

## **Minnesota Charitable Gaming: Proposal for Funding Vikings Stadium**

### **What is the proposal?**

In order to fund a new Vikings stadium with a construction cost in excess of \$1.1 billion, legislators are proposing to introduce electronic pull-tab machines and electronic linked bingo to Minnesota. According to the Gambling Control Board, the new electronic games will increase the number of sites and charities conducting lawful gambling, attract a wider interest in charitable games, and attract a new, younger demographic of players resulting in increased gross receipts from charitable gambling.

The proposal has evolved significantly. Originally, the legislation provided for a revised tax structure which would have potentially caused a net decrease in General Fund revenues. Sponsors recently revised the proposal keeping the current charitable gaming tax structure in place. While this change would result in a larger state share of receipts, it puts the support of charities in doubt, since the charities had supported the bill largely because of its dramatic tax reduction.

The Department of Revenue estimated in a December 5, 2011 analysis that the proposal will result in \$72 million in tax revenues, based on the following major assumptions provided by Gambling Control Board:

- Electronic linked bingo will be available at 1,500 sites in Minnesota. Sites with two hundred seats or less would on average have three machines and sites with more than two hundred seats would have nine machines. On average, each machine will have \$90 of gross receipts and \$13.50 of net receipts per day.
- Electronic pull-tabs will be available at 2,500 sites in Minnesota. Sites with two hundred seats or less would on average

have four machines and sites with more than two hundred seats would have twelve machines. On average, each machine will have \$225 of gross receipts and \$33.75 of net receipts per day.

- Approximately 85% of the new electronic gaming would be electronic pull-tabs and 15% would be electronic linked bingo.
- The estimates of daily machine receipts assume that the new forms of electronic gambling would allow for the replay of winning credits.
- The introduction of electronic pull-tabs and electronic linked bingo will reduce the amount of paper pull-tabs sold by 20%.
- No changes in the existing charitable gaming tax rates or structure.

### **What is an electronic pull-tab device (EPD)?**

An electronic pull-tab is a hand-held device similar to an iPad. The capital cost is dramatically less than a slot machine or video lottery terminal (roughly \$500 per device versus \$15,000). However, it is an unproven technology in terms of its market potential. Hand-held devices with slot-machine games have been tested in a small number of casinos in the United States, but revenue figures are not available.

Pull-tabs, often called instant bingo, are cards with perforated break-open tabs, made from paper or paper products, with the face initially hidden from view to conceal numbers, letter or symbols.

### **What is the basis of the revenue forecast?**

Electronic pull-tabs have not been implemented anywhere in the United States, so there is no basis to the revenue forecast. A Department of Revenue fiscal analysis from December 6, 2011 notes that the Gambling Control Board based its gross receipts per day estimate (originally projected at \$250) "is based on industry data from Florida."



However, there is no such device operating in Florida, and attempts to confirm with the Department of Revenue the source of the "industry data" were unsuccessful.

Based on research in Florida, it is possible that the \$250 relates to Skill Based Redemption Games, also known as "adult arcade amusement machines" that are found in counties throughout Florida. These arcades are approved on a county level as opposed to statewide. Because they are not regulated, owners are not required to report revenues from these devices; therefore actual win per device per day is unavailable for comparison.

The inherent differences between the Florida machines and EPD's are clear. The machines in Florida are located in adult arcade rooms similar to a slot hall, with 50-75 devices that strongly resemble slot machines. The major difference between the redemption machines and a Las Vegas-style slot machine is that they are not permitted to pay out in cash. However, operators circumvent this restriction to a degree by awarding as prizes Visa gift cards or gift cards for such establishments as Olive Garden, Publix (grocery store chain) and Wal-Mart.

In conclusion, there is no comparison between the Florida redemption machines and the proposed EPDs. The games are different, and the Florida arcades have ready-to-use machines on the floor, providing more

