

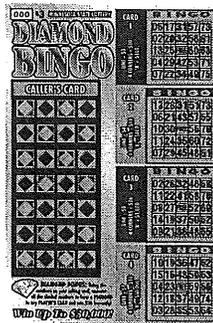
The Minnesota State Lottery



Presented to the Senate State Government Budget Division

February 1, 2005
Clint Harris, Executive Director

What we do

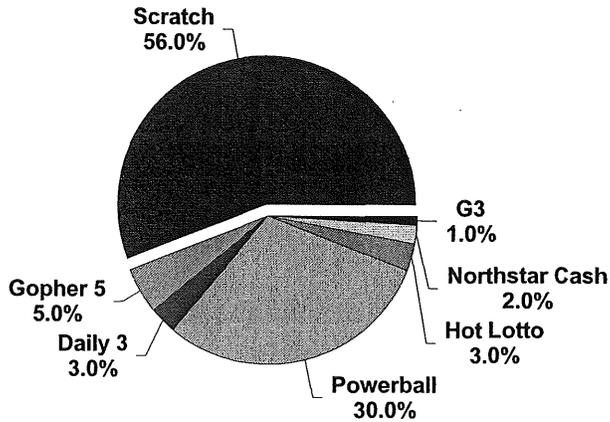


It could happen.



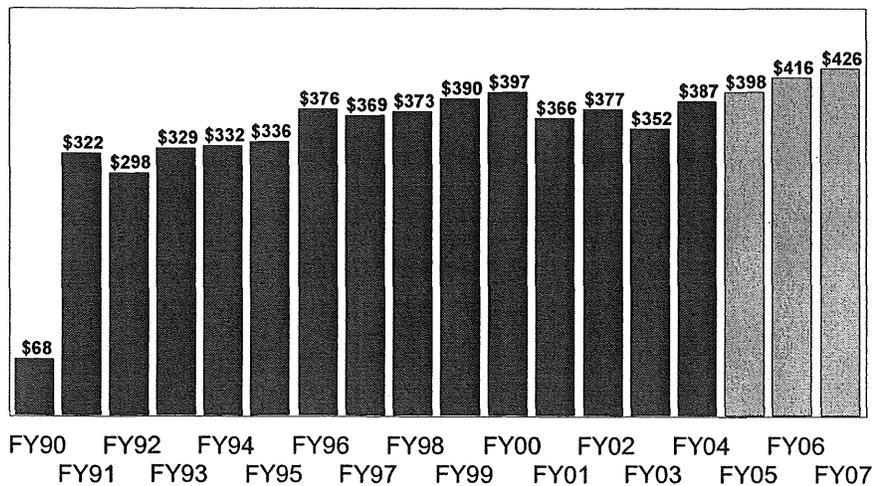
Lottery games

FY04 Lottery Sales

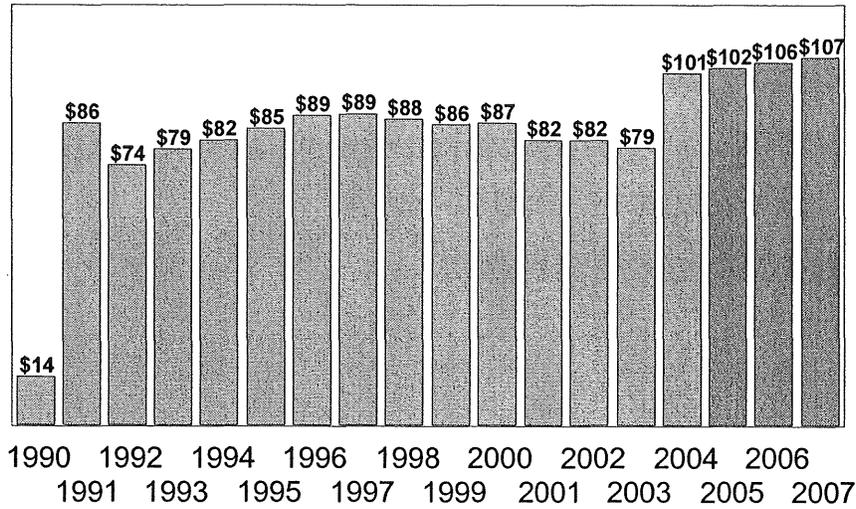


Minnesota State Lottery sales by fiscal year

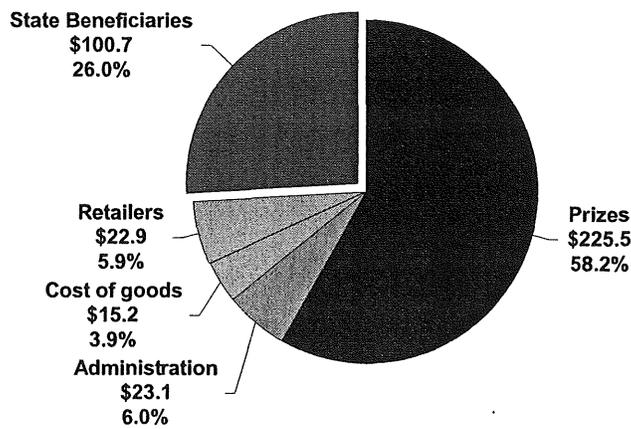
Total Sales (\$ Millions)



Lottery return to the state



FY04 Lottery revenue distribution



Dollars in millions

Total Revenue: \$387 million

Lottery contributions to the state

- **Net proceeds**
 - **60% to General Fund**
 - **40% to the Environment and Natural Resources Trust Fund**
- **Unclaimed prizes**

Lottery contributions to the state

- **In-lieu-of-sales Tax**
 - **28% to General Fund**
 - **43.5% to Game and Fish Fund**
 - **43.5% to Natural Resources Fund**
- **Direct appropriation**
 - **DHS compulsive gambling program**
- **Revenue recapture**
- **Income tax withholding on prizes**

Lottery governance

- **Authorized by voters in 1988 election**
- **Operated by a director**
 - **Appointed by governor with advice and consent of Senate**
 - **Serves at pleasure of the governor**
- **Governor and legislature review budget and establish a spending limit**
- **Governance task force**

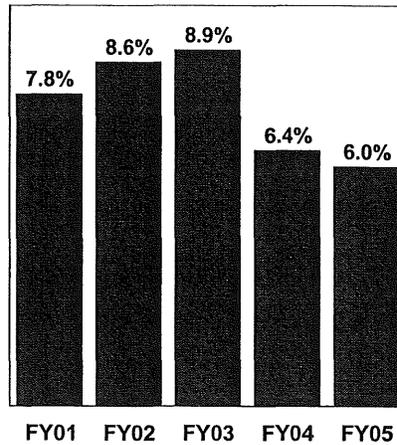
2004 in review

- **Legislative audit**
- **Blue ribbon marketing commission**
- **Creation of strategic and marketing plans**
- **Record \$101 million in proceeds to the state**

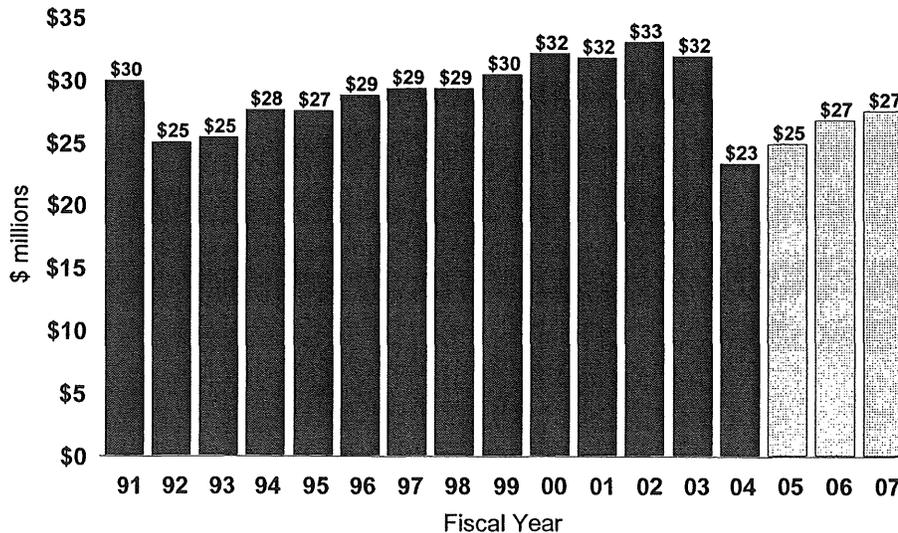
Lottery operations

- 144 permanent employees
 - Down 25% since 2000
- 4 regional offices
- Operating budget capped at \$27.4 million in FY05

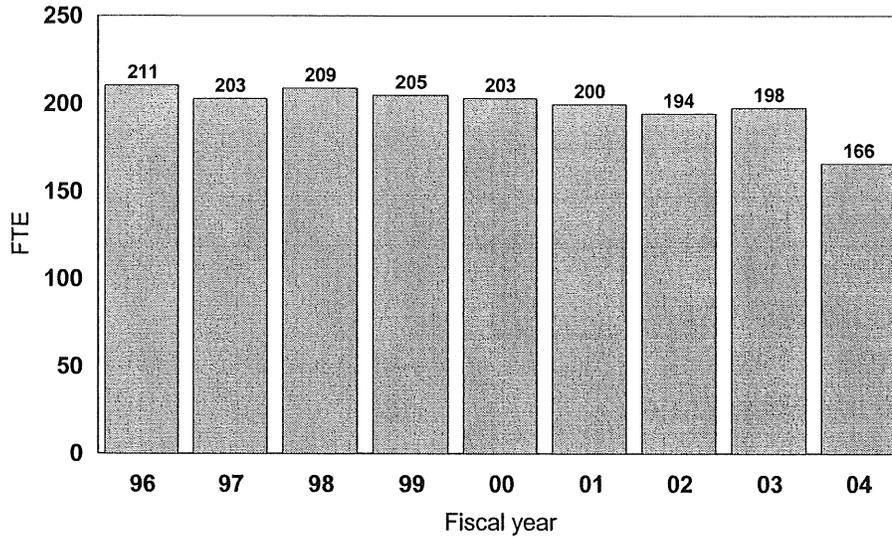
Operating expenses as % of total income



Lottery operating expense



Lottery employment history



Operating expense items

	FY05	FY06	FY07
Advertising	\$5.9	\$6.0	\$6.0
Promotion	2.3	2.3	2.3
Game Devel.	0	1.0	1.0
Salaries/Benefits	10.4	11.0	11.0
Occupancy	1.7	1.7	1.7
Communications	0.6	0.6	0.6
Purchased serv.	1.3	1.4	1.4
Depreciation	.6	.7	.7
Supplies	1.0	1.1	1.1
All other	1.0	1.0	1.0
TOTAL	24.8	26.8	27.4

Lottery revenues

	FY05	FY06	FY07
General Fund	\$56.7	\$58.7	\$59.4
Env. and Nat. Resources Trust	26.6	27.6	27.7
Game & Fish	9.4	9.8	10.0
Natural Resources	9.4	9.8	10.0
TOTAL	\$102.1	\$105.9	\$107.2

Thank you!



www.mnlottery.com

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What we do



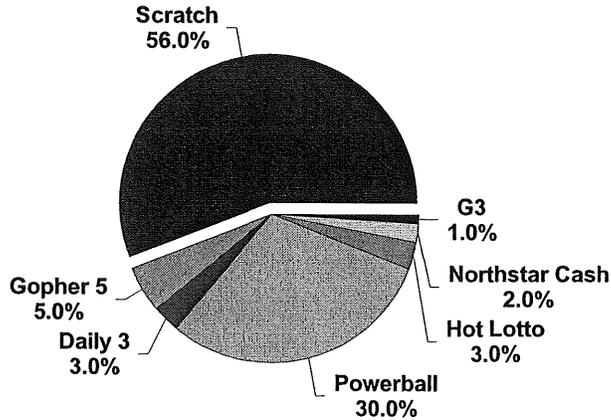
POWERBALL

It could happen.



