 2007. Unless a statute is enacted that will continue the moratorium on expansion, many municipalities may hold

elections to allow or increase card room gaming. This may include corporate involvement, which could bring considerable resources to expansion. Although a remote possibility, court decisions or state elections may provide card rooms with the right to offer banked and percentage gaming that could include slot machines. For a mid-sized law enforcement agency, taxing the resources could have a devastating impact on the agency's ability to provide police services, unless the leaders in the organization take steps to plan for the future.

In addition to operational implications, the potential expansion of card room gambling carries implications for law enforcement leadership. The leader of any law enforcement agency has to ensure that all department members are fair and impartial, and must maintain the public's trust and the highest ethical standards. When a gambling establishment is within his or her jurisdiction, the leader has to reinforce this message to the community. The best manner in which to relay the message is through the actions of the entire department. Department personnel also need to see that the command staff of the organization behaves in the same ethical and unbiased manner, which does not compromise the integrity of the organization. The lead by example model serves to reinforce ethical behavior throughout the organization.

Leadership should be mindful that the risk of gambling addiction from local gaming could also impact members of the department. Department policy should specify the desired conduct, both on and off duty, that pertains to the gaming establishment. Contact should be made with employee assistance programs to ensure gambling addiction resources are available. The local Gamblers

Anonymous chapter could provide training to law enforcement personnel about their experience when a gaming club enters the community. The training may also provide a preventative measure for the department's employees.

Recommendations

Legislative

Currently there is a lack of criminal statutes that specifically address cheating in gambling. While crimes could be covered under broader statutes, the development of law that is specific to gambling may ease the prosecution's burden of convincing a jury that an individual was committing gaming fraud.

State law prohibits anyone who has been convicted of a misdemeanor involving dishonesty or moral turpitude from possessing a gambling club work permit. A list of which offenses constitute dishonesty or moral turpitude would assist the Division and local law enforcement with the issuance of work permits. This list would also help with consistency among those who issue permits.

Commission on Peace Officer Standards and Training

The Commission should consider the development of a gaming investigator course that could address card rooms and Indian casinos. Topics could include: crime associated with gambling, organized crime, background and licensing of employees, state compacts with Indian gaming, and related casino fraud. The

development of a card room implementation manual could accompany the course.

Division of Gambling Control

The creation of a gambling club database would assist law enforcement agencies, the Division of Gambling Control, and the card clubs. There is a significant amount of turnover among gambling club employees. They will typically work for several clubs, and each new casino requires a work permit. If the previous casino terminated the employee for cheating, there is no regulation that requires the casino to report the employee to local law enforcement or to the Division of Gambling Control. The individual could apply to work for another club, and because the previous casino was not required to report the incident, a new work permit could be issued.

The establishment of a law enforcement database would allow the jurisdiction to learn of prior work permits and the locale where the permit was issued or denied. Legislation could be enacted to require all card club employers to report to the Division of Gambling Control and the local agency the reasons why any employment was terminated. The information stored in the database may prevent future criminal activity at a different club.

Local Ordinance

Agencies with existing card rooms should examine their local regulations and make recommendations for modification as appropriate. This may include

addressing limitations on expansion, requiring the licensing of proposition players, and imposing additional conditions upon legislative enactments that expand the types of games offered for play.

Some law enforcement agencies in the year 2007 may find themselves in a position where the community may approve a card club. There are several local law enforcement agencies with model ordinances in addition to the Division of Gambling Control.

Law Enforcement

The development of regional quarterly meetings may prove beneficial, should the gaming industry expand. This could provide a problem-solving approach to a variety of issues related to gaming that range from licensing to criminal enforcement. Participants could include members of local law enforcement, the Division of Gambling Control (investigative and licensing), and security representatives from card rooms.

Card Room Personnel

The department will need to establish a professional working relationship with the card room staff while maintaining the integrity of the organization and preserving the public's trust. The card room should be mandated to report any suspected criminal activity, including employee matters that are handled internally. Establishing a rapport with the card room staff, and having an

accurate portrayal of criminal activity within the facility allows the department to accurately gauge the amount of resources needed to manage the club.

Fiscal Impact

Regulating a gambling club can strain resources from the local law enforcement agency. The amount of services devoted to the card club can be dependent upon on the length of time the club has been within the jurisdiction, and how the club is managed. Card rooms that have an extensive history with the community, and whose owners have established ethical and legitimate business practices in the gaming field, will require less scrutiny than a new club where there is little history with the owner.