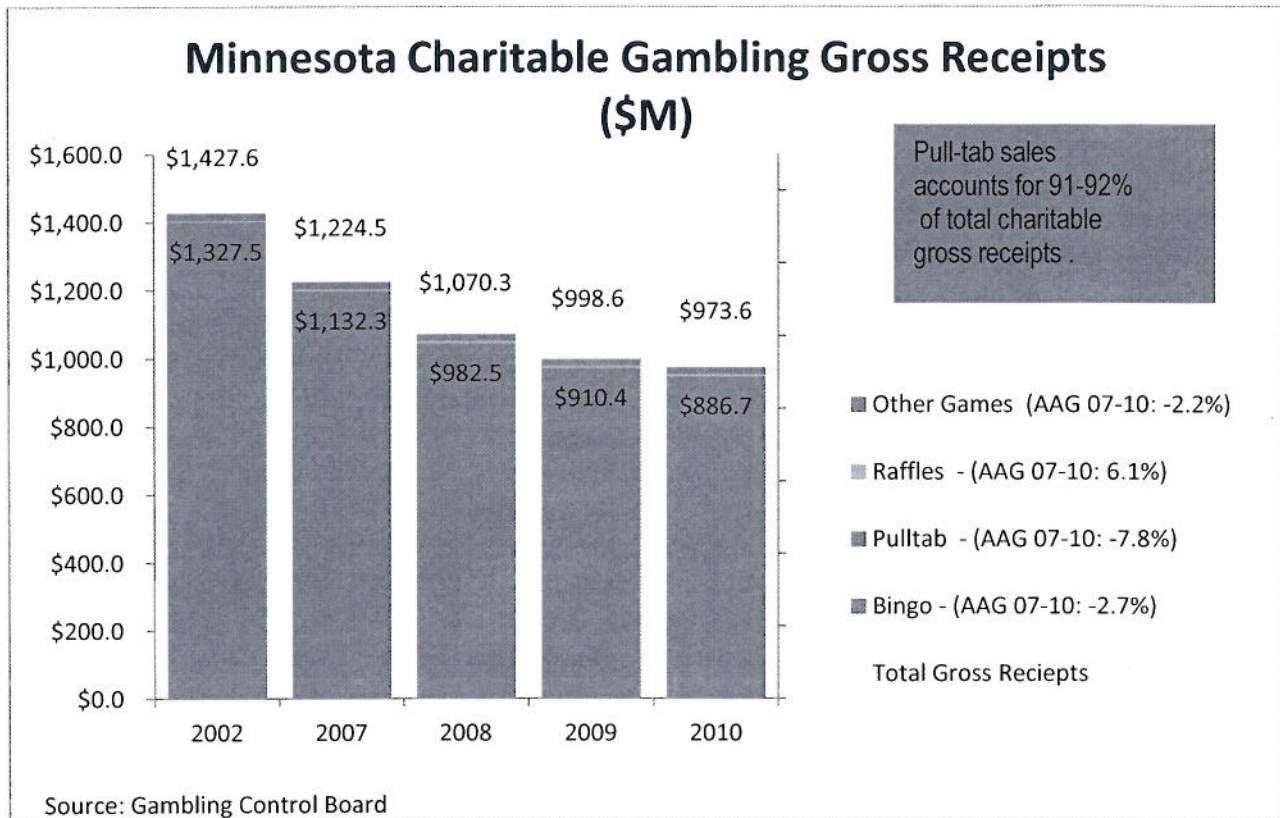
convenient access and the atmosphere of a slot parlor.

### **What are the trends of charitable gaming?**

Across the country, charitable bingo—much like horse and dog racing—has been declining as a result of competition from new forms of gambling, particularly slot machines and Class II machines as well as high stakes bingo at Native American facilities. Although the pure bingo player does not typically cross over to machine gaming, the demographic profile of machine players and bingo players is very similar, and thus the casual bingo player has switched more and more to casino gaming.

Many states have attempted to reverse declining charitable gaming revenues with enhancements and new games such as paper pull-tabs, electronic bingo, and satellite or linked bingo. Paper pull-tabs have been successful in the states that have allowed them, although not enough to reverse the general decline in charitable gaming.

The following chart shows that although they comprise the vast majority of Minnesota's charitable gambling receipts (or sales), pull-tab sales have declined by an average annual rate of 7.8%, from a high of \$1,327.5 million in 2002 to \$886.7 million in 2010.



Charitable gaming exists in every state in some form or another with the exception of Hawaii and Utah, where gambling is outlawed altogether. The table that follows shows the type of games that are played in each state according to the National Association of Fundraising Ticket Manufacturers (NAFTM), a trade organization associated with the manufacturing of pull-tabs, bingo paper, and related supplies by charities in fundraising events. States excluded from the following

table were left out for a combination of the following reasons according to NAFTM: (1.) charity gambling is not permitted in the state, (2.) there is no central regulatory agency or reporting authority within the state, (3) charitable gambling is unregulated, or (4.) there was no response to NAFTM's inquiry. Minnesota had a total of 1,229 licensed organizations that were permitted to lawfully operate charitable gambling in 2010.