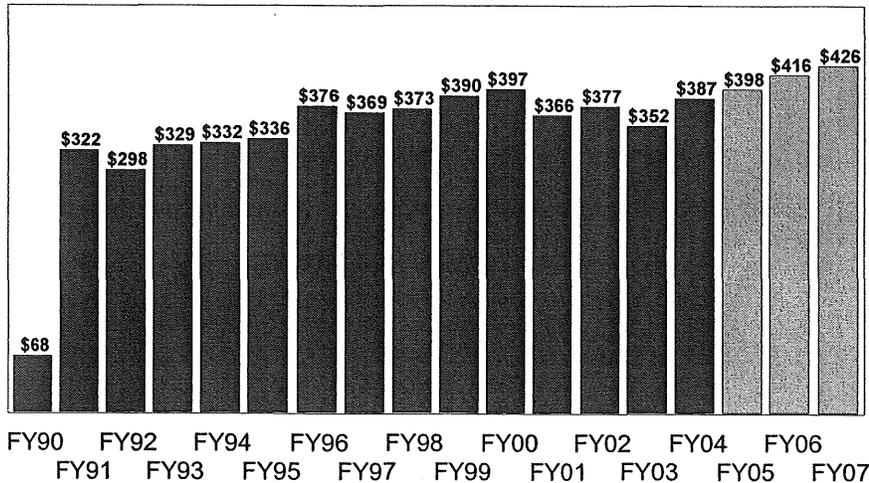
Lottery games

FY04 Lottery Sales

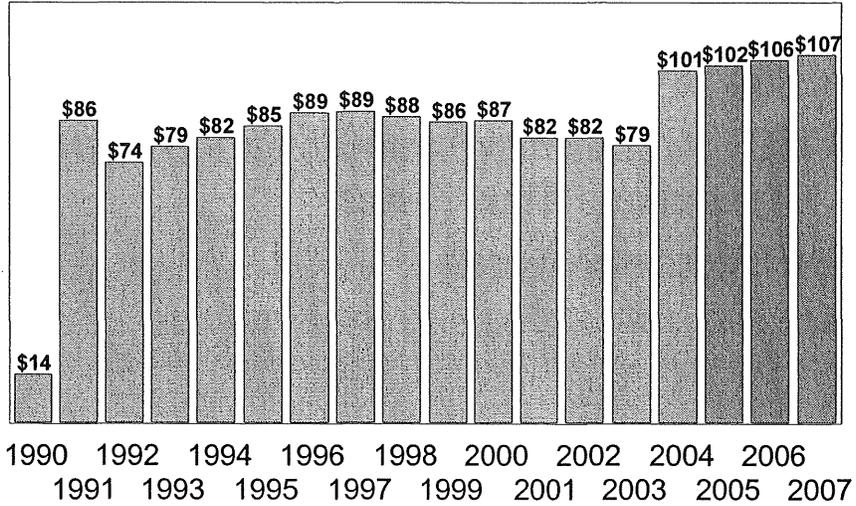


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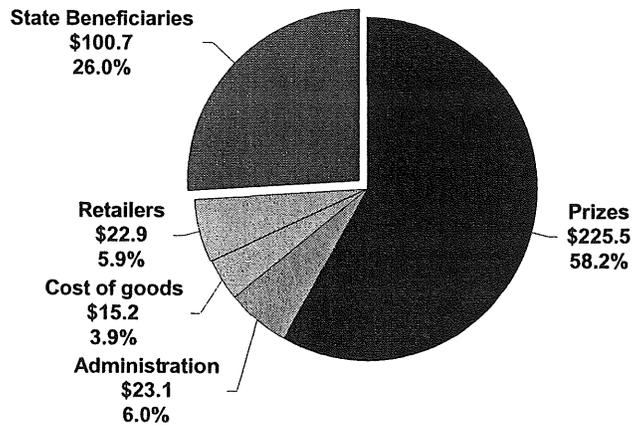
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Lottery return to the state



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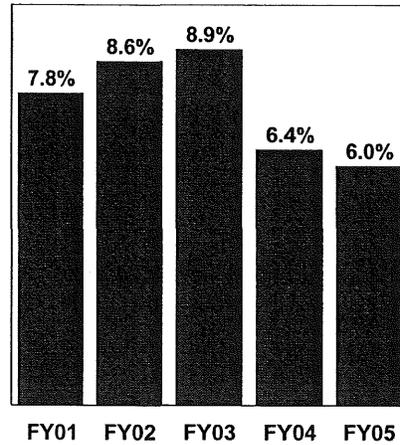
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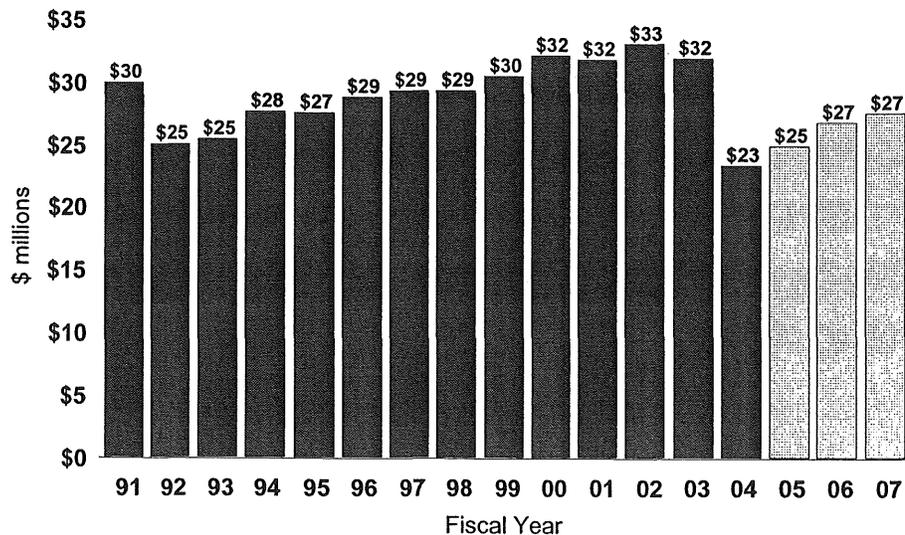
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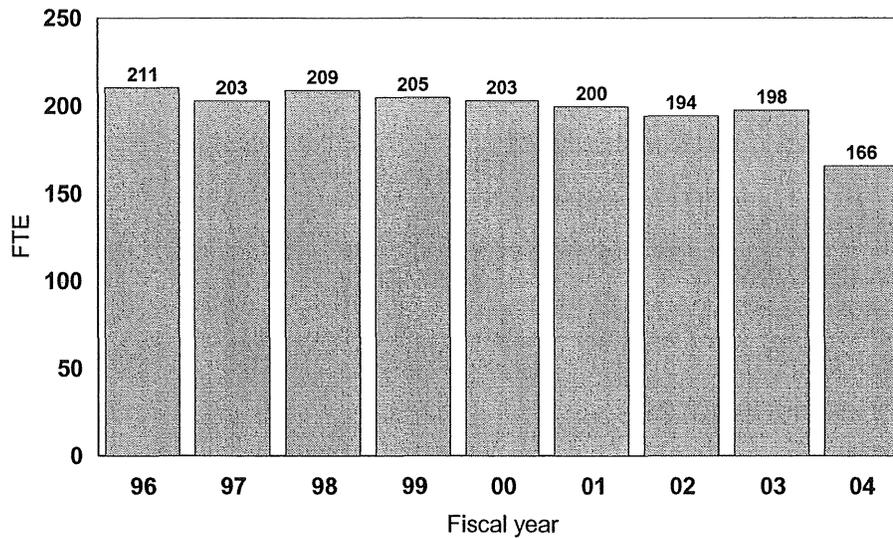
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Thank you!



www.mnlottery.com

#2



**Minnesota State
Lottery**

Overview

2005



Welcome to the Minnesota State Lottery's 2005 Overview. The purpose of this document is to provide some general information about the Lottery. You will find financial information for fiscal year 2004; a summary of the Lottery's contributions to the state; descriptions of the Lottery's operation, games, and retailer network; and a discussion of the Lottery's efforts relating to problem gambling treatment and prevention. You will also find information about gambling in Minnesota and throughout the United States.

There is, of course, a lot of information that is not included in this document. The Lottery has developed a very comprehensive Web site that includes information on gambling studies, proceeds, winners, winning numbers, problem gambling, and more. The Web site also provides links to other U.S. and Canadian lotteries, lottery vendors, and to problem gambling resources. Please visit us at www.mnlottery.com.

Please contact me with any questions or comments you may have about the Minnesota State Lottery, this document, or the Web site.

Very truly yours,

A handwritten signature in cursive script that reads "Clint Harris".

Clint Harris
Executive Director

This document is available in alternative formats to individuals with disabilities by calling 1-888-568-8379 or TTY (Deaf or hard of hearing) 1-800-657-3833.

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Gambling in Minnesota: The Legal Framework

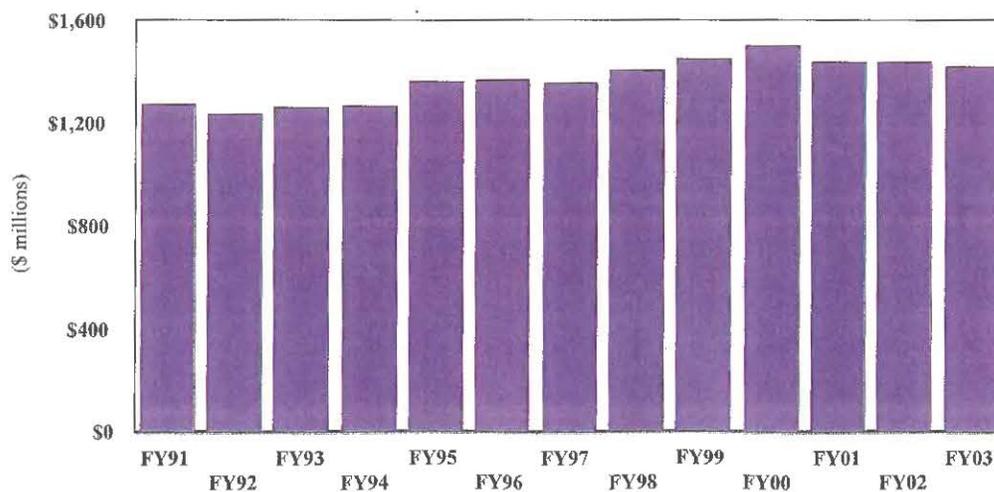
- Legal gambling in Minnesota includes charitable gambling, pari-mutuel horse racing, the Minnesota State Lottery, card rooms, and casinos owned by Minnesota Indian tribes.
- Gambling at Minnesota Indian casinos is conducted in accordance with tribal-state compacts and the federal Indian Gaming Regulatory Act. Minnesota compacts call for regulation of gambling equipment at these casinos by the Alcohol and Gambling Enforcement Division of the Department of Public Safety. Other regulation is conducted by individual tribal governments and the federal Indian Gaming Regulatory Commission. The gross wager at Minnesota tribal casinos is unknown, but has been estimated to be as high as \$10 billion. Net revenue (after prizes but before expenses) has been estimated to be between \$1 billion and \$2 billion a year.

Indian Casinos



- Lawful, or charitable, gambling, including pull-tabs, paddlewheels, tipboards, bingo, and raffles, is regulated by the Gambling Control Board. In FY03, 1,443 licensed organizations operating out of 3,048 locations accepted \$1.4 billion in wagers on the various forms of charitable gambling. These organizations made \$67.0 million in charitable contributions and paid \$56.1 million in state taxes.

Lawful Gambling Gross Sales

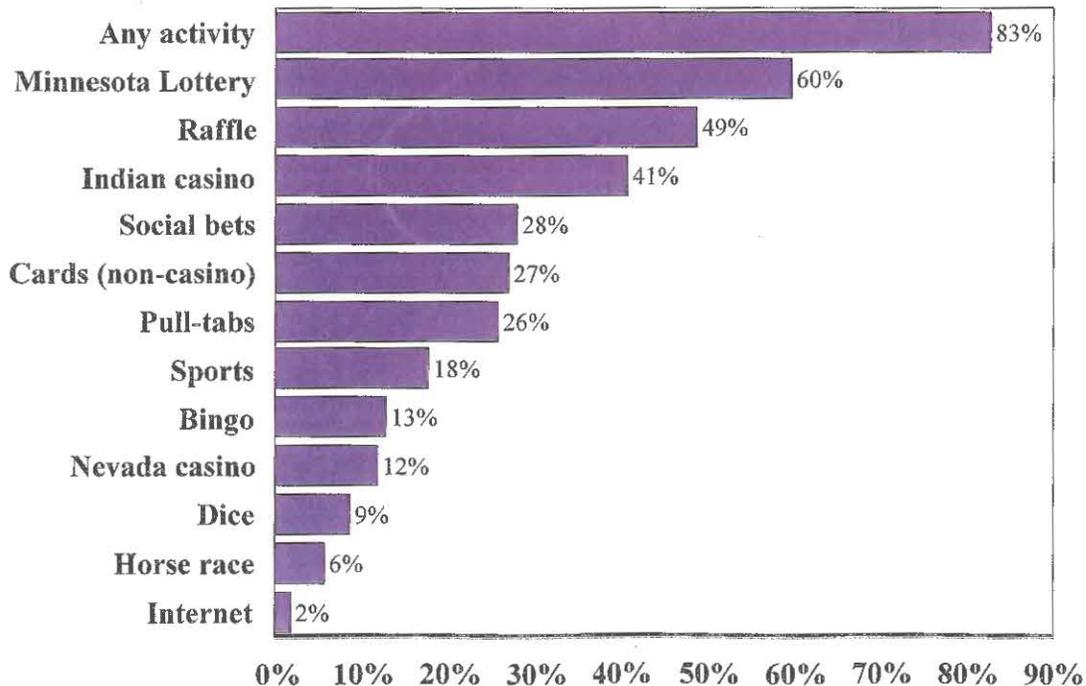


- Pari-mutuel horse racing at Canterbury Park recorded wagers of \$80.5 million in 2003, including both live racing and simulcasts. Racing is conducted under the regulatory supervision of the Minnesota Racing Commission.
- The card club at Canterbury Park opened on April 19, 2000. In 2003, Canterbury Park's "rake" — the portion of wagers kept by the house — was \$23.0 million, a 32 percent increase over the previous year. The card club is also under the supervision of the Minnesota Racing Commission.
- Wagering on the Minnesota State Lottery exceeded \$387 million in FY04, with total revenues to the state exceeding \$100 million.
- Private social bets that are not commercial in nature are not considered gambling under Minnesota law.
- Illegal gambling is estimated to be in excess of \$2 billion a year in Minnesota. Organized, for-profit sports betting is the most common form of illegal gambling, with illegal lotteries and black market pull-tabs among the other forms of illegal gambling present in the state. Laws against illegal gambling are enforced by local law enforcement officials, the Attorney General, the Alcohol and Gambling Enforcement Division of the Department of Public Safety, and the FBI.

