

STATE OF MINNESOTA

ADVISORY COUNCIL ON GAMBLING

FIRST REPORT

TO

THE LEGISLATURE AND GOVERNOR

February 1, 1995

CONTENTS

Introduction (Creation of the Advisory Council)	4
Members of the Advisory Council	5
Summary of Meetings	6
Overall Plan - Policy Outline & Work Plan	7
Policy Outline for Decision-Making	8
Compulsive Gambling	9 - 16
Background.	9
Testimony Heard	9
Findings	
Prevalence	9 - 10
Total Impact of Gambling on Minnesota	10
DHS Compulsive Gambling Program	11
Outreach and Education	11
Payment by Health Plans for Treatment	11 - 12
State Funding for Compulsive Gambling Programs	12
- State Funding Sources	
- State Funding History	
Effectiveness of Programs	12
Recommendations for Compulsive Gambling Programs.	13 - 15
1. Consideration for outcomes study.	13 - 14
- Inclusion	
- Treatment Protocols	
- Evaluation	
- Contractor Selection	
2. Zero growth - Reorganization of budget:	15 - 16
3. Consider new goals; need consensus of what works and what is cost-effective	16

Video Lottery	17 - 20
Background	17
Findings	
Constitutionality	17
Video Lottery Addiction	18
State Revenue	18 - 19
- Estimated	
- Factors Affecting Revenue	
- State Policy on Gambling Revenues	
Negative Effect on Charitable Gambling	19
Liquor Establishments	20
- Level Playing Field	
- Possible Effect of Tribal Casinos	
 Taxation on Pull-tabs & Tipboards	21 - 22
Background	21
Findings	
Inequities	21 - 22
- Methods to Make Pull-tab Tax Equitable	
Solving Problem Cannot be Done in Revenue-Neutral Way	22
- State Cost to Change Tax	
- Tax on Unsold Tipboard Tickets	
 Property Taxes & Charitable Gambling Profits	23 - 24
Background	23 - 24
Findings	24
 Socio-Economic Model for Gambling	25
 Recommendations	26- 27
Compulsive Gambling	26
Video Lottery	26
Tax on Unsold Pull-tab Tickets	27
Property Taxes	27

INTRODUCTION

Creation of the Advisory Council

The advisory council on gambling was created as part of the 1994 legislature's omnibus gambling bill (Laws 1994, chapter 633, article 8, section 5). Its general charge is to "study the conduct of all forms of gambling in Minnesota and advise the governor and legislature on all aspects of state policy on gambling." Its duties include making reports to the governor and legislature on these general topics:

- the extent of all forms of gambling in the state;
- the "purpose, intent, application, integration, and relationship" of Minnesota laws relating to gambling;
- the governance of gambling by state agencies;
- the nature and extent of gambling that is not subject to state regulation;
- the financial and social impact of the growth of gambling in the last decade; and
- the appropriate level of regulation for charitable gambling.

The advisory council was also charged with studying three specific issues in gambling policies:

- the likely results of authorization of use of video lottery machines in the state;
- proposals for changes in taxes on pull-tabs and tipboards to reflect unsold tickets; and
- expenditures of net profits from lawful gambling for real estate taxes on premises used for lawful gambling.

The council is required by law to report to the governor and legislature by February 1 of 1995 and 1996.

MEMBERS OF THE ADVISORY COUNCIL

The council consists of 14 members. Nine members are appointed by the governor, one to serve as chair and the other eight to represent each of the state's congressional districts. One member is appointed by the attorney general. The remaining members are two members each of the state Senate and House, including the chairs of the policy committee in each body that deals with gambling issues.

The members and their appointing authority are:

- Appointed by the governor

Harry Baltzer, Chair

Dan Mjolsness

First district

John Farrell

Second district

John Breon

Third district

Roger Svendsen

Fourth district

Robin Johnson

Fifth district

Natalie Haas Steffen

Sixth district

George Wells

Seventh district

Betty George

Eighth district

- Appointed by the attorney general

Alan Gilbert

- Legislative appointees

Sen. Charles Berg Chair, Gaming Regulation committee

Sen. Arlene Lesewski

Rep. Phyllis Kahn Chair, Government Operations & Gambling committee

Rep. Jerry Knickerbocker

SUMMARY OF MEETINGS

The advisory council met on almost a weekly basis from mid-October to mid-December. The first meetings were devoted to orientation and presentation of background reports from staff of the legislature and the Minnesota Lottery. The advisory council heard extensive testimony and conducted discussions on the overall issue of compulsive gambling and public and private responses to it.

The advisory council also discussed video lottery systems, taxation of lawful (charitable) gambling, and use of net profits from lawful gambling. These issues, although not necessarily the most critical facing either the council or the legislature, were among the items that were not addressed in the 1994 gambling bill in the expectation that the council would study and make recommendations on them. In addition, the council solicited suggestions from interested parties regarding the creation of a socio-economic model for gambling.

In its final meeting the council adopted this report and discussed its plan for dealing with the remainder of its legislative charge.

THE ADVISORY COUNCIL'S OVERALL PLAN

POLICY OUTLINE

The legislature's charge to the advisory council is extraordinarily broad, and it requires an aggressive and far-reaching response. The legislature clearly expects the council to address the whole area of state gambling policy and to provide a blueprint for decision-making that will stand for several years to come. It expects the council to look at gambling policy not from a narrowly-focused standpoint that considers each gambling form in isolation, but from a perspective that will address gambling policy issues coherently and comprehensively. The policy framework the council adopts must deal not only with how each gambling policy affects the particular gambling form it addresses but also how it affects every other form, as well as how it relates to broader social and economic considerations.

This would be a departure from how most gambling decisions have been made in the past. Gambling in Minnesota developed so rapidly that the legislature and the executive branch have had little choice but to deal with policy issues as they arose, without the luxury of examining them in a broad context of what and how much gambling is really in the public interest. On more than one occasion the council has been told that it would have been valuable to have such a framework in place five or ten years ago, when many decisions were being made that now shape the scope and nature of the gambling industry. Had decisions been made in such a broad framework it might have been possible to forestall the now-widespread view that gambling in the state has somehow gone too far or grown too large.

The policy framework the council has tentatively adopted (see next page) addresses issues in terms of how the council sees the major public policy questions surrounding gambling:

- what forms should be allowed,
- what volume of gambling should be accepted,
- how should gambling's adverse consequences be addressed,
- how should gambling be governed and regulated, and
- what should be done with gambling's public and private revenues.

While this outline may be adjusted and expanded as the council goes further into its work, the council expects that it will provide a basic structure for its remaining meetings and 1996 final report. (A detailed policy framework is attached.)

WORK PLAN

The council expects to meet when possible during the 1995 legislative session. During the summer and into the fall of 1995 the council expects to hold extensive public hearings to receive testimony from all elements of the gambling industry, including national experts. This period also offers the opportunity to hear the observations of citizens who are not now involved in the gambling industry but who may have valuable insights into how the council should address the challenge of making gambling policy serve the public interest.

Following these hearings the council expects to spend the remainder of the fall working on drafts of various sections of its report. The report will be submitted to the governor and legislature by February 1, 1996.

**ADVISORY COUNCIL ON GAMBLING:
POLICY OUTLINE FOR DECISION-MAKING**

I. What should be the state policy on forms of gambling allowed?

- A. Allow additional specified forms of gambling
- B. Remove all restrictions, allow market forces to decide
- C. Retain existing forms, not allow new forms
- D. Prohibit one or more existing forms

II. What should be the state policy on the overall volume of gambling?

- A. Take steps to reduce overall gambling volume
- B. Let market forces determine overall volume
- C. Take steps to increase overall volume

III. What should be the state policy on dealing with the adverse effects of gambling?

- A. Compulsive gambling
- B. Social acceptance of gambling
- C. Competitive effects

IV. What should be the state policy on the governance and regulation of gambling?

- A. Governing and regulating structures
- B. Tribal-state relationships
- C. Substantive gambling regulatory policy, not limited to charitable gambling
- D. Criminal enforcement

V. What should be the state policy on revenues from gambling?

- A. State revenues
- B. Operator revenues
- C. Maximization of revenues from non-residents

COMPULSIVE GAMBLING

BACKGROUND

- **1989** - The State created a program to respond to compulsive gambling problems, by establishing a hotline to accept calls and provide a contact point for troubled gamblers.
- **1991 and 1993** - The legislature expanded the program, creating six treatment centers, contracting for research, and beginning public education and outreach programs.
- **1994** - The legislature appropriated an extra \$1 million to this program, over and above prior appropriations.

TESTIMONY HEARD

The advisory council heard extensive testimony and conducted a major review of the State's compulsive gambling programs. Early testimony centered on a report by Patrick McCormack of Senate Research, *Minnesota's Programs For Troubled Gamblers*. This report was critical of the State's efforts regarding these programs. Later testimony included witnesses who argued against the report, presentations by a variety of experts and organizations, and extensive discussions of the directions taken by the compulsive gambling program.