### Games Played by State

	Licenses	Bingo	Electronic Bingo	Pull-tabs	Progressive Pull-Tabs	Seal Card Games	Jar Tickets	Raffles	Last Sale	Casino Nights	Other
Colorado	1,243	•		•	•	•		•	•		•
Connecticut	1,751	•		•		•		•			•
Indiana	3,717	•	•	•	•	•	•	•	•	•	•
Kentucky	1,317	•	•	•	•	•	•	•	•	•	•
Louisiana	625	•	•	•	•	•				•	•
Maine	10,750	•		•							•
Massachusetts	202	•		•				•		•	
Michigan	8,340	•	•	•	•	•		•	•	•	
Minnesota	1,229	•		•	•	•	•		•		•
Missouri	757	•	•	•				•			
Nebraska	1,025	•	•	•				•			•
New Hampshire	7,369										
New Jersey	3,079	•	•	•			•	•		•	•
New York	917	•	•	•		•	•	•		•	•
North Dakota	679	•	•	•			•	•	•		•
Oregon	11,092	•	•					•		•	•
South Carolina	99	•	•								
Texas	1,100	•		•	•	•	•	•	•		•
Virginia	398										•
Washington	2,337	•	•	•	•	•	•	•	•	•	•
Wisconsin	10,126	•		•				•			•

Source: National Association of Fundraising Ticket Manufacturers 2010 Annual Report of Charity Gaming in North America

### Where does Minnesota rank?

Minnesota currently ranks first among reporting states with over \$973.6 million in total gross receipts. A distant second is Texas, whose population is nearly five times that of Minnesota. On a per capita basis, Minnesota has the second highest spend at \$183.6, following only North Dakota with \$370.9 per capita. It is worth noting that charitable

gaming in North Dakota faces much less competition from casinos. Native American casinos in North Dakota are restricted to Class II gaming, and there are only six casinos in the entire state, compared to the 38 Class III casinos in Minnesota. The following table outlines the total charitable gaming per capita by state.

### State Per Capita Charitable Gambling Sales

	Population	Total Gross Receipts From Charitable Gaming	Per Capita Spend	Total Net Receipts	% Net Proceeds/Gross Receipts
Minnesota	5,303,925	\$973,632,000	\$183.6	\$78,237,000	8%
Texas	25,145,561	\$699,391,264	\$27.8	\$25,673,203	4%
Michigan	9,883,640	\$560,542,356	\$56.7	\$73,942,586	13%
Washington	6,724,540	\$556,284,212	\$82.7		13%
Indiana	6,483,802	\$484,026,932	\$74.7	\$65,240,196	
Kentucky	4,339,367	\$406,310,500	\$93.6	\$44,952,100	11%
New York	19,378,102	\$316,536,752	\$16.3		0%
Virginia	8,001,024	\$276,866,332	\$34.6	\$28,346,390	10%
North Dakota	672,591	\$249,468,404	\$370.9	\$24,733,952	10%
Nebraska	1,826,341	\$232,462,466	\$127.3	\$30,305,551	13%
Louisiana	4,533,372	\$216,486,000	\$47.8	\$21,310,500	10%
New Jersey	8,791,894	\$139,586,500	\$15.9	\$51,715,000	37%
South Carolina	4,625,364	\$120,500,719	\$26.1	\$617,399	1%
New Hampshire	1,316,470	\$113,791,431	\$86.4		0%
Colorado	5,029,196	\$113,324,096	\$22.5	\$18,000,000	16%
Missouri	5,988,927	\$103,084,799	\$17.2	\$10,584,482	11%
Massachusetts	6,547,629	\$81,097,953	\$12.4	\$14,467,498	18%
Wisconsin	5,686,986	\$80,141,000	\$14.1	\$39,439,300	49%
Maine	1,328,361	\$72,811,658	\$54.8		0%
Oregon	3,831,074	\$39,799,943	\$10.4	\$7,481,386	19%
Connecticut	3,574,097	\$37,948,339	\$10.6	\$13,562,793	36%

Source: National Association of Fundraising Ticket Manufacturers 2010 Annual Report of Charity Gaming in North America, US Census Bureau, Gambling Control Board

### How much would Gross Receipts increase?

The current forecast of \$72 million does not specify what that means in terms of gross receipts. Since the tax structure is graduated, and the current assumptions do not specify how many machines in total would be operating, it is impossible to ascertain what is implied by the \$72 million.

