# Gaming News

## Director’s Column
Matt Gettman, Executive Director

### Sales Recover after Most Recent COVID Pause
Electronic game sales totaled $81 million from January 11, 2021, when Executive Order 21-07 took effect authorizing the reopening of on-site eating and drinking at bars and restaurants, through the end of that month. This compares with electronic game sales of $84 million for the entire month of January 2020. January paper pull-tab sales were also strong. However, because so many new games were placed into play when sites reopened, the actual paper pull-tab daily sales for January are understated on month-end reports. (Paper pull-tab income is reported only after entire deal has been closed and removed from play. Sales from games still in play at month end are not reported until the month in which the games are ultimately closed.)

### Legislation
The Board initiated action (HF 897 and its companion bill, SF 756) to allow a Board member’s term to be extended until either the Board member is reappointed for a new term or the position is filled by a new appointee. This proposed change to MN Stat. 349.151 will help ensure that the Board has continuity of operations with its full compliment of seven members (see below if you are interested in applying for one of the two current Board vacancies).

Another legislative action would change MN Stat. 349.15 to modify the star-rating calculation and the percentages corresponding to each star-rating level. A detailed explanation of how HF 798 and its companion bill SF 746 may affect your organization is presented on page 6.

Several other gambling-related bills have also been introduced this year. HF96/SF368, HF142/SF195, and HF140/SF196 would all modify the combined net receipts tax calculation under MN Stat. 297E.02. HF184/SF63 would modify the sales tax for prizes and leased gambling equipment under MN Stat. 297E.02. HF778/SF574, HF767/SF410, and HF769 would all allow sports wagering in Minnesota. Although the Board maintains a neutral position on whether these bills and others should become law, the Board is frequently asked to provide legislators with technical input. Our goal is to impartially make available the facts and figures required for legislators to make the best decisions for Minnesota and Minnesota’s charitable gambling industry. Click here to access the [Minnesota Legislature’s website](https://m其中一个网站).

## Gambling Control Board Vacancies
The agency’s Board of Directors currently has two vacancies. The Board meets monthly to provide regulatory oversight of the lawful gambling industry and to provide direction to the Board’s Executive Director. Although these are not paid positions, members are providing an invaluable service to Minnesotans and the Minnesota Charitable Gambling Industry.

If you or someone you know would be interested in serving, please go to the Secretary of State’s website to apply.

[https://commissionsandappointments.sos.state.mn.us/Agency/Details/63](https://commissionsandappointments.sos.state.mn.us/Agency/Details/63)
Continuing Education

Online Continuing Education Courses
Online courses are also available by going to the Board’s website and selecting the “Education” tab.

www.mn.gov/gcb/continuing-education.html

- Lawful Purpose Expenditures
  All gambling fund expenditures must qualify as either an allowable expense (the costs of running your lawful gambling operation) or a lawful purpose (charitable contributions, program expenditures, gambling taxes, and regulatory and licensing fees). This course includes detailed information on lawful purpose expenditures and how to report them on the monthly LG100C, Lawful Purpose Expenditures, form.

- Allowable Expenses—The Costs of Running Your Lawful Gambling Operation
  In this course, you will learn what an allowable expense is, what qualifies/does not qualify as an allowable expense, and how to report your organization’s allowable expenses.

- Conduct of Paper Pull-Tabs
  Designed for paper pull-tab sellers and their supervisors, this course includes information on posting, prize receipts, using scales, restrictions on who may play, and much more.

- Sports Tipboards
  In this course, you will learn how to legally conduct and report sports tipboards.

Traditional Continuing Education Classes
There are no in-person continuing education classes currently scheduled. If COVID-19 restrictions have been lifted, the Board intends to offer traditional in-person classes beginning Fall 2021.

Gambling Manager Seminars
Online Gambling Manager Seminars are being offered by the Gambling Control Board. Interested persons should contact their county’s Licensing Specialist to register.

The seminars consist of a required comprehensive online class, optional review sessions scheduled at specific dates and times, and the online test required for individuals seeking to gain a gambling manager’s license for their organization. Although the test is only required for individuals seeking a gambling manager’s license, the test may be taken by anyone including CEOs, pull-tab sellers, law enforcement, et cetera.
Providing Assistance to an Individual or Family in Need

With organization approval, a donation may be made to relieve the effects of poverty, homelessness, or disability, provided that the entire amount of the contribution is used to relieve one or more of these effects.