The debate ranged from discussions of the nature of the problem, to criticisms of existing research, questions about treatment effectiveness, and a debate over the budget needs for the program in the coming biennium. The advisory council reviewed this program in 1994, in part because the coming 1995 session will set a two-year budget for this program, and in part because the State's surge into expanded gambling has created intense interest in the need for a response to problem gamblers.

FINDINGS

Prevalence

Although estimates of the numbers of problem gamblers in Minnesota have been made, such estimates may not be as helpful to policy makers as are measures of the number of persons seeking treatment each year.

The advisory council heard testimony and read reports that made estimates of the prevalence of compulsive gambling in Minnesota. The 1994 report, funded by the Department of Human Services, found that 1.2 percent of Minnesotans (45,000) are probable pathological gamblers, a numerically but not statistically significant increase from the 1990 report.¹

¹ J. Clark, et al, *Adult Survey of Minnesota Problem Gambling Behavior: A Needs Assessment: Changes in 1990 to 1994*. September 1994.

Research findings in the 1990 and 1994 prevalence estimates are based on the South Oaks Gambling Screen (SOGS), a 20-question scale designed to estimate if a person is a probable pathological gambler. There is a strong debate over the accuracy and reliability of this scale. Testimony on the SOGS screen, including testimony from George Andersen, Director of the Minnesota State Lottery, questioned the figures derived from this screen. The SOGS scale was heavily criticized, but was also defended during the course of hearings on this topic.

McCormack's report stated that "...based solely on self-reporting by the six treatment programs..overall treatment programs have interacted with at least 1,000 persons since funding began in the spring of 1992."² Further, "between 500 and 600 persons received substantive treatment, and over 1,000 troubled gamblers, family members, and associated persons have received some sort of service from these programs...A fair number of those counted in this figure of 1,000 persons did drop out of their program before completing the full course of treatment."³

The disjunction of reports that estimate that between 45,000 and 54,000 Minnesotans are probable pathological gamblers, and estimates that 500-600 persons have received treatment and interaction has occurred with at least 1,000 persons serves to emphasize the confusion that has accompanied these basic questions in Minnesota research. If there are 45,000 to 54,000 people needing help, then Minnesota has an insurmountable gambling problem. If only a few hundred per year need treatment, this could be provided. However, the validity of the number of probable pathological gamblers (45,000 to 54,000) is questioned, i.e., do they need treatment at some time. The true number that needs treatment lies somewhere in between and is yet to be determined. The creation of a socio-economic model of gambling may provide some insight on these questions in the future.

Total Impact of Gambling on Minnesota

The total costs of gambling to Minnesota include some measurable factors, such as numbers of persons seeking treatment, and some soft factors, including family stress, bankruptcy, criminal activity and lost revenues. These costs are important, and future efforts to measure them will be crucial to understanding Minnesota's gambling system.

Due to the time constraints for this first report, the advisory council concentrated its efforts on a review of the state programs and the direct costs to the state from gambling. The total costs are of concern to the entire gambling industry.

² Patrick J. McCormack, *Minnesota's Programs for Troubled Gamblers*, October 17, 1994, p. 6.

³ Ibid.

DHS Compulsive Gambling Program

The Department of Human Services administers the compulsive gambling program. The program was created with an experimental philosophy, part of which was the establishment of six treatment centers to serve as pilot projects, testing alternative models of treating people with gambling problems. These programs are relatively new, and in 1994 have been reviewed in a systematic way for the first time.

The state established the compulsive gambling program in part to respond to growing evidence that problems exist, and in part to test various strategies to see what works. These twin goals are still both important. It is at least mildly alarming to see that the program has not emphasized or accomplished the second goal, to relentlessly pursue research, testing, and reports that can communicate a clear answer as to what works best.

The current administration of this program uses a 32-member advisory committee. This committee contains a number of members who are also funded by the department. This arrangement is open to conflict of interest problems. There is the perception that program fund recipients can "capture" the administration of the program, ensuring that funds continue without regard to quality of services or effectiveness of program outcomes.

One clear success from the current program is the hotline, which has taken over 10,000 calls since establishment, and which provides a point of contact for troubled gamblers. The hotline is dependent on advertising to keep its name in the public eye, but has proven a useful and effective instrument to help gamblers with problems.

In response to the criticism of and debate over current outcome studies, it is clear that a more coherent, aggressive testing of patient effectiveness, cost effectiveness, and outcomes remains to be accomplished.

Outreach and Education

Outreach and education efforts have been at best fledgling attempts to educate the public about problem gambling. A school curriculum is just being developed, and few funds for this aspect of the program have been appropriated.

Payment by Health Plans for Treatment

There are many forthcoming challenges to this program. A majority of health plan companies take the position that they do not have to reimburse patients for compulsive gambling treatment. However, other underlying problems such as depression may be covered by health plan companies.

The Minnesota Department of Health has a Universal Standards Benefits Set (USBS) Advisory Committee that has completed its studies. The Committee is in the process of drafting a report to the Commissioner of Health. One of their recommendations is to include the treatment of compulsive gambling under mental health care.

If the Commissioner accepts their recommendations regarding compulsive gambling, those recommendations will be included in a report that is due in January 1995 to the legislature. The legislature then has the option to accept the recommendations and pass legislation that would mandate payment for the treatment of compulsive gambling by insurance carriers. Or, the legislature may choose to accept the recommendations but not include compulsive gambling. Reimbursement for these treatments makes sense. However, outcome studies may need to establish program effectiveness before reimbursement becomes a reality.

State Funding for Compulsive Gambling Programs

The State's 1996-1997 budget for compulsive gambling will be set by the 1995 legislature. The compulsive gambling budget is subject to two basic debates. First is the debate over funding sources, second is the debate over funding amounts.

State Funding Sources - The funding sources for this program are the state general fund and the State Lottery. The bulk of the existing budget has been taken from the lottery administrative and prize funds. Just under a third of the budget comes from the general fund. These are available and stable sources of funding.

However, in testimony some feel that program funding should come from those forms of gambling that create the most gambling problems. This philosophy would seek additional funds from other forms of gambling.

State Funding History - The amount spent on this program has steadily increased each of the past three bienniums. The program has grown from \$600,000 in 1990 to \$1,847,000 in the last biennium.

The budget base upon which decisions will be considered for the 1996-1997 biennium will be \$1,847,000.

A complicating factor exists.

In 1994, the legislature appropriated an extra \$1 million, which is not in the budget base.

The extra \$1 million is an amount which program advocates would like to see spent on a recurrent basis in the future. The 1995 legislature will not see this \$1 million in the budget base, but program advocates will suggest that program funds increase at least to this extent.

Effectiveness of Programs

This program needs to learn more about what works, what is cost-effective, and what choices are best.

The extensive review of this program conducted by the advisory council has generated a better understanding of the nature and future of programs that educate the public, research the problem, and treat the gamblers. These programs are in many ways akin to earlier treatment programs created by the State and adopted by the public. A unique opportunity exists to structure these programs in ways that both test and increase their effectiveness.

The next two years should provide answers to the basic questions about program effectiveness. Answering these questions in a definitive manner is crucial. Sound answers might justify requiring health plan companies to reimburse treatment. Solid answers might provide a model for future expansions of treatment and for private sector treatment initiatives.

RECOMMENDATIONS FOR COMPULSIVE GAMBLING PROGRAMS

1. The State should give highest priority to a comprehensive and soundly constructed outcomes study that tests the cost and patient effectiveness of alternative treatment approaches.

This outcomes study will be the basis of future decisions on expansion and design of treatment programs. There are a number of elements of a successful outcomes evaluation:

Inclusion

- Not all of the six existing programs would have to be included in the evaluation program, as it is not clear that they represent six different treatment approaches. Two that do use different approaches are Vanguard Compulsive Gambling Treatment Program in Granite Falls (the only inpatient center) and the Upper Mississippi Mental Health Center in Bemidji (which uses a mental health model rather than a 12-step model). Inclusion of these two and one or two of the remaining four would present a minimum "treatment group" for an outcomes study.
- Inclusion of additional groups would provide an increased sample size (a considerable benefit) and would be particularly desirable if their patient profile significantly differs from the others. In addition, control groups need to be selected.
- The selection of control groups should be addressed as part of any RFP process, but could include Gambler's Anonymous participants, those calling the Hotline but not proceeding to treatment, and/or those identified as "probable pathological gamblers" in prevalence studies.
- Finally, private programs should be included in the evaluation, if possible.

Treatment protocols

Those programs included in the evaluation need to identify and thoroughly describe their treatment protocols at the outset of the evaluation, to determine how those admitted to the program will be treated. (The protocols need not be so strict as to require the same treatment of each patient.)

Once in place, these protocols must be followed. Treatment methods must remain consistent for the duration of the evaluation, unless there is overwhelming evidence of the success or lack of success of a particular treatment.

All programs involved in the evaluation must agree to the above two conditions and to fully cooperate with the evaluation as a condition for continued state funding.

Evaluation

Those performing the evaluation need to define in advance what constitutes a successful outcome and use a consistent "before and after" means of measurement. Gambling frequency by itself is not a sufficient outcome measure.

