



Memorandum

TO: HONORABLE MAYOR &
CITY COUNCIL

FROM: Councilmember Campos

SUBJECT: CARD ROOM TAX INCREASE

DATE: August 4, 2008

Approved

Nora Campos

Date

8/4/08

RECOMMENDATION

I recommend that the City Council vote not to place a ballot measure before voters at the November 4, 2008 General Election that will increase the Card Room Tax or the number of card room tables.

BACKGROUND

Mayor Reed issued a memorandum on Friday, August 1 in which he recommended that the City Council adopt a resolution to place a ballot measure before the voters that will increase the Card Room Tax by 2.5% while allowing an additional 18 tables at the City's two card rooms. Mayor Reed estimates that the increase in the Card Room Tax and the number of tables will generate as much as \$5.5 million in General Fund revenue.

Staff's memo, issued on Friday, July 25, estimates that a 5% increase in the Card Room Tax with no corresponding increase in tables will generate an additional \$4.5 million in General Fund revenues (\$900,000 per 1% increase).

ANALYSIS

By City staff's analysis, Mayor Reed's proposal for a 2.5% Card Room Tax increase would generate \$2.25 million in General Fund revenues, only half the amount Mayor Reed estimates his proposal will generate. Therefore, one must assume that Mayor Reed estimates that an additional 18 card room tables will generate as much as \$3.25 million in additional General Fund revenues.

This is a fair estimate based on the current annual gross revenue generated by the card rooms (approximately \$93 million). Currently, there are a total of 80 tables at both card rooms in San Jose. Therefore, the average annual gross revenue generated by each table is approximately \$1.15 million. With a Card Room Tax rate of 15.5%, each additional table will generate approximately \$178,250 annually in General Fund revenues. If voters adopt a measure that grants the card rooms an additional 18 tables, those tables are likely

to generate as much as \$3.25 million in total revenue for the City, as Mayor Reed has approximated in his memorandum.

Based on Mayor Reed's estimate, the additional 18 tables called for in his proposal would generate approximately \$21 million annually in gross revenue. While the City would collect \$3.25 million of this revenue based on 15.5% Card Room Tax, the card rooms would keep the balance of \$17.75 million as profit, representing a 22% increase in total net revenues for the two card rooms. As this analysis proves, this proposal would represent an extraordinary benefit for the City's two card rooms, while generating a relatively small amount of additional revenue for the City.

For this reason, I respectfully urge the Council to reject Mayor Reed's proposal and vote to not to place a measure on the November 4, 2008 ballot to increase the Card Room Tax or the number of card room tables.