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Gambling Control Board

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AT A GLANCE

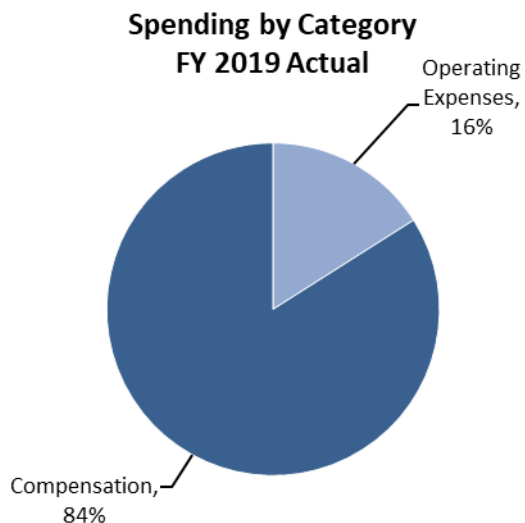
- Minnesota ranks #1 in the U.S. for charitable gambling
- Lawful gambling FY20 gross receipts totaled \$2.08 billion and \$315 million in net profits
- Lawful gambling spent \$147 million on in-state wages, corporate income and rent
- Licensed organizations netted \$66 million to support their missions in FY 20
- Minnesota charitable gambling generated \$78 million in FY20 to the state general fund in taxes
- 5,593 new games tested and approved in FY 2020 (despite being closed for 2 months)
- Regulated 1,144 licensed charitable organizations operating at 2,783 sites
- Issued 2,720 tax-exempt permits generating an additional \$38 million in tax-exempt receipts for FY 20
- Conducted 1137 account verification reviews, in addition to compliance reviews/site inspections that led to \$31,800 in sanctions through citations (105) and Compliance Review Group (CRG) referrals (19).
- For every dollar wagered on charitable gambling in Minnesota (over \$2 billion per year), less than \$.002 goes to fund the Gambling Control Board's regulation of lawful gambling

PURPOSE

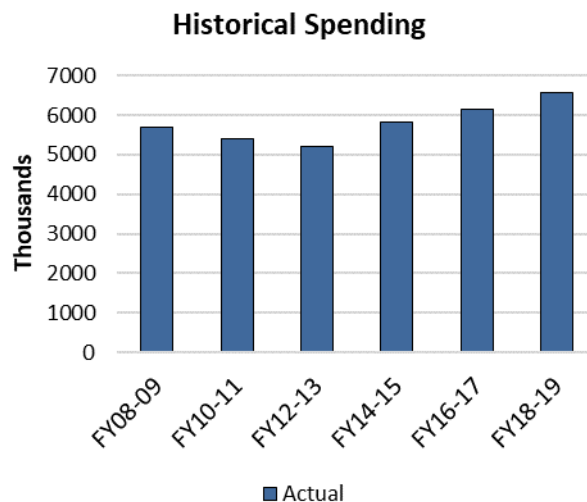
The Gambling Control Board regulates the lawful (charitable) gambling industry to ensure the integrity of operations and provide for the lawful use of net profits. Lawful gambling in Minnesota includes bingo, raffles, pull-tabs, tipboards, and paddlewheels. Required accountability and reporting by registered nonprofit organizations ensures proceeds are used for appropriate charitable needs to provide:

- Support for Minnesota veterans and their families
- Reduced costs for youth activities
- Fire and safety equipment for local communities
- Educational and training opportunities for religious and community programs
- Support for local units of government and community projects
- Support for wildlife and natural resources programs
- Support for fraternal groups (Eagles, Moose, Elks, Knights of Columbus)
- Support for clubs including Lions, Jaycees, rod and gun, sports and snowmobile

BUDGET



Source: Budget Planning & Analysis System (BPAS)



Source: Consolidated Fund Statement

The Gambling Control Board is entirely funded by the industry regulated. All fees collected go into the dedicated lawful gambling regulatory account. License fees are collected from manufacturers, distributors, distributor salespersons, and linked bingo providers. Manufacturers also pay for game approval and testing. Nonprofit organizations conducting gambling pay license and permit fees along with a regulatory fee based on gross sales. In FY 2020 a total of \$4,427,215 was collected by the state.

STRATEGIES

The board consists of seven citizens and 31 full-time equivalent staff. Regulation, education and guidance are provided to the lawful gambling industry through:

- Monthly board meetings to consider games and licenses and to approve special use of gambling funds
- Issuing licenses and permits for nonprofit organizations, distributors, manufacturers and linked bingo providers
- Compliance reviews and audits of nonprofit organizations' gambling activities
- Analyzing expenditures and charitable donations reported monthly by licensed organizations
- An individualized mentoring program for nonprofit organizations to ensure compliance with statute
- Investigations for theft and fraud by inspecting gambling products and sites, investigating irregularities found during compliance reviews and responding to allegations made by players
- Sanctions or fines on licensees that are out of compliance with law and rules
- Monthly gambling manager seminars, continuing education classes, and presentations at state-level conventions
- Publication of Lawful Gambling Manual, quarterly industry newsletter, and other materials
- A comprehensive website including all required forms, records, and reports