Patients participating in the evaluation must provide informed consent similar to medical research standards. Each program should be tracked and evaluated separately.

Key demographic and medical characteristics need to be identified upon admission to the program and considered in the evaluation. There is a need to determine not only if a program is "successful," but for whom. Is one method more successful for women than men? Is treatment ineffective for those who are also chemically dependent? For whom is a program particularly successful? For whom is it particularly unsuccessful?

Those who drop out of programs must be followed and reasons for dropping out tracked. Participants should be measured at several points in time: upon completion of treatment, six months after, and one year after. Longer term follow-up should also be considered. The study should include some type of "treatment audit" to ensure that protocols are being followed.

Contractor selection

Selection must be let through competitive bidding using a "request for proposal" process. Proposals received should be evaluated by an interagency task force, including individuals with some knowledge of mental health/addictions treatment and some with knowledge in statistics and research methods. Potential agencies for inclusion include the departments of Human Services, Health, and Administration, Minnesota Planning, and the Minnesota Lottery.

The evaluation committee should also serve as an advisory and review committee for the duration of the study. This committee should have the authority to review and approve study methodology, changes to the methodology, and any reports arising from the study prior to publication.

2. If the legislature wishes to continue this program with zero growth, the budget should be reorganized.

There was a realization that the 1995 legislature may not be able or willing to expand the budget of this or any program. If the legislature decides to maintain the base budget of \$1.847 million, some new approaches should be taken.

- First, the existing research budget should be reduced to \$0, and \$175,000 at a minimum should be redirected to expanded outcome studies.
- Second, public awareness is another area that should be increased substantially.

A continued budget base should not be seen as an excuse to continue the program as currently operated.

If the legislature decides to increase the base budget, a budget of \$2,258,000 was considered by the council to be a maximum amount that should be spent on compulsive gambling.

This budget represents a new focus on redirecting funds from research to outcome studies.

- Treatment programs are maintained at a steady level, in order to provide a solid platform for outcomes evaluations.
- The outcomes studies budget is more than doubled, in order to fund an expanded outcomes studies effort.
- The public awareness (outreach and education) budget is increased over the budget base in order to emphasize education.
- Research efforts are cut, in order to concentrate research on an outcomes study.

Program Component	Existing Budget Base	Possible Budget Decision
Patient Treatment	\$989,000	\$1,200,000
Public Awareness	\$88,000	\$350,000
Research	\$120,000	\$0
Hotline	\$240,000	\$240,000
Administration	\$203,000	\$203,000
Training	\$51,000	\$0
Outcome Studies	\$66,000	\$175,000
MN Council	\$50,000	\$50,000
Felony Assessment	\$40,000	\$40,000
TOTALS	\$1,847,000	\$2,258,000

This budget, which some will label an increase, and others a cut, represents an attempt to continue the program at current levels while creating some new program goals.

3. The State should consider the adoption of new goals for this program, but not until there is consensus as to what works and what is cost-effective.

This program needs direction. The next two years of this program should concentrate on finding out what works, how it works, and what is cost and patient effective. This will be the cornerstone for any possible expansion in following years.

The program also needs to lay out a blueprint for future expansion of education efforts. Experience to date shows a potential of treating 200-400 persons per year. However, there are a number of persons who have troubles associated with gambling who might benefit from a targeted and intelligent education program.

The program needs to be wary of becoming captured by the programs and persons who are funded by the program. Once a model for what works is discovered and adopted, the program will seek long term partners in helping compulsive gamblers. Until that time, the program needs to maintain flexibility and to seek new voices and new approaches.

VIDEO LOTTERY

BACKGROUND

In 1994 the legislature was faced (for the fourth year) with the issue of legalizing a system of video lottery terminals (VLTs). The rationale for this effort has been twofold: Minnesota's on-sale liquor establishments have requested a level playing field in competing with video gambling at tribal casinos, and the potential for a source of additional state revenues exists.

Video lottery terminals play video games of chance such as poker, blackjack, keno, or simulated slot machines. In each proposal before the legislature the video lottery terminals would be directly connected to a central computer monitoring system maintained by the state. They would be placed in "age-controlled environments" -- specifically, establishments licensed to sell intoxicating liquor on-sale.

In one proposal the terminals would be owned and operated by the Minnesota Lottery, and in another they would be privately owned and operated but regulated by the lottery. Under the first scheme the net machine revenue would be divided between the state and the liquor establishment, while under the second the revenue would be divided among the state, the liquor establishment, and the machine operator. In all instances the machines themselves do not dispense cash payouts but rather print prize vouchers that have to be redeemed from an establishment employee.

Video lottery systems are now being maintained in several states, including Oregon, West Virginia, South Dakota, Montana, and Louisiana, as well as several Canadian provinces and Australian states. American systems range from complete state ownership and operation to complete private ownership and operation. Most limit locations to bars and restaurants, but in West Virginia they are operated only at racetracks.

FINDINGS

The proposal for a privately operated, state-regulated video lottery system may raise a constitutional objection.

Article XIII, section 5 of the Minnesota Constitution prohibits the legislature from authorizing any lottery other than a lottery "operated by the state." Assuming that a video lottery system would be a "lottery" within the meaning of the Constitution, an argument could be made that where machine operators own, install, and maintain the machines the lottery system is not "operated by the state." In evaluating video lottery proposals that involve private entities the legislature would need to consider the possibility that litigation would challenge its constitutionality.

Video lottery is felt by some to be uniquely addictive among gambling forms.

While almost all forms of gambling have some addictive potential, video gambling devices appear to combine instant gratification and virtual reality in a way that may be more addictive than most other forms. The clinical director of one of the nation's largest treatment centers for compulsive gamblers has called video betting the "crack of gambling."⁴ Gambling consultant Eugene Martin Christiansen has written of a "growing body of professional studies" raising concerns about the relationship of video machines to problem gambling.⁵

By legalizing and in one instance conducting gambling the state has conceded that the existence of problem gambling alone is not a sufficient argument against gambling. But the nature of video gambling suggests that legalizing it may raise problem gambling to a different plateau, and that possibility is a significant reason for caution on the issue.

A video lottery system can raise substantial amounts of state revenue.

Estimated Revenues

The most detailed revenue estimates for a video lottery system in Minnesota have come from the Minnesota Lottery, which presented its projects to the advisory council in December. Even these detailed estimates involve many uncertainties because of the large number of variables within VLT systems. The number of establishments offering video lottery, the number of machines per establishment, and statutory provisions for the distribution of net revenue all affect VLT income. In addition, money spent on video lottery can come partly at the expense of charitable gambling and the lottery, so lost state revenue from those sources must also be factored in.

If each of the 3,500 licensed liquor establishments in Minnesota were allowed and had five VLTs, the net revenue (gross receipts minus payouts) per machine, based on the VLT experience in Oregon, would be \$45,000 per year, for a statewide net revenue of some \$785 million. If the state were to follow the model of Oregon's state-operated system and take 65 percent of net machine revenue (with the rest going to the establishment), the total to the state would be about \$510 million. Offsetting this in the lottery's calculations would be operating costs (\$163 million), reductions in state lottery sales (\$12 million) and charitable gambling tax receipts (\$4 million), leaving a final net revenue to the state of \$332 million.

⁴ Robert Hunter, clinical director of Charter Hospital, Las Vegas, Nevada, quoted in *Wall Street Journal*, July 14, 1992, p. B1.

⁵ Eugene Martin Christiansen, "Gross Annual Wager 1993." *Gaming and Wagering Business*, August 5, 1994, p. 14.

Obviously the revenue from a system similar to Oregon's would be substantial. The estimate of \$332 million would represent nearly two and a half times the total revenue the state now receives from legalized gambling. Video lottery alone would generate over twice the revenue of all tobacco taxes, and almost six times more revenue than all alcoholic beverage taxes. With video lottery added in, gambling would become the state's fourth largest non-dedicated revenue source.

Potential Factors Affecting Revenue

Estimates of state revenue can be drastically affected by many factors, such as existing forms of gambling.

Since 1985 Minnesota has had the largest charitable gambling industry in the nation. The Indian gaming industry in Minnesota has been in existence since 1989 and has also established a significant foothold. When Oregon was developing and implementing its video lottery system, it had no comparable gaming industries in existence that would possibly have had a major impact as competition for the video lottery.

It is noted that Oregon's charitable gambling industry in 1993 had a gross wagering handle of \$79.4 million compared to Minnesota's well-established charitable gambling industry of \$1.2 billion. Indian gaming in Minnesota is estimated to be in the range of \$3-4 billion with over 12,000 machines, whereas Oregon has had minimal Indian gaming activity. When its video lottery was implemented, there was only one casino in Oregon; currently there are two casinos with two more being compacted.

State Policy Regarding Dependence on Video Lottery Revenue

A major policy decision that has not been made is how dependent is Minnesota on gambling revenues now and does it want to expand that dependence on gambling revenues.