However, in a previous forecast from May 2011, the Department of Revenue detailed the following assumptions and formula:

- Projected sites: 3,500
- Projected average devices per site: 8
- Projected average daily gross receipts per device: \$250
- Projected prize payout: 85%
- Projected average daily net receipts (after prizes paid) per device \$37.50
- Projected average daily gross receipts per site: \$2,000

- Projected average daily net receipts per site \$300.00
- 3,500 sites X \$2,000 daily receipts per site X 364 days – \$98,000,000 (10% existing games)
- = \$2,450,000,000

### Is this a reasonable increase?

The May 2011 forecast implies that charitable gaming sales would increase by over 2.5 times, or to \$462 per capita. Further, the December 2011 forecast implies an even larger increase. There is no precedent in charitable gaming for such a dramatic increase, and all trends have for the past 20 years been in the opposite direction.

The shifting forecasts should be of concern. In the February 2011 forecast, the Department of Revenue forecasts had assumed that paper pull-tabs would be nearly phased out by year 3. This 95% cannibalization rate was revised to just 10% in the May 2011 forecast as shown above and 20% in the most recent (December 2011) forecast. The most recent forecast is



much less transparent in its calculations than earlier versions.

There is other cause for skepticism, including the assumption that the number of sites will grow by 25% to 3,500. In Illinois, legislation in 2009 allowing dispersed gaming devices in bars and fraternal organization received significant resistance from local authorities. Illinois had planned to rely largely on revenues from the devices to fund \$31 billion in construction projects. More than 60 communities enacted bans against the devices, causing the State in 2011 to lower its revenue estimate by 36%. Furthermore, a court challenge delayed implementation for two years, and no devices have been installed to-date.

Moreover, the presumption that the new devices will attract a younger demographic has not been tested; nor has their attractiveness to older bingo players.

It should also be noted that attempts within Minnesota as well as throughout the nation to enhance charitable gaming sales through technology have had limited success. In May 2006, Minnesota relaxed its charitable gaming regulations to allow for electronic bingo devices. The devices allow a person to play up to 36 bingo sheets per game. The new regulations also permitted linked bingo at bar bingo occasions; however, there is currently no provider and therefore no electronic bingo linked across bars.

Electronic bingo devices dramatically increase the number of games that can be played at once, and their introduction would be presumed to increase revenues due to the increased play. However, as shown in the following chart, bingo revenues continued to decline even after their introduction in 2006.



While the comparison to new technology introduced for charitable bingo is not ideal, it does call into question the ability of new technology alone to generate the kind of revenues that are being proposed.

The revised tax structure, which purportedly was taken out of the most recent forecast, would also raise concern regarding the ability to fund the stadium were to be put back in the bill. The original bill proposed a revised tax structure that not only reduced the tax rate on pull-tabs, but also shifted its application from

the charitable organization to the site, which would have the effect of dramatically increasing the portion of gross receipts falling into the 0% tax bracket, since there are far fewer organizations than there are sites. The following table compares the revised tax structure with the existing structure. Based on average revenues per site under the May 2011 forecast, individual devices that earn \$210 or less per day would not pay any taxes, and the tax per site would be approximately \$1,000 per site compared to the \$3,095 it would have collected under the previous tax structure.

Tax Structure			
Current Law		Proposed Law	
Organizations 1,300		Sites 3,500	
First \$500,000	0%	First \$600,000	0%
\$500,000-\$700,000	1.70%	\$600,001-\$800,000	1.00%
\$700,001-\$000,000	3.40%	\$800,001-\$1,000,000	2.00%
Over \$1,000,000	5.10%	Over \$1,000,000	3.00%
Average Revenue	Estimated	Average Revenue	Estimated
Per Organization*	Tax	Per Site	Tax
\$682,056.15	\$3,095	\$700,000	\$1,000

Source: Gambling Control Board  
 \* Based on 2010 Pull-Tab Revenues of \$886.7 million and 1,300 licensed charitable organizations

If this revised structure were to make it back into the bill and the sales forecasts were not met, it could leave the state with less money than is currently being earned, putting the debt repayment burden on the state and its residents.