Gambling in Minnesota: Who and What

- A 2004 survey conducted by the Minnesota State Lottery and St. Cloud State University found that 83 percent of adult Minnesotans had gambled during the previous year. An additional 11 percent had gambled at some other point in their life.
- The average Minnesotan has bet on six different gambling activities in their lifetime and three within the past year.
- The most popular form of gambling was the Minnesota State Lottery; 60 percent of the state's adults had purchased a lottery ticket in the year prior to the survey. It was followed by raffles (49 percent), Indian casinos (41percent), and social bets (28 percent).
- Minnesota seniors are the least likely to gamble. Only 75 percent of those between the ages of 65 and 74 and 63 percent of those 75 or older reported gambling in the past year, compared to 86 percent of those between the ages of 25 and 34.
- The lowest rates of gambling are found among those with the lowest household incomes; 71 percent of those with incomes under \$15,000 gambled in the year preceding the survey.

In the past year, have you bet on ...?



Gambling in Minnesota: A Chronology

- 1857** Minnesota Constitution includes prohibition on “lotteries”
- 1945** Legislature authorizes bingo by charities, the first form of gambling legalized in the state
- 1967** Legislature places a sales tax on bingo, the first time the state has collected revenue from gambling operations
- 1972** First lottery bill introduced in legislature
- 1978** Tipboards, paddlewheels, and raffles to benefit charity legalized
- 1981** Pull-tabs permitted as part of charitable gambling
- 1982** Constitution amended to permit pari-mutuel horse racing
Lottery amendment passes Minnesota Senate
First bingo hall opens on Minnesota Indian reservation
- 1984** State takes over regulation of charitable gambling
Gambling Control Board established
- 1985** Canterbury Downs opens as the state’s first and only pari-mutuel racing facility
- 1988** Constitution amended to permit a state-operated lottery
- 1989** Congress passes the Indian Gaming Regulatory Act, requiring states and tribes to negotiate the conduct of casino-type gambling on native land
- 1990** First Minnesota State Lottery tickets sold
Tribal-state compacts permitting video games of chance at tribal casinos signed
- 1991** Tribal-state compacts permitting blackjack at tribal casinos signed
- 1996** Constitutional amendment allowing off-track betting fails
- 2000** Card club opens at Canterbury Park

Gambling in the United States

- Some form of gambling is legal in all states except Utah and Hawaii.
- As of January 2005 lotteries are available in 40 states and the District of Columbia; Oklahoma plans to begin sales in 2005. Casinos operate in 27 states, and pari-mutuel wagering is available in 42 states.
- Among the forms of gambling not permitted in Minnesota but permitted elsewhere are dog racing, jai alai, video lottery terminals, sports wagering, keno, craps, roulette, off-track betting, and riverboat casinos.
- A 2000 national survey found that 82 percent of Americans had gambled in the past year, a number very close to the 83 percent rate found in Minnesota.

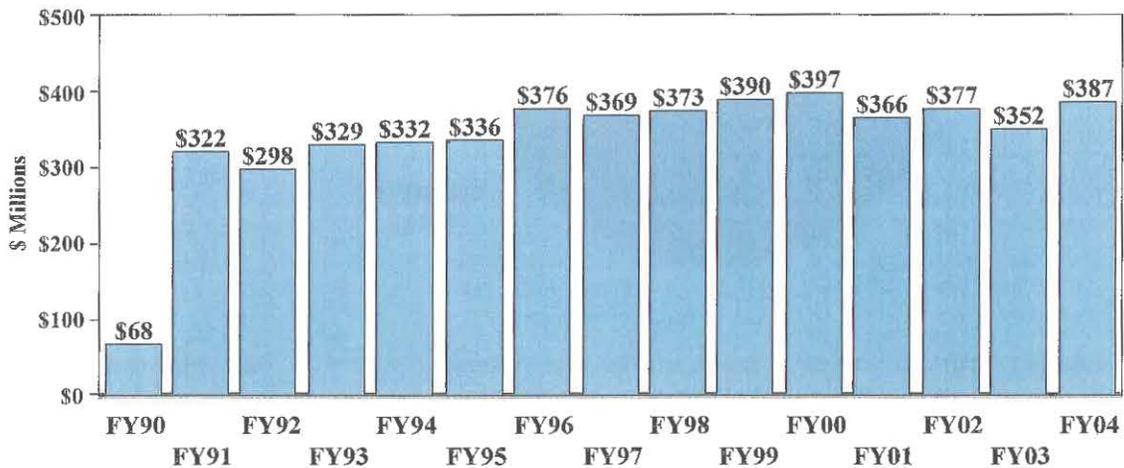
The Minnesota State Lottery: The Legal Context

- The Minnesota Constitution (Article XIII, Sec. 5) prohibits lotteries, with the exception of a “lottery operated by the state.”
- Laws governing the operation of the Minnesota State Lottery are set out in Minnesota Statutes, Chapter 349A.
- The Lottery is operated under the control of a director appointed by the governor with the advice and consent of the Senate.
- The Lottery operates outside the state treasury and is not subject to the legislative appropriations process. By law, the Lottery’s operating budget is capped at 15 percent of gross revenue. The legislature sets a maximum amount that may be spent by the lottery on operating expenses. For FY05 that limit is \$27.4 million.
- Advertising expenditures can be no more than 2.75 percent of gross revenue.
- The state constitution guarantees that a minimum of 40 percent of net lottery proceeds is allocated to the Environment and Natural Resources Trust Fund through 2024. All other revenues are distributed at the discretion of the legislature.

Lottery Finances

- From the start of the Lottery in April 1990 through November 2004, sales have exceeded \$5.2 billion. Over \$1.2 billion has been paid to the state.
- Contributions to state programs exceeded \$100 million in FY04 for the first time ever.
- By law, lottery finances are subject to an annual outside audit. Copies of each year's audit are available upon request.
- Scratch (instant) games continue to account for the bulk of lottery sales — 56 percent in FY04.

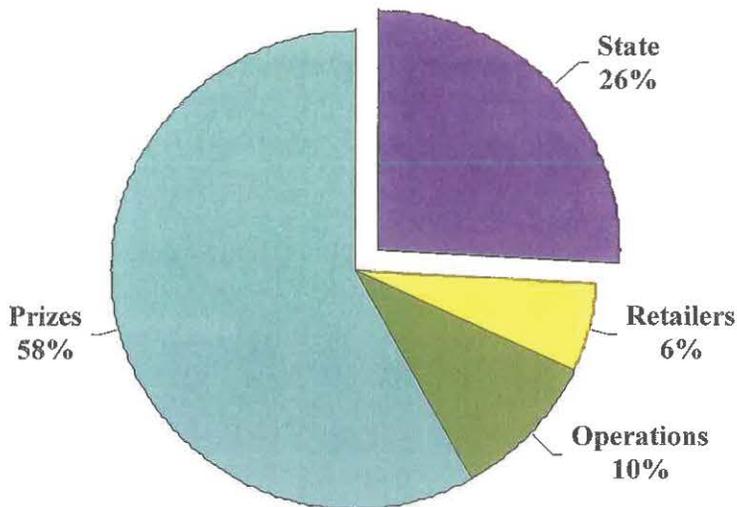
Lottery sales by fiscal year



Distribution of Lottery Revenues

- The bulk of lottery revenue (58 percent) is returned to players as prizes. Prize payments in FY04 alone exceeded \$225 million. Since April 1990 players have won over \$3 billion in prizes.

FY04 Revenue Distribution



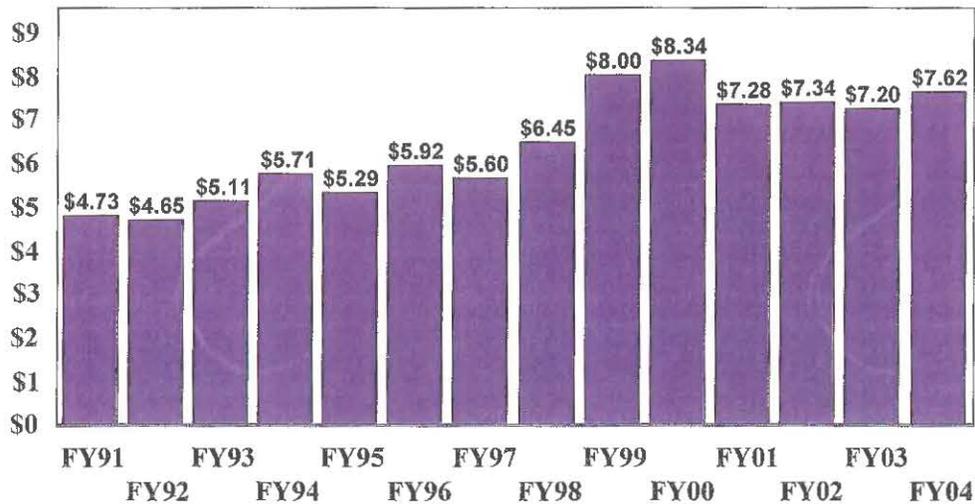
- Retailers earn 5.5 percent on each dollar of sales and 1 percent of each prize redeemed at their store. They are also eligible to receive additional income through a variety of incentive programs. Since the Lottery began, retailers have earned more than \$310 million from the sale of lottery products.
- In FY04 the Lottery spent 9.9 percent of total revenue (10.6 percent of gross revenue after in-lieu-of-sales tax) on operations, returning \$4.2 million in unspent operating funds to the state. Since inception, the Lottery has returned \$114 million in authorized but unspent operating funds.
- FY04 operating expenses were over \$8 million lower than FY03, a 37 percent reduction.
- Both large and small operating expenses have been reviewed and eliminated. They range from savings of \$3.7 million annually from re-bidding a major procurement contract to installing software to turn computer monitors off at night.
- The Lottery will continue to aggressively pursue operating expense reductions while recognizing that prudent investments in technology, marketing, research and other areas can lead to higher revenues, greater efficiency, and enhanced security.

Retailer Compensation

- Retailers earn 5.5 cents for every dollar in lottery products they sell. In addition, they earn 1 percent of each winning ticket that is redeemed at their store.
- Total retailer compensation for FY04 was \$22.9 million, an average of \$7,620 per retailer. Average compensation has increased 64 percent since the Lottery's first full year of operation. The greatest increase followed a commission increase mandated by law in 1998.
- Unlike many states, retailers in Minnesota pay no fees to the Lottery beyond an initial contract application fee of \$100 and \$20 for annual contract renewal. In many parts of the country, retailers must pay for such items as ticket dispensers or telecommunications.
- Retailers may not accept credit cards for lottery purchases.
- Retailers may not "mark up" lottery tickets nor sell them at a discount.

Average Compensation per Retailer

\$ Thousands

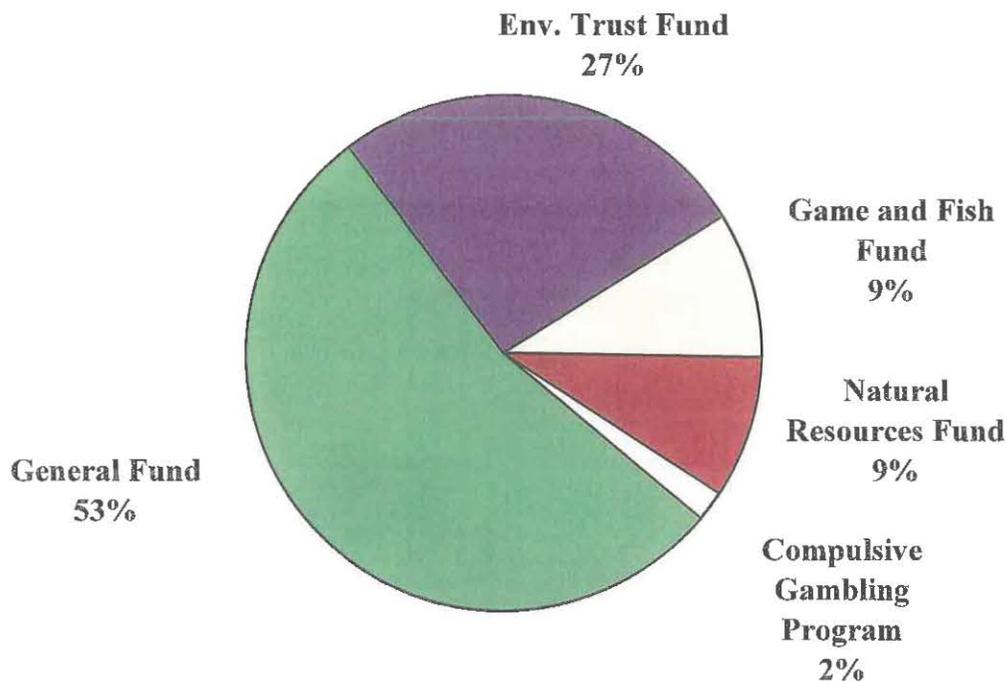


Based on total compensation divided by number of retailers at end of fiscal year

Lottery Beneficiaries

- Lottery proceeds are distributed to the state's General Fund, several environmental funds, and the Department of Human Services' Compulsive Gambling Program.
- Net proceeds from the Lottery are divided between the General Fund (60 percent) and the Environment and Natural Resources Trust Fund (40 percent).