The first time that South Dakota citizens voted on authorizing video lottery, in 1986, the vote was 67-33% to amend the constitution. The second time they voted on the issue, in 1994, the vote was 53-47%. Opponents were concerned about compulsive gambling problems related to video gambling and that the state of South Dakota had become too dependent on video lottery revenues. A major consideration in the potential failure of the vote was that taxes would have to be increased to make up the deficit.

Video lottery would have some negative effect on charitable gambling sales.

Opinions differ on how a video lottery system would affect charitable gambling sales. The lottery's estimate (using estimates from the Revenue department based on sales figures from other states) of final net revenue from 17,000 VLTs in the state assumes a reduction in charitable gambling tax revenues of \$4.025 million. This would represent a reduction in total charitable gambling sales of about \$80 million or about seven percent. The charitable gambling industry estimates that it would be 40-50%.

Obviously this loss would not hit every charitable gambling organization equally. The biggest losers would doubtless be those organizations that are now conducting gambling in bars and restaurants where VLTs would be placed. Some or all of their losses could be made up by giving them a share of net VLT machine income.

It is not clear how much VLTs would help liquor establishments in improving their bottom line.

Level Playing Field

One of the continuing arguments on behalf of video lottery is that it would help restore a "level playing field" between licensed liquor establishments and tribal casinos. The on-sale liquor industry has argued that casinos have an unfair advantage in attracting customers who formerly patronized on-sale establishments, not only because they have a form of gambling not available to bars and restaurants but because they can use gambling profits to subsidize low food and beverage prices. The on-sale industry position is not that gambling rights be taken away from Indian tribes, but that their monopoly over video gambling be ended.

Possible Effect of Tribal Casinos

Tribal casinos are alleged to have had some adverse effect on some on-sale establishments, but the casino factor is difficult to separate from all the other factors that have contributed to the decline of the on-sale liquor industry in recent years. This uncertainty is reflected in the variety of conclusions that various studies on the subject have reached.

- One study of the effect of casinos on Minnesota bars and restaurants concluded that there has been a shift in discretionary spending away from drinking establishments and toward casinos.⁶
- Another study on the same subject did not find a negative effect of casino gambling on bar sales, and observed that "bars and casinos tend to serve differentiated segments of the population."⁷
- A third study has found that the presence of a casino actually increased the incomes of hospitality industry workers in the same county.⁸

These differences in conclusions suggest that further study is needed of the overall effects of casinos on the on-sale liquor industry.

⁶ Bugbee, Anton and Associates, Inc., summary of "The Impact of Casino Gambling on Drinking Establishments in Minnesota." March 15, 1994.

⁷ Stephen A. Hancock, "Analysis of the Effects of Casino Gaming on the Sales of Drinking Establishments in Minnesota: Methodological Issues and Credible Evidence," 1994.

⁸ Jean Kinsey and Todd Gabe, "Casinos and Income in Non-metropolitan Minnesota." *Minnesota Agricultural Economist*, Summer 1994, p. 1.

TAXATION OF PULL-TABS AND TIPBOARDS

BACKGROUND

The state tax on all pull-tabs and tipboards (distinct from the combined receipts tax on pull-tabs and tipboards sold by organizations with annual gross receipts over \$500,000) is two percent on the "ideal gross" of each game of pull-tabs. For pull-tabs the ideal gross is the gross receipts from each game if every pull-tab in it is sold. The tax is collected from pull-tab distributors and passed onto the purchasing organizations.

This tax differs from the tax on other forms of charitable gambling (bingo, raffles, and paddlewheels) that is collected at the distributor level rather than the organization level. At the organization level the tax is ten percent of gross receipts less prizes actually paid out. The tax on pull-tabs and tipboards was switched from the organization to the distributor level in 1987.

The ideal gross tax on pull-tabs and tipboards accounted for about half of the \$57 million in total state revenue from lawful gambling in fiscal 1994.

FINDINGS

Inequities

The present state tax creates some inequities for charitable gambling organizations.

- Collecting the tax at the distributor rather than organization level means that it is paid by an organization on every pull-tab it purchases, before the pull-tab is actually sold to a customer.
 - This means that the tax is collected equally on pull-tabs that are sold and unsold.
 - Pull-tabs that produce no revenue for the organization, because they are pulled from play after all major winners in a game have been claimed, are taxed to the same extent as pull-tabs sold to players.
 - There are no provisions for refunds of taxes paid on unsold pull-tabs.
 - Thus a tax on an unsold pull-tab is a dead loss for the organization, since it has no way of recovering the tax it has already paid on it.
- The loss will vary among organizations depending on each organization's policies on pulling "dead" games. Allied Charities of Minnesota (ACM) estimates that in 1994 total taxes on unsold pull-tabs amounted to between \$4 and 4.5 million. ACM describes this loss as the biggest problem in charitable gambling for both large and small organizations. Dispensing machines for pull-tabs, authorized by the 1994 gambling bill and now the subject of Gambling Board rulemaking, may reduce the number of "dead" games.

Methods to Make Pull-tab Tax Equitable

There are several ways of changing the pull-tab tax to remove these inequities.

- One measure, extensively discussed in the 1994 legislative session and actually passed by the Senate, would be to adjust the tax rate on the ideal gross of pull-tabs (presently two percent) by the percentage of all pull-tabs that go unsold. Such an adjustment would be made annually by the Department of Revenue.
- Another approach would be to go back to the pre-1987 policy of making the pull-tab tax a gross receipts tax at the organization level rather than the distributor level. This would impose a tax only on pull-tabs that are actually sold to players.
- A third approach would allow each organization to claim an annual refund of tax paid on unsold pull-tabs.
- A fourth proposal would not only address the unsold pull-tab problem but would change the entire nature of charitable gambling taxes. This would eliminate all special taxes on charitable gambling and instead impose the state sales tax on gambling gross receipts. This would put the tax rate at 6.5 percent of gross receipts, while total charitable gambling taxes presently account for about 5 percent of gross receipts.

Solving the problem of unsold pull-tabs in a way satisfactory to all organizations cannot be done in a revenue-neutral way.

State Cost to Change Tax

Each of the three proposals for addressing the unsold pull-tab problem would cost the state revenue. Avoiding a budgetary shortfall would require making up this revenue from some other source. The problem affects virtually all organizations that sell pull-tabs, so the revenue cannot be made up from unaffected organizations. It could be made up by increasing the rate or changing the brackets for the combined receipts tax, or by increasing the tax on other forms of charitable gambling. These increases and changes would be more of a tax shift than tax relief.

One argument on behalf of tax changes for unsold pull-tabs has been that the charitable gambling industry contributed to rescuing the state from a budget crisis in 1989 when the tax was enacted, and that the easing of budgetary pressures since then justifies a measure of tax relief for the industry. While this argument may have some validity, it is for the legislature to determine whether the state budget can afford to cure this particular inequity.

Tax on Unsold Tipboard Tickets

The issue of taxes on unsold tipboard tickets was not addressed because it is a relatively minor problem, i.e. the taxes represent less than one percent of gross receipts from lawful gambling.

PROPERTY TAXES AND CHARITABLE GAMBLING PROFITS

BACKGROUND

Using the net profits from charitable gambling to pay property taxes on buildings owned by licensed gambling organizations has been one of the most enduring and contentious issues in the gambling area. Throughout the ten-year history of statewide gambling regulation the issue has produced changes of policy but not a change in the basic question: to what extent, if any, should gambling profits be used to benefit the conducting organizations?

Organizations that conduct charitable gambling may spend their net profits (gross receipts minus prizes and expenses) only for "lawful purposes." These are generally what are commonly accepted as charitable purposes (scholarships, youth athletic and community programs, assistance to needy individuals, etc.), but they also include two purposes related to buildings and other capital assets owned or leased by organizations:

- Organizations may in limited instances spend net profits on the acquisition, improvement, and repair of their own buildings, and
- They may use net gambling profits to pay all or part of the property taxes on their buildings.

For premises used for bingo, this limit is the amount they may permissibly spend on rent under board rules (ranging from \$200 to \$400 per bingo occasion - up to seven a week - depending on square footage). For premises used for the other forms of lawful gambling the limit is \$15,000 per year. This provision was enacted by the legislature in 1990. Before that time there was no limit on how much property tax could be paid as a lawful purpose expenditure. This no-limit policy was first approved by the board in 1985 and later written into law in 1989.

The issue of property taxes as a lawful purpose is closely tied to the issue of building expenditures as a lawful purpose. The present policy on expenditures on property is that they are not a lawful purpose unless:

- (1) the property is used exclusively for a lawful purpose (youth hockey rinks, 501(c)(3) organizations),
- (2) repair and maintenance of property used extensively by other nonprofit or community groups (Boy and Girl Scouts, 4-H, senior citizens, Lions, Rotary, etc.) at no charge,
- (3) the expenditure is for the cost, unreimbursed by insurance, of replacing a building lost by fire or other disaster, or
- (4) the expenditure is for the uncompensated cost of replacing a building lost by eminent domain.

This policy has varied in restrictiveness. Early in its existence the board maintained a liberal interpretation of what building-related expenditures qualified as a lawful purpose. In 1988 the board adopted a tighter standard that sharply restricted these expenditures.