RESULTS

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Previous</i>	<i>Current</i>	<i>Dates</i>
Quantity	Lawful Gambling Gross Receipts-Taxed	\$2,333,086,000	\$2,081,685,106	2019/2020
Quantity	Number of sites where gambling is conducted by 1,144 licensed nonprofit organizations	2,836	2,783	2019/2020
Quantity	Number of sites where electronic games are played	1,439	1,472	2019/2020
Quantity	Tax exempt permits issued to nonprofit organizations that conduct fewer than 5 events with less than \$50,000 in prizes during the year (gross receipts)	3,456 (\$47,837,338)	2,720 (\$38,205,627)	2019/2020
Quantity	Gambling products reviewed	6,235	5,593	2019/2020

Minnesota Statutes, Chapter 349 (<https://www.revisor.mn.gov/statutes/?id=349>) provides legal authority for the Gambling Control Board.

(Dollars in Thousands)

	Actual FY18	Actual FY19	Actual FY20	Estimate FY21	Forecast Base FY22 FY23		Governor's Recommendation FY22 FY23	
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Expenditures by Fund

2000 - Restrict Misc Special Revenue	3,266	3,289	3,368	3,576	3,472	3,472	5,728	5,123
Total	3,266	3,289	3,368	3,576	3,472	3,472	5,728	5,123
Biennial Change				389		0		3,907
Biennial % Change				6		(0)		56
Governor's Change from Base								3,907
Governor's % Change from Base								56

Expenditures by Program

Lawful Gambling Control	3,266	3,289	3,368	3,576	3,472	3,472	5,728	5,123
Total	3,266	3,289	3,368	3,576	3,472	3,472	5,728	5,123

Expenditures by Category

Compensation	2,813	2,754	2,885	3,026	2,986	2,986	4,244	4,244
Operating Expenses	452	531	462	538	474	474	1,472	867
Capital Outlay-Real Property			1	6	6	6	6	6
Other Financial Transaction	2	4	20	6	6	6	6	6
Total	3,266	3,289	3,368	3,576	3,472	3,472	5,728	5,123

Full-Time Equivalents

	31.32	30.47	30.62	30.62	30.62	30.62	44.37	44.12
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(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY18	FY19	FY20	FY21	FY22	FY23	FY22	FY23
2000 - Restrict Misc Special Revenue								
Balance Forward In		156		104				
Direct Appropriation	3,422	3,457	3,472	3,472	3,472	3,472	5,728	5,123
Cancellations		324						
Balance Forward Out	156		104					
Expenditures	3,266	3,289	3,368	3,576	3,472	3,472	5,728	5,123
Biennial Change in Expenditures				389		0		3,907
Biennial % Change in Expenditures				6		(0)		56
Governor's Change from Base								3,907
Governor's % Change from Base								56
Full-Time Equivalents	31.32	30.47	30.62	30.62	30.62	30.62	44.37	44.12

(Dollars in Thousands)

	FY21	FY22	FY23	Biennium 2022-23
Direct				
Fund: 2000 - Restrict Misc Special Revenue				
FY2021 Appropriations	3,472	3,472	3,472	6,944
Forecast Base	3,472	3,472	3,472	6,944
Change Items				
Staffing, Rent, Travel and Employee Development		1,391	1,391	2,782
Create and Maintain an Information System		865	260	1,125
Total Governor's Recommendations	3,472	5,728	5,123	10,851
Revenue Change Summary				
Non-Dedicated				
Fund: 1000 - General				
Forecast Revenues	50	50	50	100
Total Governor's Recommendations	50	50	50	100
Fund: 2000 - Restrict Misc Special Revenue				
Forecast Revenues	1,825	1,825	1,825	3,650
Total Governor's Recommendations	1,825	1,825	1,825	3,650

Gambling Control Board

FY 2022-23 Biennial Budget Change Item

Change Item Title: Staffing, Rent, Travel and Employee Development

Fiscal Impact (\$000s)	FY 2022	FY 2023	FY 2024	FY 2025
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Funds				
Expenditures	1,391	1,391	1,391	1,391
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	1,391	1,391	1,391	1,391
FTEs	13	13	13	13

Recommendation:

The Governor recommends \$1.391 million each year from the gambling regulation account in the special revenue fund to enable the Gambling Control Board to continue to provide adequate oversight of the growing industry. It includes additional funding for the following areas: staff (\$1,258,000), rent (\$8,000), travel (\$100,000), and employee development (\$25,000). This budget recommendation for a 40% operating increase is for significantly less than the gambling industry's percentage growth as described below, and it stays within the Board's annual self-funded receipts.

Rationale/Background:

Since the authorization of electronic gambling in FY 2012, the Board has seen growth in both the Minnesota charitable gambling industry and the complexity of regulating this industry. After nine straight years of industry growth, Minnesota's charitable gambling industry exceeded \$2.3 billion in FY 2019, more than doubling FY 2012 levels. Consistent with the industry's steady growth over this last decade, sales are on track to exceed \$2.7 billion in FY 2021. Minnesota's electronic gambling sales started at approximately \$16 million in FY 2013. From that start, electronic gambling reached approximately \$620 million in FY 2019 and is on track to exceed \$1.2 billion based on the first three months of FY 2021. During this same timeframe, paper gambling sales grew at a smaller but steady pace. However, the Board has not seen a corresponding increase in staffing or operational expenses to ensure regulatory compliance with all applicable Minnesota statutes and rules.