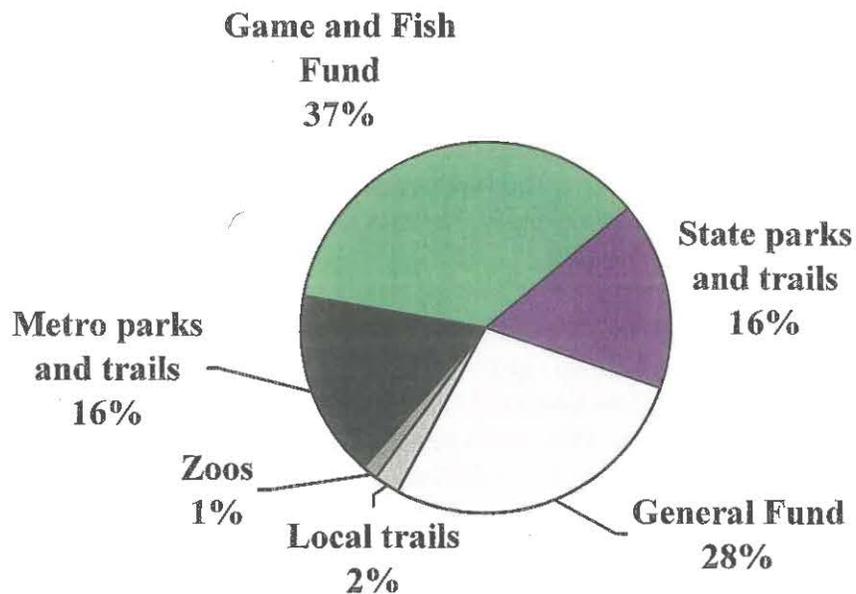
FY04 Distribution of Lottery Proceeds



- In addition, a 6½ percent in-lieu-of-sales tax is allocated to several programs. The FY04 distribution of these funds is shown below. In FY04 the portion of the in-lieu-of-sales tax going to the General Fund increased from 13 percent to 27.57 percent.
- The Lottery returned a record \$100.7 million to the state in FY04. From the sales of the first ticket in April 1990 through November 2004, the Lottery contributed more than \$1.2 billion to the state.
- Through November 2004 the Lottery contributed \$350 million to the Environment and Natural Resources Trust Fund while the General Fund received \$769 million. The Game and Fish Fund and the Natural Resources Fund each received \$45 million. An additional \$36 million was allocated to the Greater Minnesota Corporation and the Infrastructure Development Fund in FY90 and FY91.
- All unclaimed prizes are returned to the state and directed to the General Fund. This amounted to \$7 million in FY04. Players have one year from the date of a drawing or the end of a scratch game to claim their prize.

- During the 03-04 biennium the Lottery provided \$3.8 million to the Department of Human Services (DHS) for problem gambling programs. Through June 30, 2004 the Lottery transferred \$18.4 million to these programs. The Lottery is currently the sole source of funding for state-provided services for problem gamblers.
- Through June 30, 2004 the Lottery collected \$2,026,929 in debts owed to the state through the Revenue Recapture Act, including child support and taxes. All prizes of \$600 and above are subject to this process
- .In FY04, \$5.24 million was withheld from prizes for Minnesota income tax.

FY04 Allocation of the Lottery's In-Lieu-of-Sales Tax



The Environment and Natural Resources Trust Fund

- The Environment and Natural Resources Trust Fund is a permanent fund established in the Minnesota Constitution. It is designed to fund projects of long-term benefit to the state's environment.
- The Trust Fund was established through a constitutional amendment passed on November 8, 1988 with 77 percent of the vote.
- A constitutional amendment passed in November 1990 dedicated 40 percent of the Lottery's net proceeds to the Trust Fund through 2001. This amendment received 75 percent of the vote.
- The dedication of lottery proceeds was further extended to December 31, 2024 by a November 1998 constitutional amendment that received 77 percent of the vote.
- Proceeds from the Lottery are added to the Trust Fund's principal. The legislature may annually appropriate 5 ½ percent of the fund's market value as of the last day of the preceding biennium. The Fund is managed by the state Board of Investment, and its value subject to fluctuations in financial markets.
- The legislature appropriated \$30.1 million to 39 projects for the 2004-2005 biennium, \$33.4 million to 22 projects for the 2001-2003 biennium, \$27.0 million to 70 projects for the 2000-2001 biennium, \$22.3 million to 50 projects for the 1998-1999 biennium, and \$19.5 million to 30 projects for the 1996-1997 biennium. \$24.6 million funded 29 projects during the 1994-1995 biennium, while \$14.9 million was appropriated to 31 projects in 1992-1993.
- Proposals for funding are submitted to the Legislative Commission on Minnesota Resources (LCMR), which makes recommendations to the full legislature.
- The fund must be used for projects "whose benefits become available only over an extended period of time."
- By law, Trust Fund money may be spent only on certain types of projects. These include:
 - The Reinvest in Minnesota (RIM) program (fish and wildlife habitat and related recreation)
 - Research leading to more effective protection or management of the state's environment and natural resources
 - Collection and analysis of information to help develop environmental and natural resource policy
 - Enhancement of public education, awareness, and understanding of the environment and natural resources
 - Capital projects for the preservation and protection of unique natural resources

- Activities that preserve or enhance natural resources threatened with impairment or destruction
- The Trust Fund may not be used as a substitute for traditional sources of funding for environmental activities.
- Trust Fund money may not be used for:
 - Environmental compensation and liability
 - Municipal water pollution control
 - Decommissioning nuclear power plants
 - Hazardous waste disposal facilities
 - Solid waste disposal facilities

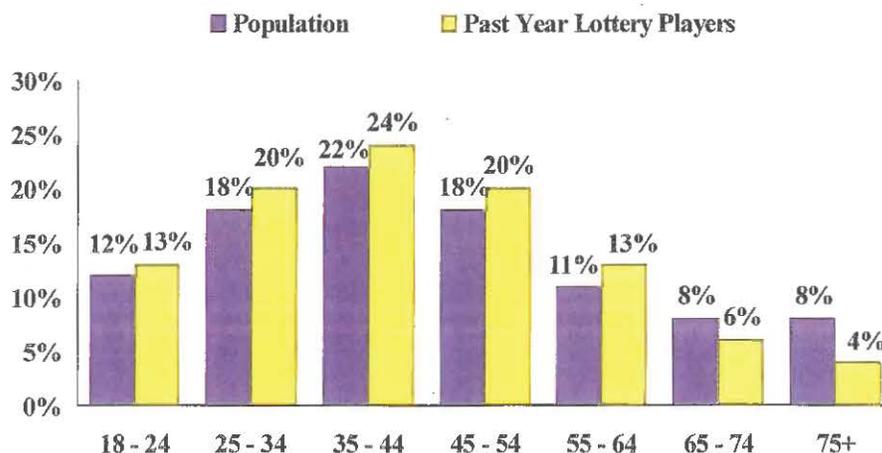


The Paul Bunyan Trail from Brainerd to Bemidji is one of several state trails constructed with funds provided by the Lottery through the Environment and Natural Resources Trust Fund.

Who Plays the Minnesota State Lottery?

- A 2004 study, conducted for the Lottery by St. Cloud State University, shows that almost three of every four Minnesota adults (72 percent) has played the Lottery. Sixty percent played in the year preceding the survey. However, almost four times as much money is wagered on charitable gambling each year, while many more times is wagered at Minnesota casinos.
- Exclusive lottery play is rare. More than 90 percent of Minnesota adults have wagered on something other than the Lottery.
- Most Lottery players play for fun and entertainment. Few play with the expectation of financial reward.
- Minnesotans with moderate or high incomes are more likely to buy lottery tickets and spend more money on the Lottery than those with low incomes.
- A majority of men, women, young adults, the middle-aged, and those with high school or college educations play the Lottery.
- The Lottery is less popular with the elderly and those without a high school diploma.

FY04 Allocation of the Lottery's In-Lieu-of-Sales Tax

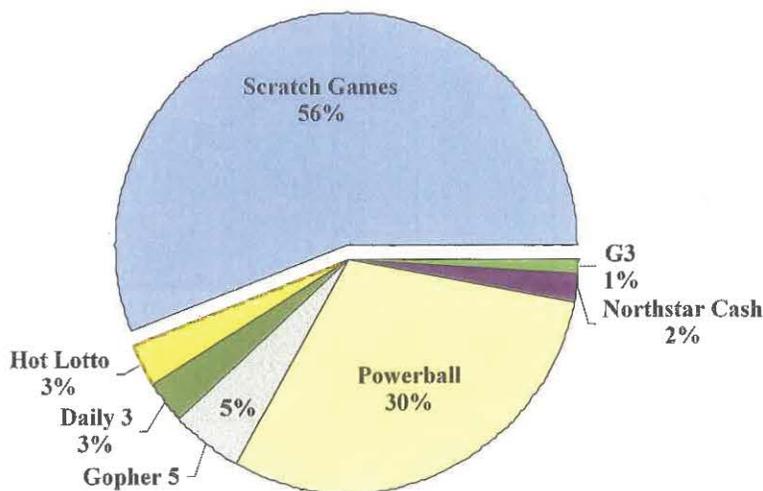


Lottery Games

- The Lottery offers three types of products: Scratch Games, Online Games and G3 Games.
- Scratch (instant) Games feature a paper ticket with a coating that, when scratched off, reveals if a player has won. They accounted for 56 percent of Lottery sales in FY04.
 - Winning tickets are randomly printed through a computer-generated process.
 - Prize payouts range from 63 percent to 69 percent. State law requires a minimum payout of 60 percent.
 - Top prizes range from \$1,000 to \$200,000. Ticket prices range from \$1 to \$10.
- Online games are conducted through computer terminals at retail locations that are connected to the Lottery's central computer. A player wins if the numbers they select match the numbers selected in a random drawing. Current games include Powerball[®], Gopher 5[®], Hot Lotto[®], Northstar Cash[®] and Daily 3[®].
 - Powerball and Hot Lotto are multi-state games. The Multi-State Lottery Association, based in Des Moines, Iowa, conducts the drawings for these games. Each member lottery keeps all of the profits from the sale of tickets in its jurisdiction.
- G3 games[™] are a new type of lottery game first introduced in February 2004. As with Online Games, tickets are generated by a computer terminal. However, players can determine immediately if they have won without waiting for a drawing and without having to scratch off a coating.



FY04 Sales by Product



The Retailer Network

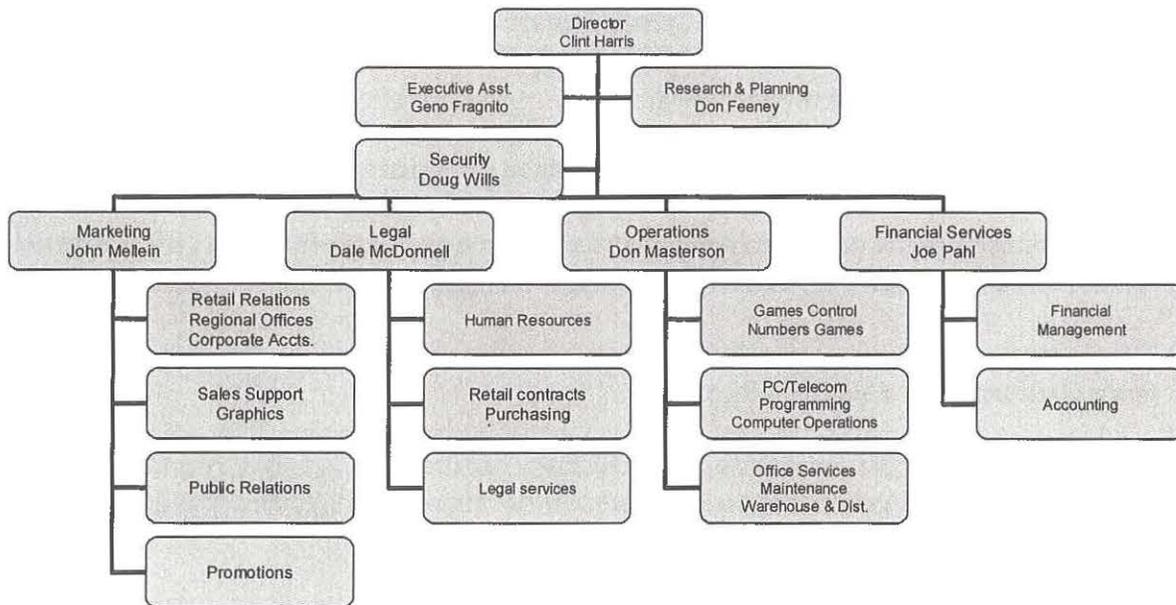
- Lottery tickets were sold by 3,087 retailers as of December 2004. These retailers are located in 661 cities and in all 87 counties.
 - 1,215 retailers are located in the seven-county Twin Cities area; 1,872 are in Greater Minnesota.
- Since 1999 all retailers have had the ability to sell all lottery products. As of January 1, 2003, all retailers are required to sell Scratch Games, Online Games and G3 Games.
- Lottery retailers represent 35 types of businesses. Convenience stores that sell gas, however, account for 60 percent of lottery retailers and 67 percent of sales. Supermarkets and grocery stores account for another 13 percent of stores and 14 percent of sales, while convenience stores without gas account for 12 percent of both stores and sales.
- Twenty-four percent of lottery retailers are affiliated with chains of 20 or more stores. However, these stores account for 37 percent of lottery sales.

Lottery Market Share by Type of Store

Lottery Operations

- The Lottery has headquarters in Roseville and four regional offices statewide: Virginia, Detroit Lakes, Marshall, and Owatonna. The regional offices provide local service and information, process winning tickets, provide a base for field marketing staff, and serve as storage and distribution centers. The Lottery closed offices in Brainerd and Eagan in June 2004.
- The Lottery had 144 permanent employees as of December 2004. Employment levels have declined by 25 percent since 2000.