The legislature's history on this shows several changes in policy. In the 1989 special session the legislature wrote into law the board's position that property taxes were a lawful purpose expenditure, but the next year the legislature placed a limit on the payable amount. Where previously this authority had been unlimited, the legislature limited the amount to the maximum that organizations could spend on rent under board rules. At that time the rent limit was \$600 per month or \$7,200 per year. In 1991 the legislature raised the maximum amount of property taxes payable as a lawful purpose (for locations other than bingo locations) to the present \$15,000. Thus the legislature adopted three different positions on this issue in a period of less than twenty months.

Many organizations have claimed that all these changes have resulted in an inequity, making substantially the following argument. When the board was enforcing a liberal policy on what building-related expenditures could be paid from net gambling profits and the board and later the legislature were allowing all property taxes to be paid from those profits, organizations had good reasons for expanding or replacing their buildings using gambling funds. These building decisions substantially increased the taxable value of their buildings.

When limitations were subsequently placed on how much property tax could be paid from gambling funds, these organizations were left in a financial bind. Their property taxes went up but their ability to pay them was constrained by law, forcing them to pay these taxes out of their general funds. For organizations where gambling is the largest source of income, the financial strain is considerable.

FINDINGS

Like many other issues, the use of gambling profits for property taxes raises a basic question of gambling policy: for whose benefit is charitable gambling conducted? Every dollar of net gambling profit spent on paying property taxes comes directly at the expense of dollars available for actual charitable purposes. The basic justification for legalization of charitable gambling -- that it serves charitable cause that might otherwise become the burden of government -- is diminished when conducting organizations themselves become the beneficiaries. The present law has resulted in inequities for some organizations.

Notwithstanding the above finding, there are some instances where conducting organizations may justifiably use gambling profits for their own purposes. This is especially true in those cases where organizations have been adversely affected by changes made in state gambling policy after major building decisions have been made.

The organizations that have been most jeopardized by the various changes in state policy on property taxes are those who made major building improvements, expansions, or acquisitions before the legislature placed limits on how much of their property taxes could come from gambling profits. The effective date of that change was August 1, 1990. The subsequent increase in the maximum limit from \$7,200 to \$15,000 has helped some but by no means all of these organizations. Further, the value of that increase will decline as property taxes rise and the legal limit stays the same.

Information provided to the council indicated that 90% of organizations can pay 100% of real estate taxes using gambling funds. However, 10% of the organizations currently are unable to pay 100% because of the \$15,000 limitation.

SOCIO-ECONOMIC MODEL FOR GAMBLING

As part of the 1994 gambling bill the legislature directed the governor to include in the 1996-97 executive budget "a proposal to create and maintain a socio-economic model that will allow executive agencies and the legislature to estimate the social, economic, and public revenue effects of different forms of gambling and changes in Minnesota gambling laws." The bill also directed the advisory council to "advise the governor" on the development of this model.

In fulfillment of this charge the advisory council solicited from various public and private agencies with experience in computer modeling a "request for suggestions" for how this model should be undertaken. The council's request indicated that the model should be able to address the effect of each existing form of legal gambling, each major change in the laws governing those forms, and each proposed new form of legal gambling, on the following:

1. The incidence of problem gambling among adult, youth, and minority populations.
2. Major economic measurements, including but not limited to personal income, employment and unemployment, employment and income in major sectors of the economy, income inequality, and state and local government revenue. To the extent possible, these effects should be determined on a regional as well as statewide basis.
3. Measurements of possible social effects of gambling, including but not limited to crime rates, divorce rates, bankruptcy, and substance abuse. The model should also include measurements of poverty and enrollment in various public assistance and income maintenance programs. To the extent possible, these effects should be determined on a regional as well as statewide basis.
4. Major social and economic measurements of the effects of gambling changes on gambling customers, including:
 - (a) changes in patterns of consumer spending on gambling,
 - (b) participation levels of various groups categorized by income, age, education level, and ethnic/racial grouping, and
 - (c) progressivity or regressivity of gambling expenditures.

In addition, the model should measure the effects of major changes in any gambling form on each other existing gambling form. These major changes would include changes in operation such as increased or decreased prize payouts, changes in the gross or net revenues of any form, and legalization of a new gambling form. In measuring these effects the model should also be able to take into consideration competition from gambling forms in surrounding states.

The request for suggestions asked respondents to give their opinions on the reasonableness of these expectations, the likely cost of such a model, and any other suggestions for making the model more useful for policy-makers.

We caution that no one should expect that any computer model, however comprehensive, can answer all policy questions surrounding gambling. Even in its most sophisticated form a model is only a tool for information analysis, and such analysis is only one aspect of making policy.

The advisory council intends to share all responses to this request with the governor's office and whatever agency is designated to carry out the requirements of the 1994 law.

RECOMMENDATIONS

COMPULSIVE GAMBLING

1. The legislature should give highest priority to a comprehensive and soundly constructed outcomes study that tests the costs and patient effectiveness of alternative treatment approaches.
2. If the legislature wishes to continue this program with zero growth, the budget should be reorganized.
3. The state should consider adopting new goals for this program, but not until there is consensus as to what works and what is cost-effective.

VIDEO LOTTERY

1. The legislature should not authorize video lottery legislation in the 1995 session.

The advisory council feels that there are too many unanswered questions and unresolved concerns about video lottery to justify passing enabling legislation in 1995. These questions and issues include the effects of video lottery on problem gambling, the current gambling industry, and the need for the state to develop a comprehensive state policy, including a decision on how much the state wants to become dependent on gambling-generated revenues.

The council will be addressing some of these issues and concerns during 1995, and some others can be addressed by the socio-economic model of gambling discussed elsewhere in this report. Until these questions can be answered and the concerns resolved, enactment of a video lottery system would be premature and unwise.

The council did not consider the propriety of a pilot project in their discussions. It should be noted that the council's deliberations on this issue were based only on proposals for a statewide video lottery system. The council did not discuss proposals for a regionally-based demonstration project to test video lottery systems.

RECOMMENDATIONS - Continued

TAX ON UNSOLD PULL-TAB TICKETS

1. The advisory council makes no recommendation on changes in pull-tab taxes.

The council does not have sufficient information or sufficient background in taxation to determine if the present level of pull-tab taxation is too high, too low, or just right. Further, only the legislature can determine whether the state's financial condition can afford any tax relief to any element of the gambling industry.

If the legislature decides in 1995 that the state can afford pull-tab tax relief and that the level of pull-tab taxation is too high, it may amend the advisory council's enabling legislation to direct it to determine which method of pull-tab relief best balances equity considerations with considerations of administrative cost and efficiency.

PROPERTY TAXES

1. The legislature should allow the payment of property taxes from net gambling profits for building construction, acquisition, or expansion undertaken before August 1, 1990.

This change passed the Senate in 1993 but did not survive a House-Senate conference committee in 1994. It would allow those organizations that began these building projects when property tax payment was unlimited to go back to that system for those projects, but not for new projects they undertake. In the advisory council's opinion, this is a reasonable and limited compromise to address an inequitable policy, without doing serious damage to the principle that charitable gambling ought primarily to benefit charities rather than the conducting organizations.

ADVISORY COUNCIL ON GAMBLING

STATE GAMBLING POLICY

DRAFT OUTLINE FOR DECISION-MAKING

State Gambling Policy
Outline for Decision-Making

CONTENTS

I. What should be the state policy on the forms of gambling allowed?	3
A. Allowing additional forms	
B. Repeal of restrictions on gambling form	
C. No additional forms allowed	
D. Prohibit some or all existing forms	
II. What should be the state policy on the volume of gambling?	10
A. Reduction of gambling volume	
B. Allowing market forces to decide volume	
C. Take steps to increase overall volume	
III. What should be the state policy on dealing with the adverse effects of gambling?	14
A. Problem gambling	
B. Social effects of gambling	
C. Competitive effects	
IV. What state policies should control the governance of gambling?	17
A. Governing and regulatory structures	
B. Tribal-state negotiations	
C. Substantive gambling regulatory policy	
D. Criminal enforcement	
V. What state policies should govern public and private revenues from gambling?	21
A. State revenue	
B. Operator revenue	
C. Maximization of revenues from non-residents	

I. What should be the state policy on forms of gambling allowed?

A. Should additional forms of gambling be permitted?

1. General considerations on additional gambling forms

a. Effects on problem gambling

(1) Issues

- (a) Relative attractiveness to problem gamblers
- (b) Effect on overall incidence of problem gambling
- (c) Attractiveness to youth

(2) Information

- (a) Research on problem gambling
- (b) Incidence studies in other states

b. Competitive effects on other forms

(1) Issues

- (a) Market segment appealed to
- (b) Overlap of gambling locations
- (c) Economic limits on total gambling revenues

(2) Information

- (a) Effects of past competition
- (b) Research on competitive aspects of gambling industry
- (c) Research on size of total gambling market

c. Effect on rights of Indian tribes to conduct comparable forms

(1) Issue: would legalization expand rights of tribes to seek compact?