While determining an exact figure can be difficult, law enforcement agencies that currently regulate gaming in their communities can provide reference points. Those impacted by a new club should factor in the cost of a command staff member to liaison with the club, investigative personnel for criminal incidents and to determine suitability for employee work permits, and clerical staff to process the necessary paperwork. This is in addition to the infrastructure demand the casino may have on the surrounding area, such as traffic design, maintenance, and parking.

Law enforcement should also examine their current resources that are devoted to the card room, and determine if additional personnel or equipment, such as Livescan for work permits, are needed in order to minimize any criminal activity without sacrificing other services provided by the department.

Conclusion

Gambling has been a part of California since the gold rush brought about westward expansion, which displaced Native American Indian tribes. It is ironic that 250 years later, Indian casinos are displacing card clubs, by luring away card room customers with slot machines and full casino gaming. Card room owners are trying to level the playing field through legal challenges targeting the ability of Native American tribes to offer what the state's constitution prohibits: banked and percentage games and slot machines. The voters of California have already approved casino gambling on two occasions. Legislators, or the courts, could give the voters an opportunity to allow the card rooms the same privilege that has been granted to Native Americans.

Gambling is a multi billion-dollar industry in California, and is expected to grow within the next seven years.³⁸ In less than five years, the state's moratorium on new gaming licenses will expire. Within this time frame, it is likely that legislation will pass, which will allow publicly traded companies to obtain a gaming license. Corporate-sponsored gaming has the potential to bring in a significant amount of resources to promote the club and generate profits. For some local governments, card rooms may be viewed as the solution to a slumping economy, and decreasing municipal revenues. Regulated gaming can contribute financial support to government services and capital improvement projects. Local gambling will also impact surrounding neighborhoods and place an added demand on local government services.

Despite its long history, legalized gambling continues to be seen as a vice, and the opinion will continue even if the economic benefit from gaming outweighs social costs. Gambling also brings concerns of criminal activity, corruption, and the social consequences such as addiction and personal bankruptcy. The impacts of card room gaming expansion can be mitigated. How will mid-sized law enforcement agencies deal with the potential expansion of Nevada style gaming in the card rooms? They have the ability to take advantage of the current moratorium on the industry and plan for the future.

An opportunity currently exists to put measures in place that will minimize the impact that card room gaming will have on a community. Local government should require an environmental impact report for any new card room, or expansion to an existing club. When examining land use requirements, consideration should also be given to long term expansion as the card room could significantly alter a surrounding neighborhood. Law enforcement should review the local ordinance that governs gaming to insure they comply with state law. Additionally, the ordinance should adequately address the preferred gaming parameters of the agency and community. Local law enforcement officials should also collaborate with members from the Division of Gambling Control, the Attorney General's Office and state legislators to craft desired regulatory control at the state level.

The organization also needs to determine what demands the card room will have on its resources, and evaluate the need for additional personnel to effectively regulate and manage the card room. There is a likelihood that by the

year 2007, new card rooms will emerge, existing clubs will increase their number of tables, and the types of games offered for play will be similar to games in Nevada casinos. For the mid sized law enforcement agency that fails to plan ahead, card room expansion will cause an increase in their calls for service, and may generate criminal activity. The agency will lack the resources necessary to regulate the operations of the club. The successful agency will anticipate the issues associated with potential expansion of gaming and develop a strategic plan to address any concerns. The successful agency will also be in a position to manage any change in card room gaming, without compromising service to the community.

APPENDIX A

NOMINAL GROUP TECHNIQUE PANEL MEMBERS

Mike Callagy, Captain
San Mateo Police Department

Marc Catalano, Lieutenant
San Bruno Police Department

Mike Guglielmoni, Captain
South San Francisco Police Department

Russell Nicolopoulos, Captain
San Bruno Police Department

James Robertson, Director of Security
Artichoke Joe's Casino

Dennis Sammut, Owner
Artichoke Joe's Casino

Alan Titus, Esq.
Law Offices of Robb & Ross

Richard Watson, Project Manager
City of San Bruno

Rose Vella, Police Clerk
San Bruno Police Department

APPENDIX B

LIST OF TRENDS

1. Disputed land claims involving Indian sovereignty
2. Litigation over federal, state, and local laws/regulations
3. Dispute over property ownership
4. Coordination between government agencies
5. Public opinion of local gambling casino
6. Variations of games allowed under CA Penal Code Section 330
7. Disparity between cities in regulating card room activity
8. Impact of competition within geographic region
9. Uniformity amongst law enforcement agencies
10. Amount of state revenue generated by gambling
11. Impact on police calls for service generated by casino
12. Impact on local economy
13. Legislation needed for enacted games
14. Impact on charity revenues
15. Criminal impact of compulsive gambling
16. Cooperation between government agencies, law enforcement and gaming establishments
17. Confidentiality and release of information hinders companies from finding ethical and honest employees
18. Background procedures for employees
19. Impact of corruption associated with Nevada style gaming
20. Impact of loan sharking practices
21. Entertainment industry influence
22. Regulatory body for gaming
23. Influence of non-local entities