<table>
<thead>
<tr>
<th>CHECKS SHOULD BE ISSUED:</th>
<th>TYPE OF EXPENDITURE:</th>
</tr>
</thead>
</table>
| Directly to an individual or family*                    | • If the individual is unable to endorse the check, it may be issued to a family member or guardian.  
  • Code the donation A-2.                                  |
| To a nonprofit corporation that exists exclusively for these relief purposes | • Examples: American Red Cross, Salvation Army                              
  • Code the donation A-1 if the organization has the 501(c)(3) IRS status. |
| To a vendor, for goods or services for the family or individual | • Examples:                                                                     
  – To the mortgage company to pay monthly mortgage     
  – Gift cards to assist the individual/family purchase food, clothing, etc.  
  – To a clinic/hospital to assist with payment of medical bills 
  – Retain copies of the receipts, invoices, or statements to support the expenditure. 
  • Code the donation A-2.                                 |
| To a unit of government                                  | Code the donation A-10 and retain the completed LG555.                           |

* Do not issue a check to a bank or fund set up for an individual or family.

A contribution or expenditure may not be made for the purposes of fundraising/benefits.

Checks from the gambling account may not be issued for the purchase of items for a fundraising or benefit event. For example, purchasing items for a silent auction, door prizes, food and beverages, or the event venue are not allowed.

Contact your compliance specialist if you have questions regarding donations to relieve the effects of poverty, homelessness, or disability.

In fiscal year 2020, licensed organizations spent over $66 million of lawful gambling proceeds on charitable and other lawful purposes excluding taxes and fees.
The Compliance Review Group (CRG), a committee of the Gambling Control Board, meets with licensees to conduct informal inquiries into alleged violations of lawful gambling statutes and rules.

The information presented here is a condensed report of recently completed CRG conferences. The penalties imposed are based on specific and unique information reviewed for each licensee.

Compliance Review Group (CRG)

License 02810, Brownsdale Firemen’s Relief Association
Consent Order Allegations:
The organization failed to:
• deposit all gambling receipts into its gambling bank;
• maintain internal controls sufficient to protect the integrity of lawful gambling; and
• conducted gambling without the sufficient supervision of a gambling manager.
Consent Order Requirements:
• 14-day suspension at Frontier Lounge, Brownsdale, (site 001).
• All paper pull-tabs sales are conducted via a pull-tab dispensing device; and
  lessor provides all start-up banks at permitted premises, Frontier Lounge.

License 03534, Wildlife Habitat Conservation of McLeod County
Consent Order Allegation:
• Illegal gambling occurred at one of the organization’s lawful gambling sites.
Consent Order Requirements:
• Withhold rent for Niesen’s Bar & Grill, Biscay (premises #002) for 60 days.
• $250 fine.

License 35239, German Days Incorporated
Consent Order Allegation:
• Illegal gambling occurred at one of the organization’s lawful gambling sites.
Consent Order Requirements:
• Withhold rent for Niesen’s Bar & Grill, Biscay (premises #002) for 60 days.
• $1,000 fine.

License 05223, St. Cloud Boxing & Wrestling Club
Consent Order Allegation:
• The organization failed to timely file required monthly lawful gambling activity reports with the Gambling Control Board.
Consent Order Requirements:
• $1,000 fine.
• License suspended if organization fails to file GCB reports by the 20th of the following month.
• Focused Compliance Review.

License 00685, American Legion Post 84, Northfield, (11/30/2020)
Consent Order Allegations:
The organization failed to:
• Comply with the Board’s requests, in a timely manner, to provide documents to conduct a compliance review and an account verification review; and
• Correct violations for which a fine was previously imposed.
Consent Order Requirements:
• $500 fine.
• Cooperate and provide all documents requested by GCB staff to issue Account Verification Report.
• Resolve all issues contained in the Account Verification Report.
• No same or similar violations for a period of 1 year.
CRG Report (continued from page 4)

License 04098, Hill Murray Father’s Club, Maplewood, (11/29/20)
Consent Order Allegations:
The organization:
• allowed a lessor to manage its lawful gambling operation and determine the provider of gambling equipment at the premises; and
• failed to maintain internal controls sufficient to protect the integrity of its lawful gambling.
Consent Order Requirements:
• No same/similar violations for a period of 1 year.