(2) Information

- (a) Interpretations of federal law
- (b) Information on proposed Congressional changes

d. Constitutionality

(1) Issue: Would any specified new form of gambling face a constitutional challenge?

(2) Information: Legal research on constitutionality of specified form

e. Economic development effects of gambling

(1) Issues

- (a) Net jobs created
- (b) Increases in real income
- (c) Economic costs
- (d) Gambling money going to other states

(2) Information

- (a) Economic effects of existing gambling
- (b) Economic analysis

2. Video lottery

a. Issues

- (1) Permitted locations
- (2) Number of devices allowed
 - (a) Statewide
 - (b) Per location
- (3) Division of revenue
- (4) Regulatory agency (if privately operated)
- (5) Relation to charitable gambling
 - (a) Share of revenue
 - (b) Protection on shared premises
- (6) Effects on problem gambling
- (7) Competition issues -- on-sale liquor establishments

b. Options

- (1) Privately operated, state-regulated system
- (2) System operated by state lottery

c. Information

- (1) Minnesota legislation
- (2) Other states
 - (a) Legislation
 - (b) Revenue history
 - (c) Other experience
- (3) Minnesota revenue estimates
- (4) Research on problem gambling impact
- (5) Effects of tribal casinos on on-sale establishments

3. Riverboat gambling

a. Issues

- (1) Moored or excursion
- (2) Games allowed
- (3) Division of revenue
- (4) Regulatory agency

- (5) Limits on wagering
- (6) Number and location
- (7) Interstate enforcement issues

b. Options

- (1) Run by charities
- (2) Commercial operation
- (3) Combination charitable/commercial

c. Information

- (1) Other states
 - (a) Legislation
 - (b) Revenue history
 - (c) Other experience
- (2) Industry reports
- (3) Research on gambling competition

4. Keno offered as state lottery game

a. Issues

- (1) Locations
- (2) Number of outlets
- (3) Frequency of games
- (4) Structure of game
- (5) Effect on other lottery games

b. Information

- (1) Other states
 - (a) Legislation
 - (b) Revenue history
 - (c) Other experience
- (2) Research on gambling competition
- (3) Revenue estimates

5. Home wagering on lottery

a. Issues

- (1) Revenue potential
- (2) Technological feasibility
- (3) Social effects
- (4) Gambling as family activity
- (5) Attractiveness to minors
- (6) Security of home system

b. Options

- (1) Interactive purchase of tickets
- (2) Playing lottery games at home

c. Information

- (1) Survey of technology
- (2) Testimony of technology providers

6. Legalization of card games

a. Issues

- (1) Conditions of play
- (2) Locations
- (3) Enforceability of existing prohibitions

b. Options

- (1) Whist
- (2) Pinochle
- (3) Pfeffer
- (4) Poker

c. Information

- (1) Existing prohibitions
- (2) Law in other states
- (3) Views of state and local law enforcement

7. Off-track betting

a. Issues

- (1) Political feasibility
- (2) Viability of racing industry
- (3) Protection of live racing
- (4) Expansion of gambling
- (5) Economic impact of racing industry v. other gambling forms
- (6) Location, number of outlets
- (7) Types of outlets
- (8) Degree of government regulation required
- (9) Telephone betting

b. Options

- (1) Illinois model -- teletheatres
- (2) Arizona model -- bars and restaurants
- (3) Pilot program
- (4) Telephone betting
- (5) Interactive betting -- cable TV

c. Information

- (1) Betting history at Canterbury Downs
- (2) Data from other states on OTB effect on live handle
- (3) OTB laws in other states
- (4) Data on economic impact of racing/breeding industry
- (5) Projected handle compared to overall gambling volume

8. Nonprofit casino nights

a. Issues

- (1) Current practices -- widespread?
- (2) Need for new charitable gambling forms
- (3) Regulatory structure, content
- (4) Types of games
- (5) Expansion of charitable gambling to additional organizations
- (6) Locations
- (7) Number of occasions, hours

b. Options

- (1) Incorporate into existing charitable gambling regulation
- (2) New type of regulation, similar to exempt gambling

c. Information

- (1) Other states: laws, experience
- (2) Law enforcement testimony
- (3) Gambling regulator testimony

B. Should all restrictions on gambling forms be repealed and market forces be allowed to decide what forms survive?

1. Issues

- a. New forms likely to be introduced if all restrictions removed
- b. Effects of new forms on existing forms
- c. Room in Minnesota market for expansion of gambling
- d. Effects of expansion of total gambling volume (see II below)
- e. Effects on problem gambling, adequacy of problem gambling programs
- f. Adequacy of regulatory structures

2. Options

- a. Remove prohibitions against lotteries, betting
- b. Establish gaming commission with authority to approve and regulate any form of gambling

3. Information

- a. Maximum possible wagering as pct. of total state income
 - b. Competitive aspects of gambling industry
 - c. Relationship between availability of gambling and problem gambling
- C. Should existing gambling forms be retained but no new forms authorized?
- D. Should some or all existing forms of gambling be abolished?
 - 1. General considerations in prohibiting one or more forms of gambling
 - a. Issues
 - (1) Administrative decisions on terminating state agencies
 - (2) Enforceability
 - (3) Likely effects on illegal gambling
 - (4) Loss of gambling spending to other states
 - (5) Effect on "gambling culture"
 - b. Options
 - (1) Immediate prohibition
 - (2) Phase-out over time
 - c. Information
 - (1) General information on competition in gambling
 - (2) Specific information on gambling opportunities in neighboring states
 - (3) Testimony of law enforcement agencies
 - (a) Effectiveness of repeal
 - (b) Likely level of enforcement
 - (c) Effect on law enforcement resources
 - (4) Legal provisions for terminating state agencies
 - 2. Charitable gambling
 - a. Issues
 - (1) Effects on overall spending for charitable purposes
 - (2) Effects on state budget
 - (3) Effects on organizations
 - (4) Orderly termination of licenses
 - (5) Likelihood of return to illegal gambling
 - b. Options
 - (1) Lawsuit challenging constitutionality
 - (2) Legislation to abolish

c. Information

- (1) Total charitable donations, gambling donations
- (2) State budget, revenue data
- (3) Detail on expenditures for lawful purposes
- (4) Testimony of law enforcement agencies

3. State lottery

a. Issues

- (1) Effect on state revenues
- (2) Effect on environmental fund

b. Information

- (1) State budget, revenue data
- (2) Detail on environmental fund

4. Pari-mutuel racing

a. Issues

- (1) Effect on breeding industry
- (2) Effect on agriculture generally
- (3) Effect on state revenues

b. Information

- (1) Current and historical data on breeding industry
- (2) State budget, revenue data

5. Indian gaming

a. Issues

- (1) Effects on overall tribal-state relations
- (2) Effects on tribal economic situation

b. Options

- (1) Seek changes in federal law to eliminate or limit Indian gaming
- (2) Change Minnesota law to remove legal basis for Indian gaming
 - (a) Blackjack as social bet
 - (b) Authorization for video machines
- (3) Refuse to approve new designation of trust land (governor)

c. Information

- (1) Legal consequences of changing state law

- (2) Status in Congress of IGRA amendments
- (3) Available statistics on tribal casinos
- (4) Economic conditions on tribal land
- (5) Information on interstate competition among casinos

6. Social gambling

a. Issues

- (1) Legal consequences of repeal -- criminal status
- (2) Likelihood of enforcement
- (3) Effects on legal basis for Indian gaming

b. Options

- (1) Repeal authorization for private social bets
- (2) Exclude types of gambling from private social bets
 - (a) Blackjack
 - (b) Poker
 - (c) Sports bets

c. Information

- (1) Legal research on effects of criminalizing gambling
- (2) Testimony of law enforcement agencies on extent of social gambling

II. What should be the state policy on the overall volume of gambling?

A. Should the state adopt measures to reduce the volume of gambling?

1. General considerations

a. Issues

- (1) Volume of gambling spending
- (2) Gambling spending in context of other expenditures
- (3) Gambling expenditures and expenditures on other consumer items
- (4) Upper limits of gambling spending
- (5) Progressivity/regressivity of gambling
- (6) Gambling patterns of ethnic/racial groups

b. Information

- (1) Gambling spending as percentage of personal income
- (2) Consumer expenditures by type, including gambling
- (3) Gambling spending in other states
- (4) Economic research on limits on gambling spending
- (5) Gambling spending by demographic groups

2. Reduce level of advertising

a. Lottery advertising

(1) Issues

- (a) Effects on sales, state revenue and budget
- (b) Restrictions on advertising by neighboring lotteries

(2) Options

- (a) Prohibit promotional advertising
- (b) Reduce maximum advertising percentage

(3) Information

- (a) Lottery advertising budget
- (b) Impact of advertising on sales
- (c) Effects of various types of advertising

b. Charitable gambling advertising

(1) Issues

- (a) Effects on sales
- (b) Equity with other gambling forms

(2) Options

- (a) Restore prohibition against advertising
- (b) Further restrict expenditures on advertising