Minnesota State Lottery



Security and Integrity

Key to the Lottery's success is the security and integrity of its games. Minnesotans will only play the Lottery if they believe that the games are secure. The Lottery emphasizes security in all aspects of operations.

- Minnesota State Lottery security is a model for the industry. Minnesota's rigorous security procedures have led to one of the lowest rates of attempted compromise in the country.
- A 2005 report from the Office of the Legislative Auditor found that "the Lottery protects the integrity of its scratch and online games with a comprehensive set of security procedures."
- The Lottery's Security Division works closely with law enforcement agencies to detect and investigate lottery fraud, ticket theft, etc.
- Lottery buildings are protected by a sophisticated security system to prevent ticket theft, intrusion, and to safeguard data.
- All data processing systems and operations at the Lottery and at its online games vendor are audited by a Lottery security auditor, monitored by a video surveillance system and protected by a limited-access secure area. Should the Lottery's main computer fail, a backup system at another location is on standby.
- Each online game drawing is monitored and audited by an independent accounting firm.
- Scratch ticket production is a complex and secure computerized printing process. The tickets are tested for security by an independent laboratory, the ticket printer, and the Lottery.
- The Lottery's validation system helps prevent fraud by using encrypted bar codes and computer verification of every winning ticket.
- Since the Lottery began, incidents of cashed stolen or altered tickets have decreased because of aggressive investigation and prosecution of these crimes and a general public awareness that the games are secure.

Lottery Advertising

- The Lottery must sell its product in a competitive marketplace. The competition includes not only other forms of gambling, but all other products vying for the discretionary entertainment dollar. As such, continued lottery advertising is necessary to maintain lottery revenue.
- The Lottery, by law, may spend no more than 2.75 percent of gross revenue on advertising. Advertising expenditures for FY04 were \$5.0 million, or 1.40 percent of gross revenue.
- Lottery advertising, at less than 2 percent of revenue, is much lower than other consumer products. Most companies marketing to consumers spend more than 5 percent of revenue on advertising; figures in excess of 10 percent are not uncommon in some industries.
- Minnesota law places restrictions on the content of advertising. Lottery advertising must be consistent with the dignity of the state and may only:
 - Present information about lottery games,
 - Identify state programs supported by lottery revenues,
 - Present the Lottery as a form of entertainment, or
 - State winning numbers or identity of winners.
- Lottery advertising may not:
 - Market the Lottery as a means of relieving financial difficulties,
 - Target with the intent to exploit a specific group or economic class of people,
 - Exploit a religious holiday through use of a religious theme or symbol,
 - Present the purchase of a lottery ticket as a financial investment or a way to achieve financial security,
 - Use the name or picture of an elected state official to promote a lottery game,
 - Misrepresent the chance of winning a prize,
 - Denigrate those people who do not buy a ticket or unduly praise those who do.
- All lottery advertising and brochures prominently state, “Lottery players must be 18 years of age or older.”

Problem Gambling

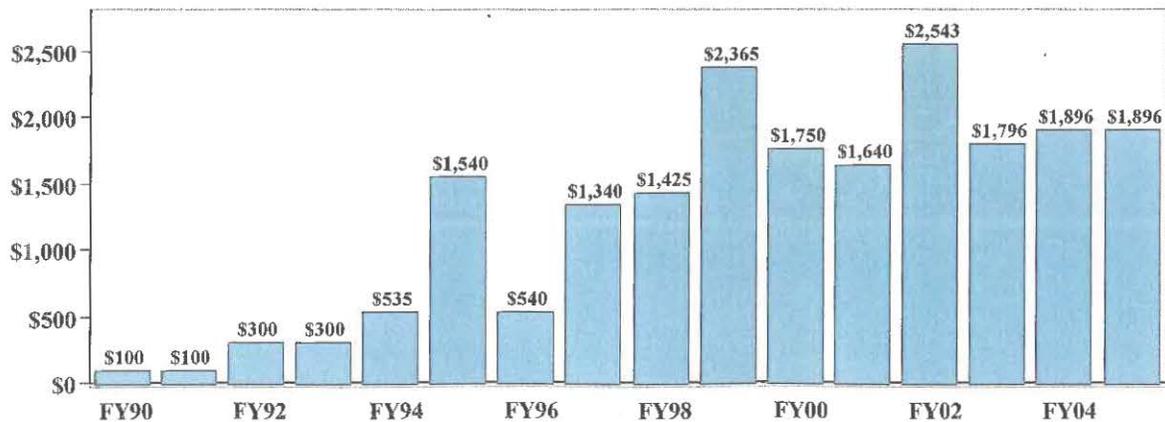
- Problem gambling is any gambling that crosses the “normal” bounds of gambling for fun, recreation or entertainment. Pathological (or “compulsive”) gambling is the inability, over an extended period of time, to resist impulses to gamble. It is often characterized by increasing preoccupation with gambling and a general loss of control. Pathological gamblers often “chase” their losses, feel a need to bet more frequently and in larger amounts, and continue to gamble in spite of the serious negative consequences of their behavior.
- In addition to uncontrolled gambling, problem gamblers often suffer from serious mental health problems. A recent University of Minnesota Medical School study found that 70 percent of pathological gamblers have suffered from an affective disorder (like depression), 60 percent have had a substance abuse disorder (like alcohol abuse) and 38 percent have had an anxiety disorder (like phobias or a panic disorder).
- Researchers generally believe that pathological gambling, along with other addictions, is a response to extreme stress in one’s personal life. Dr. Jeffrey Derevensky, Director of the Youth Gambling and Treatment Clinic at McGill University, for example, has written that “gambling is not their problem. It’s their attempt at a solution.”
- There are no current reliable estimates of the number of pathological gamblers in Minnesota. Recent national studies estimate the rate of current pathological gambling at less than 1 percent of the population.
- Minnesota currently has over 80 treatment programs that are eligible for state reimbursement. Treatment has been shown to be effective in a great many cases.
- The University of Minnesota School of Medicine is one of several research institutes experimenting with drug treatments for pathological gambling and other addictive behaviors. A recent paper by the University’s S.W. Kim shows this treatment to be effective in 75 percent of the cases studied.
- State-sponsored treatment, prevention, and education efforts are entirely funded through a legislative appropriation from the Lottery prize fund.
- A 1996 report from the University of Minnesota Medical School found that only eight of 944 (0.85 percent) pathological gamblers admitted to treatment programs named the Lottery as their preferred form of gambling. Gambling machines were listed by 308 of those studied, followed by card games (307), pull-tabs (118), and bingo (42). Compulsive gamblers are generally attracted to games with some perception of skill, a high degree of sensory stimulation, or immediate gratification.

Lottery Contributions to Problem Gambling Programs

- Through December 2004 the Lottery has transferred almost \$20 million to the Department of Human Services for problem gambling programs, pursuant to law.
- In addition to the contributions required by statute, the Lottery:
 - Designed and printed more than 100,000 stickers advertising the Problem Gambling Helpline. These stickers have been posted at all lottery retailers and are available free to other organizations.
 - Designed and printed more than 500,000 brochures on problem gambling. These were placed at all lottery retailers and given to the Department of Human Services (DHS).
 - Placed the Problem Gambling Helpline number on brochures advertising or describing lottery games. The Helpline number will also soon begin to appear on lottery scratch tickets.
 - Provided training to all lottery staff on problem gambling.
 - Trains lottery retailers through a regular column in its retailer newsletter.
 - Is an active member of the DHS Compulsive Gambling Advisory Committee and the Northstar Problem Gambling Alliance.
 - Is an institutional member of the National Council on Problem Gambling.
 - Is a sponsor of the 2005 Minnesota conference on problem gambling.
 - Reminds players on every advertisement that “Lottery players must be 18 years of age or older.”

Lottery Contributions to DHS Problem Gambling Programs

(\$ Thousands)



Lottery History

Year

?	Scholars are not sure who started the ancient tradition of lotteries, but there are references in the Bible. In chapter 26 of the Book of Numbers, Moses uses a lottery to decide the outcome of awarding land west of the River Jordan.
c. 100 BC	Forms of lotteries date back to Caesar.
100 BC	The Hun Dynasty in China created keno. Funds raised by this game were used to construct the Great Wall of China.
1465	Lotteries in Belgium helped fund chapels, almshouses, canals, and port facilities.
1519	In Genoa, Italy, lots were drawn once a year to choose members of the Senate. Side bets on these selections soon became city-sanctioned, leading to one of the first European government lotteries.
1530	Florence, Italy held a “Number Lottery” with cash prizes.
1539	King Francis I of France authorized a lottery to replenish depleted funds in the treasury. Many of these funds had been flowing to foreign lotteries.
1567	Queen Elizabeth I established the first English state lottery. Prizes included cash, plate, and tapestry, with 400,000 tickets offered for sale.
1612	King James I of England, by royal decree, created a lottery in London. The proceeds were used to aid the first British colony in America — Jamestown, Virginia. Interestingly, Anglican churches held two of three winning tickets for the first draw.
1700s	Many of our Founding Fathers played and sponsored lotteries. Some examples: <ul style="list-style-type: none">• Benjamin Franklin used lotteries to finance cannons for the Revolutionary War.• John Hancock operated a lottery to rebuild historic Faneuil Hall in Boston.• George Washington operated a lottery to finance construction of the Mountain Road, which opened westward expansion from Virginia.
1726	The Netherlands formed what is now the oldest lottery still in operation.
1753	A lottery was held in England for the establishment of the British Museum.
1775	Lotteries were authorized to raise money for the Colonial Army.

- 1776 Louis XV founded the Loterie Royale of the Military School in France. With the advent of this lottery, other lotteries were outlawed and the funds were to be used to reduce the State's debts. The king thus created a monopoly, which became the forerunner of the Loterie Nationale.
- 1789 Lotteries were most active during the period following the adoption of the Constitution and prior to the establishment of effective means of local taxation and the wave of anti-lottery reform in the 1830s. Before 1790, America had only three incorporated banks. Therefore, lotteries were standard sources for public and private financing.
- 1790 to the Civil War
Fifty colleges, 300 schools, and 200 churches were erected with lottery proceeds. Most notably, universities such as Harvard, Yale, Princeton, and Columbia were funded by lotteries.
- 1790 to 1860
Twenty-four of the 33 states financed civic improvements such as courthouses, jails, hospitals, orphanages, and libraries through lotteries.
- 1812
Spain begins its annual Christmas lottery drawing. Popularly known as "El Gordo" (the fat one), it has become the world's largest lottery event, with sales approaching \$3 billion and prizes in excess of \$2 billion.
- 1820 through 1878
Corruption in privately-operated lotteries became rampant. Many awarded fewer prizes than advertised or no prizes at all. Governments found themselves unable to regulate these lotteries and as a result began to consider prohibition.
- 1820s New York passed the first constitutional prohibition of lotteries in the United States.
- 1878 All states except Louisiana prohibited lotteries, either by statute or in their constitution.
- 1890 Congress banned all lottery materials from the mail.
- 1895 Congress banned all lottery materials from interstate commerce.
- 1905 The U.S. Supreme Court reaffirmed the states' use of police powers to control gambling, effectively ending the Louisiana Lottery and other gambling in the U.S. No state was directly involved in the operation of a gambling enterprise, and lotteries were prohibited in most states by constitutional provisions for the next 60 years.
- 1964 The New Hampshire Legislature created the state lottery, the first legal lottery in this century; it was labeled a "Sweepstakes" and tied to horse races to avoid the 70-year-old federal anti-lottery statutes.

- 1967 New York became the second state to start a lottery.
- 1970 New Jersey started a state lottery. Tickets were 50 cents for a weekly drawing. Manitoba and Quebec began the first modern Canadian lotteries.
- 1971 Led by New Jersey, which in its first fiscal year sold close to \$73 million in tickets, lottery sales nationwide surpassed the \$100 million mark for the first time.
- 1971 Automated Wagering implemented the world's first on-line system in New Jersey.
- 1973 Fiscal year sales for all lotteries surpassed \$500 million.
- 1974 Massachusetts offered the first Scratch ticket.
- 1975 Federal law was amended to allow state lotteries to advertise on radio and TV.
- 1975 New Jersey introduced a statewide, on-line network of several hundred Clerk Activated Terminals (CATs).
- 1988 The Multi-State Lottery Association offered Lotto* America as the first multi-state, big jackpot game. Oregon, Iowa, Kansas, Rhode Island, West Virginia and the District of Columbia were the initial members.
- 1989 South Dakota became the first state in the U.S. to license and regulate video lottery games.
- 1989 The Oregon Lottery began accepting bets on NFL games, later adding other professional sports teams.
- 2000 The largest lottery jackpot in history was shared by winners from Michigan and Illinois. Both winners of the May 9 Big Game drawing elected to receive cash payments of approximately \$90 million as their share of the \$363 million (annuity) jackpot.
- 2005 Forty states and the District of Columbia operate a lottery in the U.S., while lotteries exist in all Canadian provinces and territories. More than 100 foreign lotteries exist, many of which have operated for centuries. Mexico, France, Japan, and others have national lotteries. The World Lottery Association lists 63 member nations, including members on every continent except Antarctica.