License 94330, DGF Baseball Legion Club, Hawley
Consent Order Allegations:
The organization failed to:
• comply with the Board’s request, in a timely manner, to meet with Board staff, and to provide records to conduct and complete an account verification review;
• pay or appeal a $200 citation issued by the Board within thirty (30) days;
• correct violations for which a fine was previously imposed;
• file all required monthly GCB Reports to the Gambling Control Board accounting for its lawful gambling activity for March – July 2020; and
• reconcile its profit carryover with its cash balance on hand.
Consent Order Requirements:
• Immediately suspend all lawful gambling activity until all allegations are corrected to the satisfaction of the Director of the Board.
• File accurate and amended GCB reports with the Gambling Control Board and amended returns with the MN Department of Revenue.
• Provide all documents requested for GCB staff to issue an account verification report.
• Resolve all issues contained in the account verification report.
• Reconcile profit carryover variance and reimburse gambling bank account.

License 05604, Brainerd Snodeos, Brainerd
Consent Order Allegations:
The organization failed to:
• secure its gambling equipment; and
• verify all receipts and disbursements by the organization.
Consent Order Requirements:
• $250 Fine.
• Reimburse lawful gambling account.

Citations Paid
October 1 — December 31, 2020

Waterford Warriors Snowmobile Club, License #04987
• $200—Expenses paid to lessor in excess of rent.

Westbrook Firemen’s Relief Association, License #03444
• $100—Failed to file reports LG100A, LG100C, and LG100F with the Board.
Proposed Star-Rating Changes

In response to questions about the effectiveness of the current star-rating system to recognize those organizations who contribute the most towards their mission requirements, the Board developed a new star-rating calculation that is currently being considered by the legislature.

Current Star Rating Calculation
The current star rating calculation is total lawful purpose expenditures (LPE) divided by total net receipts. Organizations with a percentage of 0 - 20% receive one star, 20 - 30% receive two, 30 - 40% three, 40 - 50% four, and organizations over 50% receive five stars. For fiscal year 2020, 70% of all licensed organizations received either four or five stars. Organizations receiving one or two stars (those spending less than 30% of their total net receipts on lawful purposes) are placed on probation. The Board then provides guidance and assistance to those organizations, as they could potentially lose their lawful gambling license if they are unable to increase their LPE percentage to at least 30% in the following year.

Proposed Changes
The proposed change to the star rating calculation would divide total LPE, excluding taxes and fees, by total allowable expenses (AE). Organizations with a ratio less than 20% would not receive any stars. Those at 20 - 40% would receive one star, 40 - 60% two, 60 - 80% three, 80 - 100% four, and organizations over 100% would receive five stars. Under this proposed change, three-quarters of the licensed organizations would receive either one, two, or three stars. Organizations with gross receipts of $750,000 or more with zero stars would be placed on probation and could lose their lawful gambling license if they are unable to increase their percentage in the following year. Organizations with less than $750,000 gross receipts would not be placed on probation, but would instead receive guidance from the Board to help them increase their star rating.

Number of Organizations on Probation
Based on FY19 numbers (the most recent “non-COVID” year), under both the current and the proposed calculation, roughly 10 to 15 organizations did not have enough cash at year end to retain $10,000 and still make sufficient donations to avoid probation. For FY20, even with the COVID pause, the total was less than 30 organizations under both the current and the proposed calculation.

Goals of the Proposed Change
- Better measure and recognize each organization’s efficiency in using lawful gambling to raise money for its charitable mission.
- Award stars only to those organizations that spend at least $.20 on lawful purposes (excluding taxes and fees) for every $1.00 spent on allowable expenses.
- Protect smaller gambling operations (typically in rural areas) from potential sanctions.
- Retain the process for identifying organizations needing Board assistance to meet industry standard percentages for amounts spent on charitable contributions and gambling operational expenses.
- Ultimately increase the overall percentage of lawful gambling funds spent on organizations’ charitable missions.