APPENDIX B

LIST OF EVENTS

1. Organized criminal enterprise (Triad) operating in several California gambling casinos
2. Council member indicted on corruption charges linked to gambling casino
3. Local casino falls victim to takeover robbery
4. Supreme Court rules that local card rooms are entitled to operate similar games to Indian casinos under equal protection clause
5. State of California opens its first casino
6. Local card room goes bankrupt
7. Casino owner buys property for new hotel
8. Owner of local casino gets elected for Mayor
9. Top police officials indicted by FBI for gaming corruption
10. State to regulate proposition players
11. State officials indicted on RICO violations involving gaming
12. Football team owner opens casino
13. Four killed in drive-by shooting at local casino
14. Gaming databank added to the Criminal Justice Information System (CJIS)
15. Court invalidates Proposition 1A
16. Nevada casinos allowed to operate in California
17. Mayor indicted on illegal contributions from gaming interest
18. Gamblers Anonymous protesters arrested at casino

NOTES

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³ "The Case Against Proposition 1A" Available from [Hhttp://standup.quicknet.com/stop1a/case.htm](http://standup.quicknet.com/stop1a/case.htm)H Internet; accessed 22 April 2002.

⁴ Ibid.

⁵ "Gaming in California," California Attorney General, Department of Justice, November 1993 p. 15.

⁶ "Card Clubs in California: A Review of Ownership." State of California, Little Hoover Commission. April, 2002.

⁷ Ibid.

⁸ Henry Chafez, "A History of Gambling in the United States." Clarkson N. Potter Inc. (1960). p. 20.

⁹ Ibid. p. 28.

¹⁰ "POST Gambling Recognition Telecourse, Student Reference Manual." California Commission on Peace Officers Standards and Training. April, 1996. p. 7.

¹¹ Ibid p. 83.

¹² Monterey Club v. Superior Court 48 Cal.App.2d 131 (1941).

¹³ People v. Ambrose, 122 Cal. App 2d Supp. 966, 265 P.2d 191,194 (1953).

¹⁴ California Department of Justice, "Gaming in California" p.6.

¹⁵ Ibid 23.

¹⁶ Ibid.

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- ²⁰ California, Department of Justice "Gaming in California." November 1993 p. 37.
- ²¹ California, Business and Professions Code, Section 19801 (1997).
- ²² Janine DeFao, "The Urban Gamble. High-stakes dreams. Oakland hopes to hit big with casinos but can it beat odds?" San Francisco Chronicle, 27 May 2001 p. 1.
- ²³ Ibid.
- ²⁴ California Department of Justice, "Gaming in California." P. 29.
- ²⁵ David Dietz, "Cardrooms a Draw for Criminals," San Francisco Chronicle, 19 August 1996, p. 1.
- ²⁶ Ibid.
- ²⁷ U.S. Census Bureau, 2000 Census of Population, Public Law 94-171 Redistricting Data File. Available from [Hhttp://factfinder.census.gov](http://factfinder.census.gov)H Internet; accessed 17 April 2002.
- ²⁸ Dennis Sammut, interviewed by author, San Bruno, Ca., 17 April 2002.
- ²⁹ 18 U.S.C. Section 1084 (1984).
- ³⁰ Daryl Crone, "Gambling on the Internet: Towards a Sensible Regulatory System." Available from [Hhttp://cyber.law.harvard.edu/is98/final-papres/Crone.html](http://cyber.law.harvard.edu/is98/final-papres/Crone.html)H; Internet; accessed 16 June 2002.
- ³¹ Pia Sarkar, "The Urban Gamble. Tribal land rush: Native Americans bet future on Bay Area casinos." San Francisco Chronicle 28 May 2001, p. 3.
- ³² DeFao, "The Urban Gamble. High-stakes dreams. Oakland hopes to hit big with casinos but can it beat odds?" p. 1.

³³ Ibid.

³⁴ Shawna McCoy, "Bill would allow 21 in cardrooms." Available from [Hhttp://www.webarchives.net/bill-would-allow21-in-cardrooms.htm](http://www.webarchives.net/bill-would-allow21-in-cardrooms.htm)H Internet; accessed 31 May 02.

³⁵ John P. Kotter, Leading Change. Harvard Business School Press, 1996.

³⁶ California, Little Hoover Commission, "Card Clubs in California; A Review of Ownership Limitations." Sacramento, Ca., 29 April 2002.

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