Minnesota Racing Commission



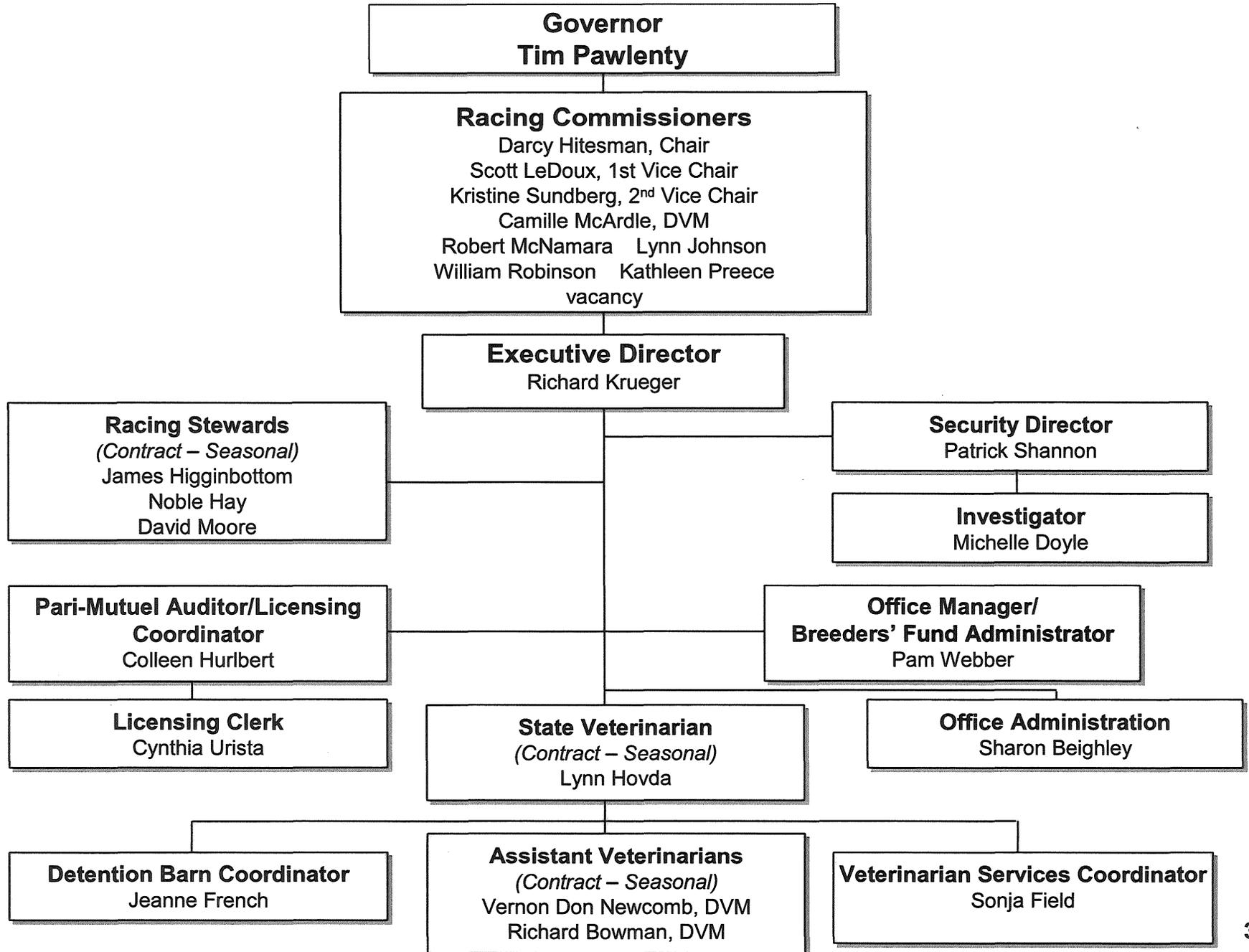
M.S. § 240.03 PLACES THE FOLLOWING POWERS AND DUTIES ON THE COMMISSION

- to regulate horse racing in Minnesota to ensure that it is conducted in the public interest;
- to issue licenses as provided in this chapter;
- to enforce all laws and rules governing horse racing;
- to collect and distribute all taxes provided for in this chapter;
- to conduct necessary investigations and inquiries and compel the submission of information, documents, and records it deems necessary to carry out its duties;
- to supervise the conduct of pari-mutuel betting on horse racing;
- to employ and supervise personnel under this chapter;
- to determine the number of racing days to be held in the state and at each licensed racetrack;
- to take all necessary steps to ensure the integrity of racing in Minnesota; and to impose fees on the racing and card playing industries sufficient to recover the operating costs of the commission with the approval of the legislature according to section 16A.1283. Notwithstanding section 16A.1283, when the legislature is not in session, the commissioner of finance may grant interim approval for any new fees or adjustments to existing fees that are not statutorily specified, until such time as the legislature reconvenes and acts upon the new fees or adjustments. As part of its biennial budget request, the commission must propose changes to its fees that will be sufficient to recover the operating costs of the commission.

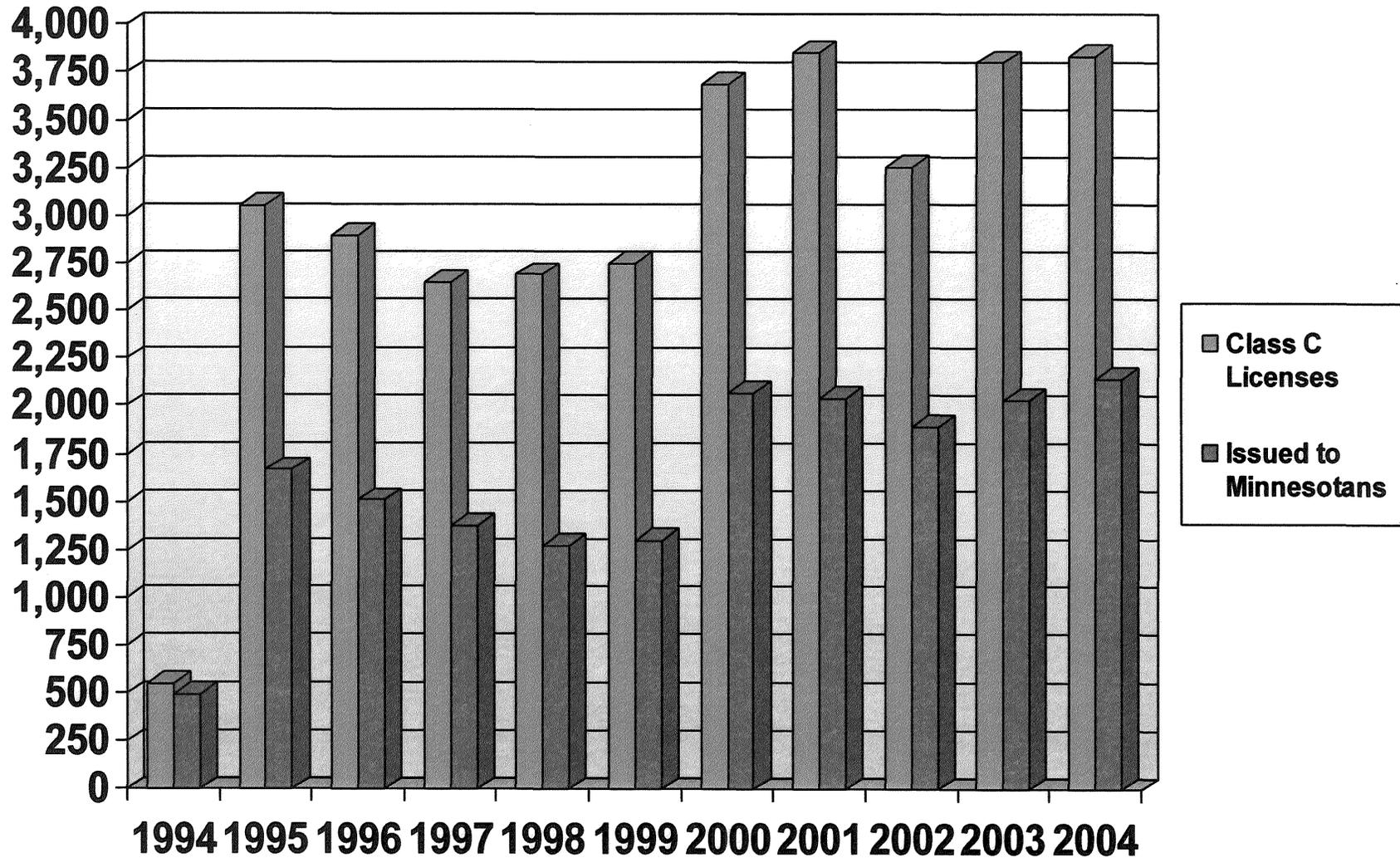
THE PRIMARY RESPONSIBILITIES OF THE COMMISSION ARE:

- to issue and renew class A (Racetrack), class B (Racing), class C (Occupational), and class D (County Fair) licenses
- assignment of racing days
- Rulemaking
- approval of pari-mutuel pools and racing officials
- contract approval
- split Lab approval
- purse supplement distribution from the Breeders' Fund
- review of appeals of stewards' disciplinary rulings