(3) Information

- (a) Present level of charitable gambling advertising
- (b) Testimony on effectiveness of advertising

3. Reduce prize payouts

a. Lottery prize payouts

(1) Issue -- effect on revenue

(2) Options

- (a) Reduce mandated instant game payout
- (b) Limit all payouts
- (c) Set maximum prize amount

(3) Information

- (a) Present prize payouts and limits
- (b) Prize information from other lotteries
- (c) Effects on sales of prize percentages and amounts

b. Charitable gambling payouts

(1) Issues

- (a) Effect on gross revenues
- (b) Effect on net revenue

(2) Options

- (a) Impose maximum payout for pulltab games
- (b) Impose minimum charitable pct. of gross revenue

(3) Information

- (a) Present payout percentages
- (b) Present lawful purpose percentage
- (c) Evidence on relationship between prize payout and sales

4. Raise minimum age

a. Issues

- (1) Amount of gambling done by 18-21 age group
- (2) Contribution to gross revenues
- (3) Ability to affect age limits in casinos
- (4) Enforceability of age limits
- (5) Consistency with other age limits
- (6) Effects on gambling by minors

b. Options

- (1) Impose 21 as minimum age for charitable gambling, lottery, pari-mutuel
- (2) Make minimum age conditional on increase in minimum casino age

c. Information

- (1) Gambling volume by age categories
 - (a) Overall
 - (b) Each form of gambling
- (2) Law enforcement testimony on age limit enforcement
- (3) Testimony on gambling by minors
- (4) Other minimum ages in Minnesota laws
- (5) Minimum ages in other states

5. Restrict availability of gambling

a. Issues

- (1) Relationship between availability and overall volume
- (2) Financial hardships caused by reducing availability
 - (a) Licensed liquor establishments
 - (b) Lottery retailers
- (3) Relationship between availability and activating latent gamblingaddictions
- (4) Effects on state and operator revenue

b. Options

- (1) Freeze or reduce number of charitable gambling premises
- (2) Freeze or reduce number of lottery outlets
- (3) Refusal of governor to approve new trust land for gaming
- (4) Prohibit leasing of pull-tab space in bars
- (5) Repeal authorization for pull-tab dispensers

c. Information

- (1) Number of charitable gambling and lottery locations
- (2) Relationship between number of outlets and sales volume
- (3) Gambling income as percentage of establishments' total revenues
- (4) Evidence on correlation between availability and problem gambling

B. Should market forces be allowed to determine the overall volume of gambling?

1. Issues

- a. How much gambling the market will bear
- b. Likely effects of unlimited volume on various elements of gambling industry
- c. Effects of unlimited gambling on problem gambling
- d. Effects of unlimited gambling on other segments of consumer economy

2. Options

- a. Retain status quo on number of outlets (no limit on number or type)

3. Information

- a. Present and future gambling within overall economic context
- b. Testimony on future of gambling industry
- c. Correlation between gambling volume and incidence of problem gambling

C. Should the state adopt measures to increase the overall volume of gambling?

1. Issues

- a. Need for additional public revenues
- b. Need for additional operator revenues
- c. Gambling as spur to economic development

2. Options

- a. Charitable gambling
 - 1. Allow unlimited advertising
 - 2. Remove or liberalize bingo prize limits
 - 3. Reduce charitable gambling taxes
 - 4. Allow additional forms
- b. Lottery
 - 1. Remove advertising restrictions
 - 2. Allow new products
 - (a) Keno
 - (b) Interactive wagering
- c. Pari-mutuel racing
 - 1. Constitutional amendment for OTB and telephone betting
 - 2. Remove restrictions on county fair simulcasting
- d. Tribal casinos
 - 1. Initiate compact negotiations for additional casino games
 - 2. Initiate compact negotiations for sports bookmaking
- e. Authorize new forms of gambling

3. Information

- a. Same information as for reduction in gambling volume
- b. Effects of higher gambling spending on other economic sectors
- c. Relationship between overall gambling spending and problem gambling

III. What should be the state policy on dealing with the adverse effects of gambling?

A. What should be the state policy on dealing with problem gambling?

1. Funding

a. Issues

- (1) Availability of state funds
- (2) Dedication of gambling revenues
- (3) Allocation of present appropriation
- (4) Extent of private insurance coverage
- (5) Level of detail for legislative appropriation
- (6) Need for each element of program

b. Options

- (1) Current funding level
- (2) Higher funding level

- (3) Lower funding level
- (4) Reallocation of funds
- (5) Measures to attract private funds

c. Information

- (1) Appropriation history
- (2) Overall state budget picture
- (3) Evaluations of need for various program elements
- (4) Current gambling revenues
- (5) Contributions to problem from each gambling form
- (6) Insurance coverage information

2. Program

a. Issues

- (1) Appropriate mix of program elements
- (2) Effectiveness of each program element
- (3) Appropriate agency for administering program
- (4) Effectiveness of treatment program evaluation
- (5) Eligibility of providers for state funds
- (6) Effectiveness of various treatment techniques
- (7) Program priorities
- (8) Effectiveness of various prevention approaches

b. Options

- (1) Specify program priorities in statute or appropriation rider
- (2) Transfer program to another agency
- (3) Divide program responsibilities among agencies
- (3) Fund comprehensive treatment outcomes study
- (4) Make for-profit providers eligible for state funding
- (5) Expand treatment beyond treatment centers
- (6) Give higher priority to prevention over treatment
- (7) Devote all resources to treatment

c. Information

- (1) Research on treatment outcomes
- (2) Testimony on prevention approaches
- (3) List of treatment providers not presently eligible for state funds
- (4) Table of budget options
- (5) History of problem gambling prevalence

B. Should state policy attempt to address the social acceptance of gambling as legitimate activity?

1. Issues

- a. "Gambling has entered American mainstream" -- true?

- b. Gambling's effect on the work ethic
- c. Gambling effect on savings incentives
- d. Gambling's relationship to social alienation
- e. Differing behavioral models of gambling
 - (1) Moral weakness
 - (2) Rational activity
 - (3) Adult play
 - (4) Recreation/entertainment
- f. Government countenancing/encouraging problem gambling

2. Options

- a. More coordinated public gambling policy
 - (1) Governance structure
 - (2) Political leadership
- b. Gambling education in schools
- c. Policies on gambling forms, volume of gambling
- d. Public education campaigns for rational gambling

3. Information

- a. Testimony on social effects
- b. Research on behavioral models

C. Should state policy attempt to address the competitive effects of gambling?

1. Issues

- a. Competition within gambling forms -- large and small charitable gambling organizations
 - (1) Taxes
 - (2) Prizes
 - (3) Advertising
- b. Extent and nature of competition between gambling forms
- c. Gambling and other retailing segments
- d. Legitimacy of attempting to preserve or protect one or more existing forms

2. Options

- a. Equalize competition between charitable gambling organizations
 - (1) Abolish combined receipts tax
 - (2) Lower prize limits
 - (3) Restore ban on advertising
- b. Policies on gambling forms, volume of gambling
- c. Take measures to preserve horse racing from extinction or marginalization
 - (1) Off-track betting
 - (2) Allow video machines or other gambling at racetracks
 - (3) Removal of existing pari-mutuel taxes
 - (4) State subsidy

- d. Take measures to protect charitable gambling from competition
 - (1) Remove or increase prize limits
 - (2) Remove or increase advertising limits
 - (3) Allow additional games
- e. Adopt policy of neutrality on competition

IV. What state policies should control the governance and regulation of gambling?

A. How should government involvement in gambling be structured?

1. Issues

- a. Possible lack of coordinated policy
- b. Possible diffused responsibility
- c. Conflicts between gambling forms
- d. Cost of separate forms
- e. Possible dominance by industry of regulatory agency
- f. Conflict between regulatory and industry-promotion roles
- g. Possible lack of coordinated enforcement
- h. Degree of specialized knowledge within each agency
- i. Responsiveness to clientele
- j. Institutionalizing conflicts between gambling interests
- k. Differing state roles in different gambling areas
- l. Possible dominance by one interest
- m. Long-term cost savings from combining functions
- n. Short-term reorganization costs
- o. Citizen board(s) v. full-time professional board(s)

2. Options

- a. Keep each gambling form separate
 - (1) Keep existing system -- separate agencies
 - (2) Abolish separate boards, create new divisions in existing agencies
 - (a) Racing regulation in Department of Commerce
 - (b) Charitable gambling regulation moved to existing agency
 - (3) Keep separate agencies, create permanent overall advisory committee
- b. Move toward unification of governing structures
 - (1) Single policy board governing all gambling policy functions
 - (2) Department and commissioner of gaming governing all gambling
 - (3) One person serving on all three boards plus compact team
 - (4) Merge charitable gambling regulation with state lottery

3. Information

- (1) Governing structures in other states
- (2) Testimony of agencies, industries
- (3) Governor's advisory committee report

- (4) Budget histories for existing agencies
- (5) Sample flow charts

B. How should the state organize its negotiations over tribal-state compacts?

1. Issues

- a. Future issues to be negotiated
- b. Past issues to be renegotiated
- c. Legislative involvement in compacts
- d. Legislative approval of compacts
- e. Duration of compacts
- f. Possible changes in federal law