387 licensed organizations received a 5-star rating for fiscal year 2020.
398 licensed organizations received a 5-star rating for fiscal year 2019.

The requirement that organizations expend 30% of their net receipts on lawful purposes was waived for FY20 in response to COVID19.
The Vikings Stadium Fund and Lawful Gambling Taxes

Although the Gambling Control Board does not oversee the state’s Stadium Reserve Fund (Minnesota Management and Budget is responsible for state budgeting) or collect lawful gambling taxes (Department of Revenue), the Board is often asked how increases or decreases to lawful gambling receipts affect the total tax amounts collected and the portion of those taxes dedicated to the Stadium Reserve Fund.

All state taxes on lawful gambling receipts are deposited into the state’s general fund. However, for budget purposes, the tax amount exceeding $36.9 million in a fiscal year (July 1 through June 30) is then made available to pay the state’s US Bank Stadium obligations (approximately $41 million annually). Based on current lawful gambling tax rates, annual gross receipts of roughly $2 billion are needed for the state to collect $77.9 million tax. That $77.9 million is the total amount necessary to cover both the general fund requirement (the first $36.9 million of taxes collected) and the annual stadium fund payments (an additional $41 million).

Several interested parties are forecasting that, at the current tax rates, the lawful gambling tax amount will likely exceed $77.9 million in upcoming years. With that in mind, a number of interested parties are paying very close attention to actions that may affect lawful gambling receipts, change the corresponding tax rates, or determine how amounts collected in excess of $77.9 million will be used.

<table>
<thead>
<tr>
<th>Month</th>
<th>FY 2021</th>
<th>Monthly Change FY20 to FY21</th>
<th>FY 2020</th>
<th>Monthly Change FY19 to FY20</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>$260,600,551</td>
<td>27.72%</td>
<td>$204,043,159</td>
<td>15.23%</td>
<td>$177,072,623</td>
</tr>
<tr>
<td>August</td>
<td>$268,115,181</td>
<td>24.32%</td>
<td>$215,664,434</td>
<td>17.41%</td>
<td>$183,679,152</td>
</tr>
<tr>
<td>September</td>
<td>$271,217,829</td>
<td>26.97%</td>
<td>$213,608,821</td>
<td>17.99%</td>
<td>$181,041,568</td>
</tr>
<tr>
<td>October</td>
<td>$283,918,239</td>
<td>26.05%</td>
<td>$225,233,679</td>
<td>17.70%</td>
<td>$191,355,108</td>
</tr>
<tr>
<td>November</td>
<td>$176,867,139</td>
<td>-20.67%</td>
<td>$222,942,157</td>
<td>19.07%</td>
<td>$187,236,536</td>
</tr>
<tr>
<td>December</td>
<td>$4,498,802</td>
<td>-97.99%</td>
<td>$223,901,672</td>
<td>14.56%</td>
<td>$195,444,750</td>
</tr>
<tr>
<td>January</td>
<td>$170,813,717</td>
<td>-24.03%</td>
<td>$224,848,752</td>
<td>20.46%</td>
<td>$186,660,051</td>
</tr>
<tr>
<td>February</td>
<td>$232,285,738</td>
<td>28.44%</td>
<td>$180,854,863</td>
<td>18.54%</td>
<td>$169,236,536</td>
</tr>
<tr>
<td>March</td>
<td>$153,409,877</td>
<td>-32.32%</td>
<td>$226,662,044</td>
<td>-49.25%</td>
<td>$210,652,620</td>
</tr>
<tr>
<td>April</td>
<td>$1,570,269</td>
<td>-99.25%</td>
<td>$210,652,620</td>
<td>-99.01%</td>
<td>$211,358,888</td>
</tr>
<tr>
<td>May</td>
<td>$2,095,263</td>
<td>-99.01%</td>
<td>$168,985,838</td>
<td>-16.08%</td>
<td>$201,376,552</td>
</tr>
<tr>
<td>June</td>
<td>$168,985,838</td>
<td>-16.08%</td>
<td>$201,376,552</td>
<td>-10.49%</td>
<td>$2,333,394,755</td>
</tr>
</tbody>
</table>

1 Receipts affected by COVID pause from mid-November 2020 through mid-January 2021.
2 96% of organizations reporting for January 2021 at time of publication.