ORGANIZATION OF THE RACING COMMISSION

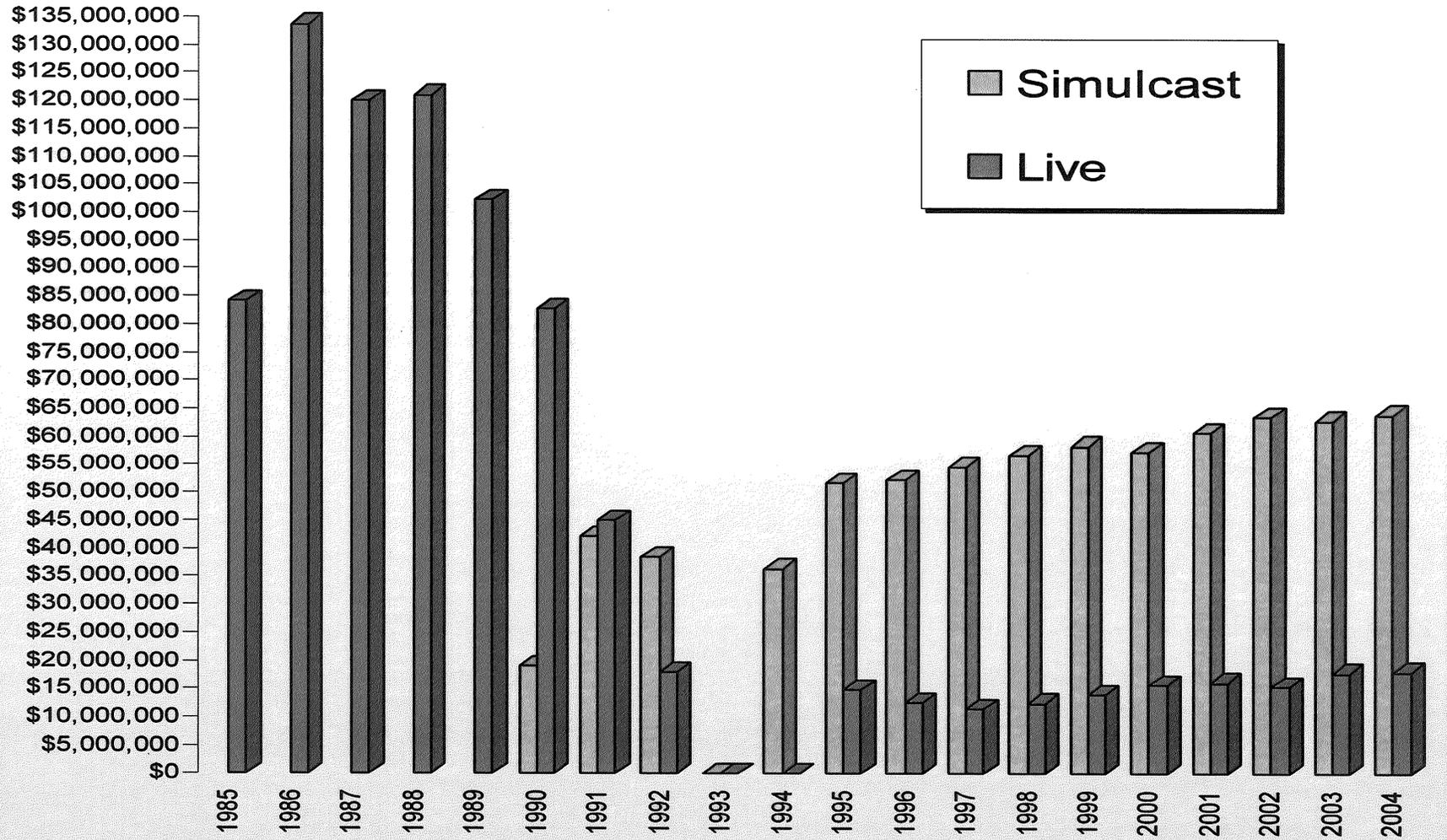


CLASS "C" OCCUPATIONAL LICENSING

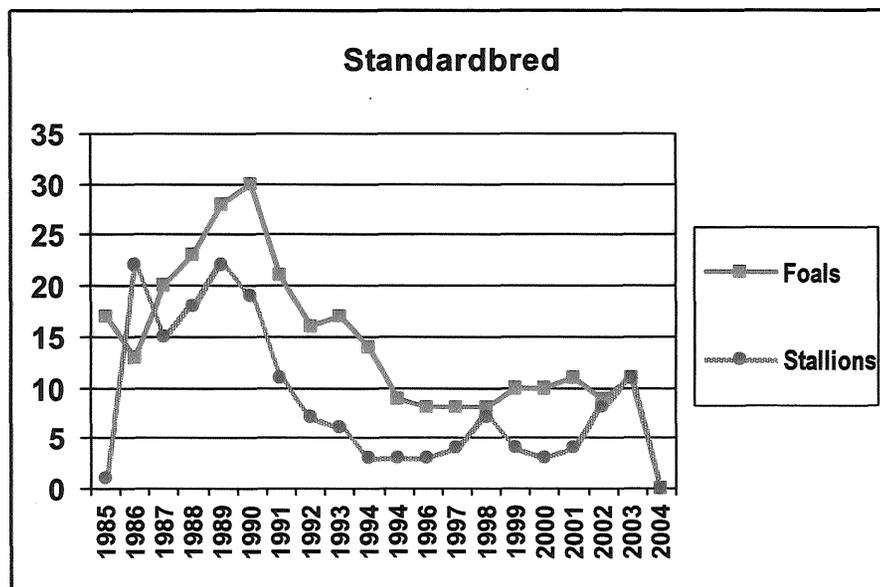
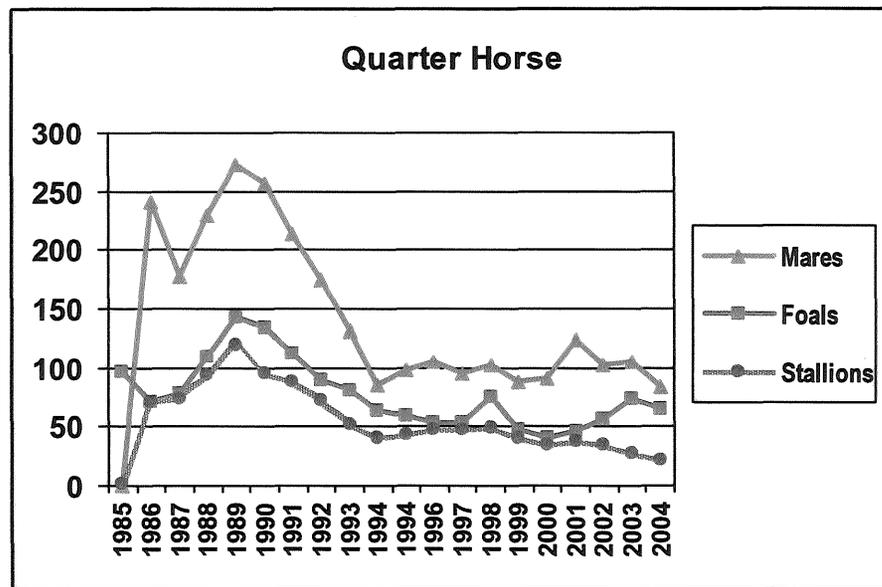
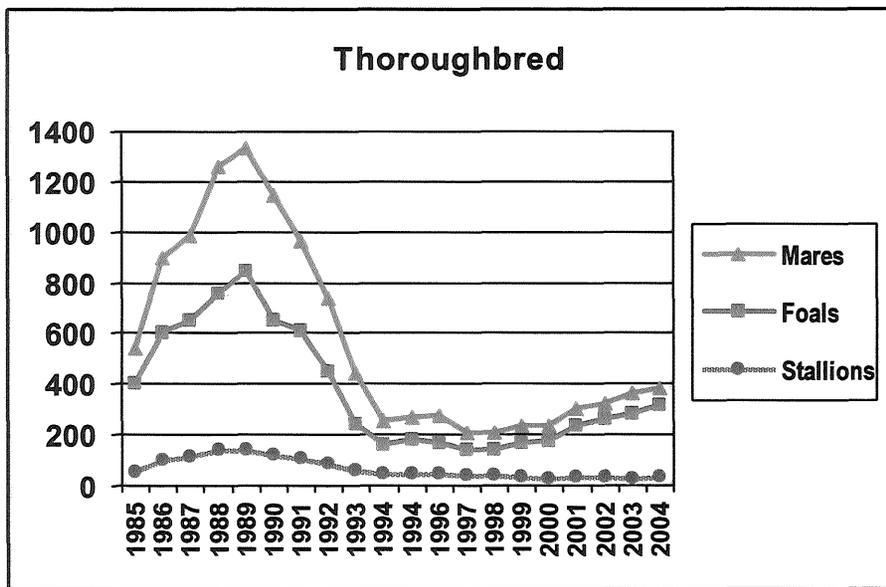


In addition to licenses issued to Minnesotans, licenses were issued to individuals from 41 different states.

CANTERBURY PARK HANDLE CALENDAR YEARS 1985 - 2004



BREEDERS' FUND HORSE REGISTRATIONS



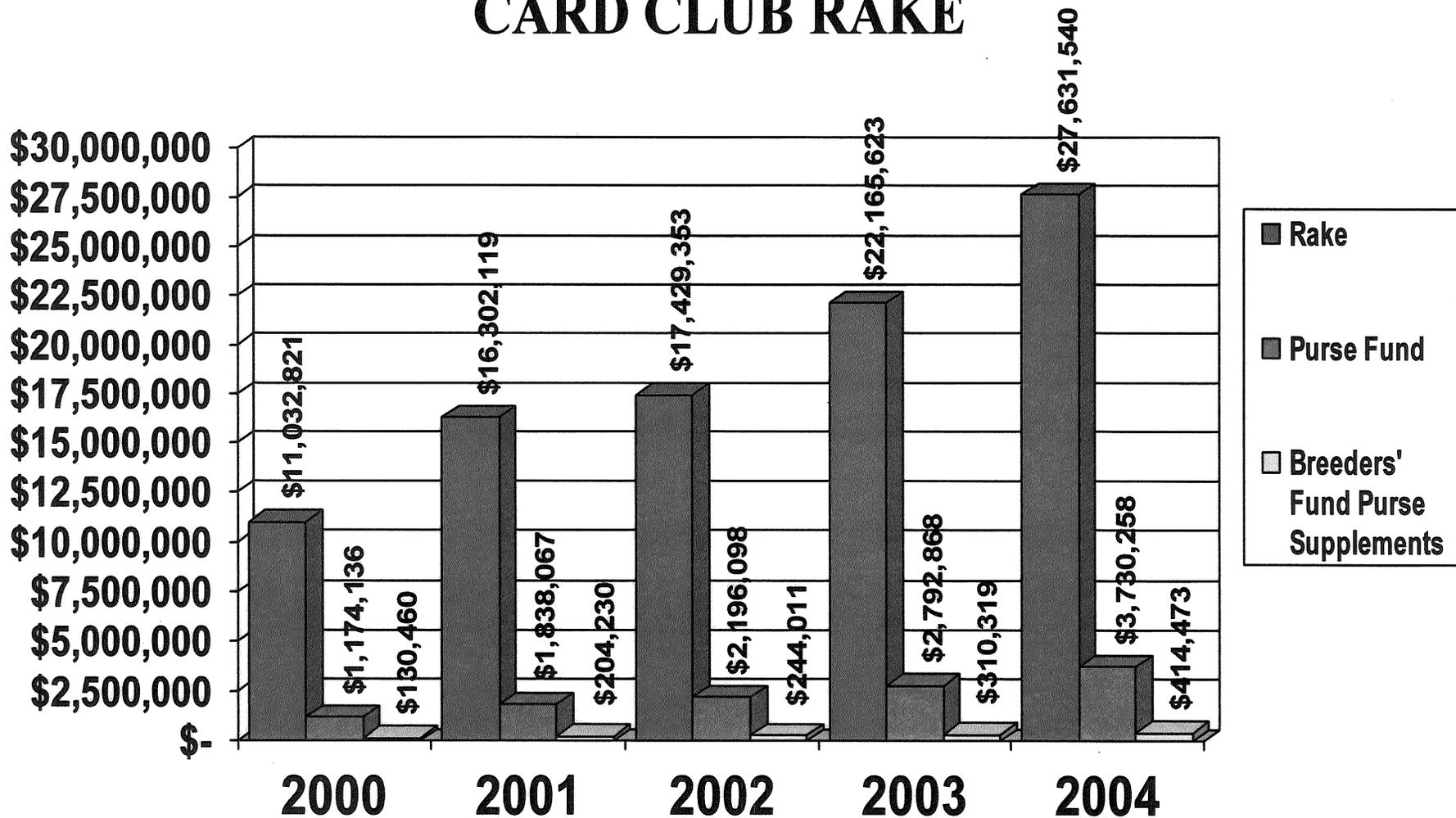
*Pursuant to Racing Commission Rule 7895.0275, Subp. 2A, Standardbred mares are not registered and Standardbred foals, unlike Thoroughbreds and Quarter Horses, are not required to be registered in the year of foaling. The rule requires that foals be registered before they are entered in restricted races.

BREEDERS' FUND HORSE REGISTRATIONS

Year	THOROUGHBRED				QUARTER HORSE				STANDARD BRED	
	Stallions	Mares		Foals	Stallions	Mares		Foals	Stallions	Foals
1985	54	543		403	1			97	1	17
1986	99	895		601	70	241		70	22	13
1987	112	988		648	73	178		78	15	20
1988	141	1261		760	94	229		109	18	23
1989	141	1333		844	119	272		143	22	28
1990	118	1145		653	95	257		134	19	30
1991	104	966		612	88	214		112	11	21
1992	85	735		450	72	175		90	7	16
1993	63	444		242	52	131		81	6	17
1994	49	253		160	40	85		64	3	14
1995	46	265		179	43	98		59	3	9
1996	44	275		168	47	105		54	3	8
1997	41	210		138	48	95		53	4	8
1998	40	211		140	49	103		75	7	8
1999	31	234		166	41	88		48	4	10
2000	26	232		171	35	91		41	3	10
2001	31	304		232	37	124		46	4	11
2002	34	319		259	35	102		56	8	9
2003	28	364		279	27	106		73	11	11
2004	34	384		315	21	84		65	0	0

* Pursuant to Racing Commission Rule 7895.0275, Subp. 2A. Standardbred foals, unlike Thoroughbreds and Quarter Horses, are not required to be registered in the year of foaling. The rule requires that they be registered before they are entered in restricted races.

CARD CLUB RAKE



Canterbury Park's Card Club opened in April 2000.

**MINNESOTA RACING COMMISSION
SIX YEAR FINANCIAL SUMMARY
FISCAL YEARS 1999 - 2004**

APPROPRIATIONS

	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
General Fund Appropriation		\$426,000	\$414,000	\$402,000	\$390,000	\$379,000
1) Special Revenue Appropriation	\$421,000					
Statutory Carry Forward	-\$12,163	\$1,647	-\$1,647	\$1,474	-\$1,474	\$7,717
Unallotment		-\$21,000	\$0	\$0	\$0	\$0
Total	\$408,837	\$406,647	\$412,353	\$403,474	\$388,526	\$386,717

EXPENSES

	Actual 04	Actual 03	Actual 02	Actual 01	Actual 00	Actual 99
Salaries, Benefits & Per Diem	\$313,980	\$287,005	\$295,495	\$285,413	\$262,848	\$273,982
Rents	\$220	\$220	\$175	\$194	\$194	\$183
Consultant Services	\$0	\$0	\$0	\$0	\$0	\$0
Professional/Technical Services	\$2,920	\$46,284	\$67,848	\$56,855	\$51,250	\$44,585
Data Processing & System Services	\$5,213	\$2,701	\$9,680	\$8,641	\$16,460	\$4,415
Communications	\$4,026	\$4,365	\$6,050	\$6,464	\$6,494	\$6,064
Travel	\$6,167	\$3,102	\$5,831	\$6,917	\$9,349	\$15,139
Supplies and Material	\$11,583	\$10,807	\$7,233	\$9,432	\$9,385	\$7,721
Equipment	\$9,355	\$10,033	\$7,449	\$9,833	\$15,583	\$14,371
Other (Repairs/Printing & Dues)	\$15,736	\$12,182	\$12,592	\$16,986	\$16,963	\$16,914
Total	\$408,837	\$376,699	\$412,353	\$400,735	\$388,526	\$383,374

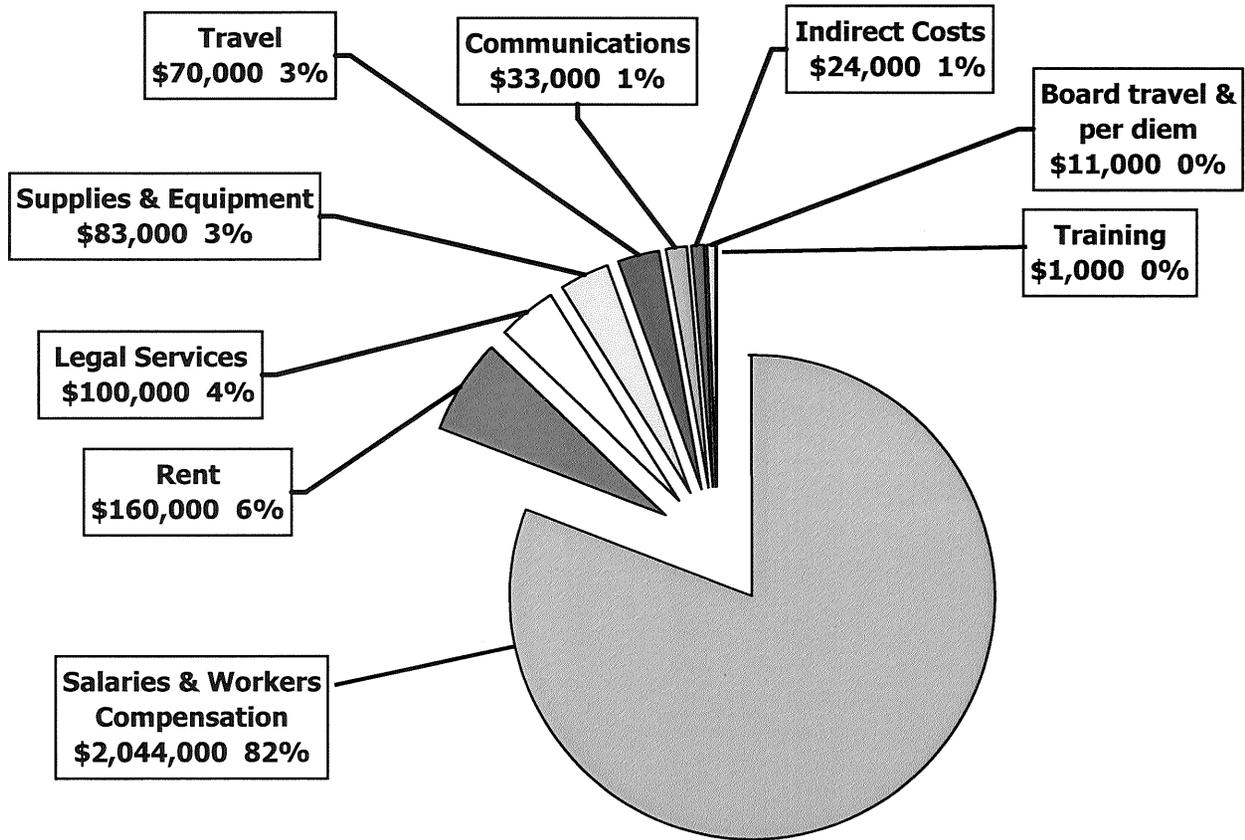
SUMMARY

	Actual 04	Actual 03	Actual 02	Actual 01	Actual 00	Actual 99
Appropriation Balance	\$0	\$29,948	\$1,647	-\$12,209	\$1,474	-\$383,374
Revenues to General Fund & 212 2)	\$268,649	\$390,800	\$392,000	\$321,175	\$274,000	\$185,000

1) For the 2004 - 2005 biennium, appropriations are from the special revenue fund financed by dedicated receipts from license fees.