2. Options

- a. Make membership on negotiating team more specific
- b. Remove all restrictions on negotiating team
- c. Make membership on negotiating team ex officio
- d. Require legislative approval of compacts

3. Information

- a. Current compacts
- b. History of negotiations
- c. History of negotiating team
- d. Views of governor
- e. Update on IGRA amendments

C. What policies should govern the state's regulation of gambling?

1. Overall policy toward regulating charitable gambling

a. Issues

- (1) Volunteer v. professional approach
- (2) Cost of compliance to organizations
- (3) State expenditures on regulation and compliance
- (4) Current level of compliance
- (5) Complexity of law and rules
- (6) Feasibility of "non-commercialization" requirement
- (7) Gambling regulation and regulation of commercial enterprises

b. Options

- (1) Adopt generally less strict regulation of charitable gambling
 - (a) Eliminate detailed definition of lawful purposes
 - (b) Eliminate 50/50 requirement
 - (c) Reduce volume and frequency of reporting
 - (d) Reduce audit requirements
 - (e) Eliminate detailed rules on conduct of games

- (f) Reduce compliance activities by board
- (2) Adopt stricter regulation of charitable gambling
 - (a) Restore pull-tab posting requirement
 - (b) Require licensing/qualification of employees
 - (c) Regulate expenditures for expenses
 - (d) Require greater percentage of net profits for charitable purposes
 - (e) Eliminate 501(c)(3) organization special provisions
 - (f) Increase compliance staff
- (3) Make no change in level of regulation

c. Information

- (1) Estimates by organizations of cost of compliance
- (2) Board budget history by function
- (3) Detail on lawful purpose and expense expenditure
- (d) Report on current and past levels of compliance

2. Pari-mutuel racing

a. Issues

- (1) Effects of regulatory policy on racing industry
- (2) Legislation vs. negotiation on purse structures
- (3) Market for horse racing and racetracks
- (4) Effects of takeout rates on betting volume
- (5) Likelihood of changes in takeout rate
- (6) Access to Canterbury Park by quarterhorses and standardbreds
- (7) Simulcasting potential at county fairs

b. Options

- (1) Loosen state regulation of pari-mutuel racing
 - (a) Remove legislation restrictions on takeout rates
 - (b) Remove legislative requirements on purses
 - (c) Remove or liberalize restrictions on county fair racing days
 - (d) Remove or liberalize restrictions on county fair simulcasting
- (2) Tighten state regulation of pari-mutuel racing
 - (a) Tighten legislative requirements on purses
 - (b) Require access by quarterhorses and standardbreds

c. Information

- (1) History of purse structures and negotiations
- (2) Relationship between purses and betting volume
- (3) Research on price elasticity of pari-mutuel betting
- (4) Betting volumes on various breeds

3. Tribal casinos

a. Issues

- (1) Management contracts for tribal casinos
- (2) Adequacy of present level of regulation
- (3) Federal restrictions on state authority

b. Options

- (1) Increase state authority over management companies
- (2) Seek federal approval for increased state regulation of casinos

c. Information

- (1) Federal law, court rulings
- (2) Information on management contracts

E. How should the Minnesota lottery be structured?

1. Issues

- a. Unique nature of lottery as government enterprise
- b. Conflicts between lottery and legislature/governor
- c. Relationship between lottery structure and profitability
- d. Relationship between lottery structure and efficiency
- e. Current level of lottery profitability and efficiency
- f. Conflicts between lottery profitability and other public policies

2. Options

- a. Make lottery a state agency like other state agencies
 - (1) Appointment/removal of director
 - (2) Deposit of funds
 - (3) Budget approval
 - (4) Contract procedure
- b. Make the lottery a public corporation
- c. Make no change in present status

3. Information

- a. Chart -- comparison of lottery with other state agencies
- b. Structure in other states
- c. History of lottery relations with legislature/governor

F. Criminal enforcement

1. Issues

- a. Extent of illegal gambling in Minnesota

- b. Effects on illegal gambling of legal alternatives
- c. Costs of gambling enforcement
- d. Adequacy of local efforts

2. Options

- a. Increase resources in Gambling Enforcement division
- b. Reduce resources in Gambling Enforcement division
- c. Increase penalties for illegal gambling

3. Information

- a. Estimates of illegal gambling
- b. Research on effects of legal alternatives to illegal gambling
- c. Gambling enforcement in other states

V. What state policies should govern revenues from gambling?

A. What should be the state policy on how much revenue the state receives from gambling?

1. Issues

- a. Gambling revenue compared with other state revenues
- b. Current uses of gambling revenue
- c. Future of gambling revenue -- stable or unstable
- d. Policy limitations caused by dependence on gambling revenue
- e. Legitimacy of public revenues from gambling
- f. Future state revenue needs and resources
- g. Relationship between charitable gambling tax rates and sales
- i. Relationship between lottery payouts and sales

2. Options

a. Decrease public revenues from gambling

- (1) Reduce scope of state lottery
 - (a) Advertising restrictions
 - (b) Number of outlets
- (2) Reduce taxes on charitable gambling
- (3) Reduce scope of charitable gambling
 - (a) Limit premises
 - (b) Reduce prizes
- (4) Eliminate pari-mutuel taxes

b. Increase public revenues from gambling

- (1) New gambling forms under I-A above
- (2) Increase charitable gambling taxes
 - (a) Increase tax rate
 - (b) Broaden base of combined receipts tax

- (3) Increase lottery revenue
 - (a) Reduce prize payout
 - (b) Increase prize payout
 - (c) Reduce administrative maximum
- (4) Increase tax on pari-mutuel wagers
- (5) Higher tax on off-track wagers
- (6) Pursue additional revenue from tribal casinos

c. Information

- (1) Revenue history of gambling
- (2) Evidence on relationship between payouts and sales
- (3) Evidence on relationship between advertising and sales
- (4) History of racing revenues and purses

B. Should some or all state revenues from gambling be dedicated to a specific purpose?

1. Issues

- a. Problem gambling needs
- b. Regulatory agency needs
- c. Amounts generated
- d. Legislative policy toward dedicated funds
- e. Legislative flexibility
- f. Dedicated funds as barrier to accountability
- g. Effect of lottery dedication on sales
- h. Use of public revenues to benefit racing industry (breeders' fund)
- i. Overall state budget conditions

2. Options

- a. Dedicate portion of revenues to problem gambling program
- b. Dedicate portion of revenues to regulatory costs
- c. Tie problem gambling funding to advertising expenditures
- d. Dedicate lottery profits to specific purposes
- e. Eliminate dedication of breeders' fund

3. Information

- a. Gambling revenue history
- b. Regulatory cost history
- c. Program needs projections
- d. Lottery dedication in other states
- e. Information on effects of lottery dedication
- f. Breeders' fund history and uses

C. Should state policy favor those gambling forms that draw the largest percentage of revenues from non-residents?

1. Issues

- a. Potential of gambling forms to attract non-residents
- b. Potential of gambling locations to attract non-residents
- c. Nature of gambling as an economic development tool
- d. Progressivity effects of increasing revenue from non-residents

2. Options

- a. Casino at MSP airport
- b. Riverboat casinos on interstate waters

3. Information

- a. Revenue breakdown of various gambling forms -- residents and non-residents
- b. Extent of interstate competition in gambling
- c. Research on progressivity effects of emphasis on non-residents
- d. Research on gambling and economic development

D. What should be the state policy toward the revenues received by gambling operators?

1. Charitable gambling revenues

a. Issues

- (1) Declining percentage of profits used for charity
- (2) Increasing amounts going for taxes
- (3) Equity of changes in property tax as lawful purpose
- (4) Current uses for lawful purposes and expenses
- (5) Relationship between prize payouts and sales

b. Options

- (1) Increase share of revenues retained by organizations
 - (a) Reduce taxes
 - (b) Increase allowable expense percentage
 - (c) Mandated limits on payouts
 - (d) Allow full property taxes as lawful purpose
 - (e) Expand authorization to use net profits on organization buildings
- (2) Further limit retention by organizations
 - (a) Increase tax revenues
 - (b) Reduce allowable expense percentages
 - (c) Eliminate authorization for building expenditures
 - (d) Eliminate property taxes as lawful purpose

c. Information

- (1) Detail on expenditures for expenses and lawful purposes
- (2) History of property taxes as lawful purpose
- (3) History of building expenditures as lawful purpose

2. Pari-mutuel racing revenues

a. Issues

- (1) Purse legislation as alternative to bargaining
- (2) Relationship between purses and attendance and handle
- (3) Effects of purse levels on Minnesota breeding industry

b. Options

- (1) Eliminate purse-percentage requirements in existing law
- (2) Avoid purse percentages in OTB law
- (3) Write purse percentages into OTB law

c. Information

- (1) History of purses and revenues
- (2) Practices in other states
- (3) Research on purses and handle
- (4) Research on purse and breeding industry