2) Fund 212, Cambridge Bank Fund deposits prior to 6/30/01

Gambling Control Board





#15

2006/07 MASC BUDGET

SUMMARY

- Governor recommends a 42% cut from \$525k annual to \$300k annual budget (see attachment)

- The MASC Board asserts that \$300k annual budget is the minimum necessary to:
 1. Maintain oversight of the National Sports Center.
 2. Maintain basic support of Star of the North State Games.
 3. Maintain sport tourism activity.

- The State of Minnesota's role has decreased from spending 75% in 1988 to 3% in 2004 (see attachment).

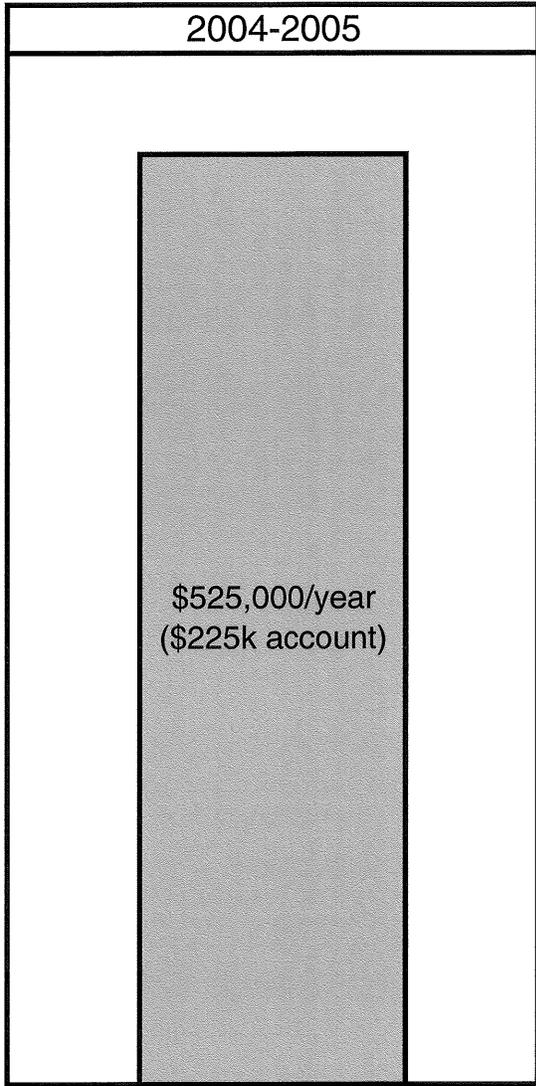
- Note: \$300k is a minimum support level. Even at this level, the statewide economic impact of almost \$70 million (generates \$4 million in annual state sales tax) is likely to trend downwards (see attachment).

MINNESOTA AMATEUR SPORTS COMMISSION

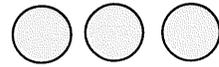
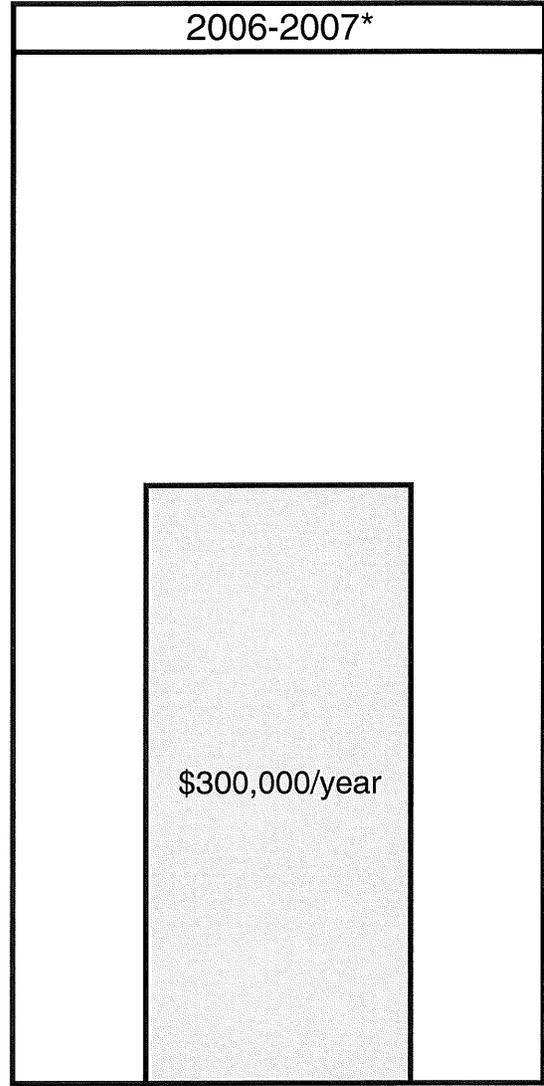
1700 105th Avenue NE • Blaine, Minnesota 55449-4500 • 763-785-5630 • fax 763-785-5699 • tdd 800-627-3529
toll free 800-500-8766 • e-mail masc@citilink.com • www.masc.state.mn.us

An Equal Opportunity Employer

MASC Funding



SIX Full Time Staff



THREE Full Time Staff

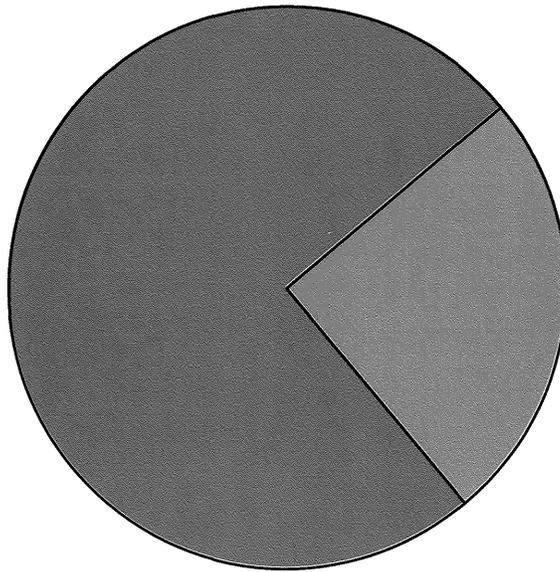
MASC FUNDING

State Spending = Private Success

MASC Funding 1988

■ State Funding ■ Private \$ Activity

State Funding
\$453,000 75%

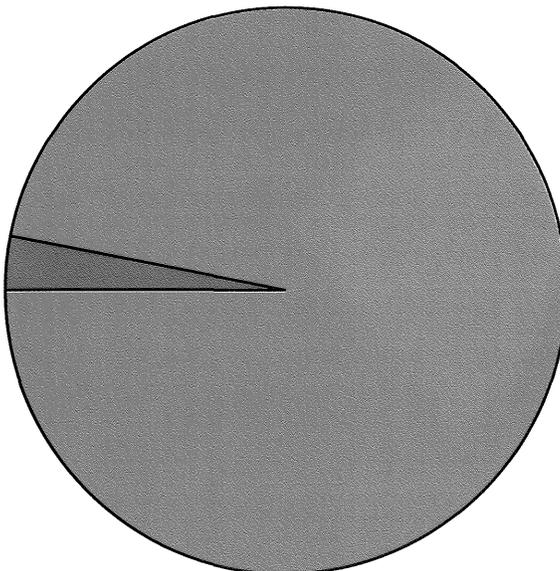


Private \$ Activity
\$150,000 25%

MASC Funding 2004

■ State Funding ■ Private \$ Activity

State Funding
\$300,000 3%

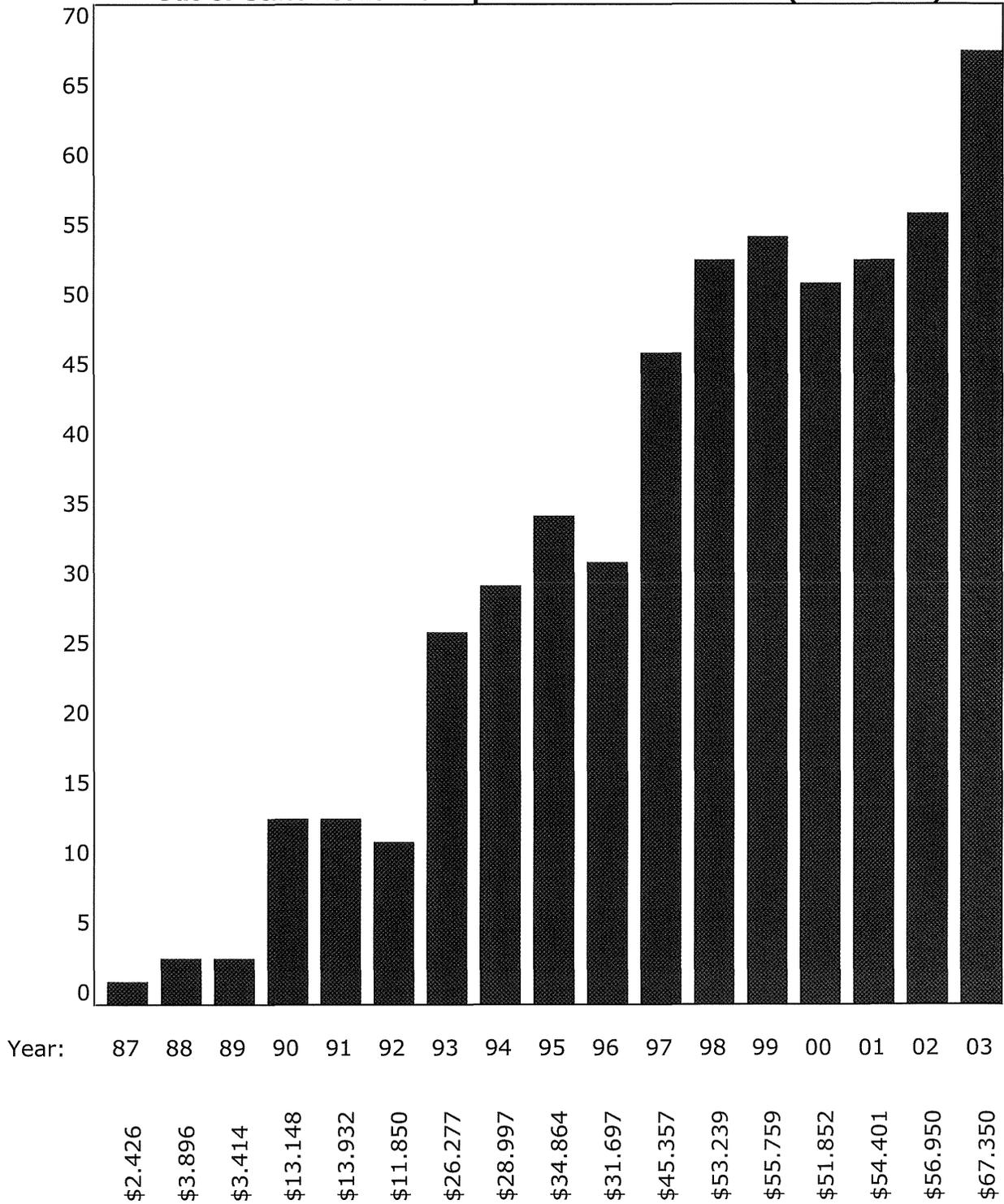


Private \$ Activity
\$9,137,000 97%

* Total includes state, National Sports Center Foundation, and State Games operations.

Minnesota Amateur Sports Commission

Out-of-State Economic Impact from MASC Facilities (1987-2003)



Out-of-State Economic Impact (in millions of dollars)

State Tax Revenue from out-of-state economic activity in 2003: \$4.08 million