In FY 2004, the Minnesota Legislature changed the Board's funding from the general fund to self-funding based on the collection of industry fees. There was a general expectation that the Board would modify its annual expenditures to mirror the industry it regulates. Although the Legislature moved the Board to self-funding in FY 2004, the Board's biennial budget has not kept pace with the industry's growth, and it has been limited to amounts that are specifically appropriated in legislation. When electronic gambling was introduced in FY 2013, the Legislature raised the Board's authorized appropriations in anticipation of those electronic sales. Since the industry fees from electronic sales did not grow as fast as anticipated, the Board spent less than what was appropriated. Now, with sales growth, electronic gambling has proven sustainable. The Board realized a steady decrease in the ratio of Board expenditures to annual industry gross receipts from a ratio of .24% in FY 2012 (\$2.5 million expenditures to \$1 billion gross receipts) to .14% in FY 2019 (\$3.3 million expenditures to \$2.3 billion gross receipts).

This Board budget increase recommendation attempts to realign the Board's budget as the Legislature intended to correspond with the increased need of the industry it regulates. This biennial budget recommendation comes at the appropriate time to fund the Board's ability and need for more frequent site inspections and compliance audits.

Proposal:

The \$1,391,000 recommended for staffing and operational expenses will support an additional 13 FTE positions that increase the total compliance specialist staff from 13 to 19, total licensing specialist staff from 4 to 5, total investigations field auditors from 2 to 6, and administrative staff from 2 to 4, a 40% increase in staff to correspond with the nearly 200% increase in cash receipts and lawful purpose expenditures. This recommendation for 13 FTE additional staff corresponds to the increased size and complexity of the industry.

The funds for rent appropriated in the FY 2020-21 biennial budget do not cover the actual costs for renting the main offices in Roseville and the three regional offices in the other three corners of Minnesota. In August, the Board vacated its Mankato office space. The Board continues to work with the Department of Administration to secure new Mankato rental office space, but the total combined rent will require an additional \$8,000 to cover the collective rent increases, including reestablishing the Mankato office space.

The \$100,000 portion of the budget increase recommendation correlates directly to the Board investigations department field auditors travel expenses to focus exclusively on inspecting permitted premises throughout the state. Each field auditor will spend approximately \$17,000 on travel expenses each year. For the six field auditors, this recommendation includes \$100,000 to cover those additional travel expenses to increase the Board's regulatory presence throughout Minnesota.

Historically, the Board has not offered either loan reimbursements or tuition assistance to its staff. The \$25,000 budget increase recommendation for employee development covers the Board's goal of providing employees with continued education opportunities in line with their respective individual development plans (IDPs). The Board is in the process of getting approval from the Management & Budget Department to offer Board employees both the student loan reimbursements as detailed in those several applicable Minnesota State Government labor union contracts, as well as tuition assistance for educational opportunities in line with their IDPs. Both these employee development costs are not currently in the Board's FY 2020-21 budget, so they are added to the total recommendation amount.

Impact on Children and Families:

Charitable gambling was designed to give non-profit organizations an additional option in which they could raise money for their missions. 27% of licensed organizations are veteran organizations, 16% are focused on youth sports and activities, while many other licensed organizational missions support underserved populations in our communities. In FY 2019, Minnesota charitable gambling generated over \$34 million for the benefit of children and families. \$34 million represents the cumulative total of \$3,242,017 for mission related youth activities, \$7,594,446 for youth hockey, \$16,160,468 donated to other organizations for youth activities, \$4,426,000 for scholarship funds and public/private educational institutions, and \$3,045,000 for the relief of poverty, homelessness and disability.

Equity and Inclusion:

Although a large portion of charitable gambling funds are used to support veterans, children, and people with disabilities, organizations specifically serving people of color or people in the LGBTQ community are underrepresented. A substantial outreach program is needed to correct this discrepancy. Protecting the integrity of charitable gambling has consumed all the agency's resources; however, the Board recently established an Outreach and Education committee made up of appointed Board members to address this underrepresentation. An increase in funding will allow the Board to identify and mentor underrepresented groups so that they too can use charitable gambling to raise funds for their communities. Once there are several successful sustainable gambling operations both led by and serving the underrepresented communities, these organizations will serve as a model for other organizations within those communities to benefit from Minnesota's charitable gambling.

Results:

This proposal is intended to allow the Gambling Control Board to continue to provide current levels of service and information to the public.

Gambling Control Board

FY 2022-23 Biennial Budget Change Item

Change Item Title: Create and Maintain an Information System

Fiscal Impact (\$000s)	FY 2022	FY 2023	FY 2024	FY 2025
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Funds				
Expenditures	865	260	230	60
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	865	260	230	60
FTEs	.75	.50	.25	.25

Recommendations:

The Governor recommends funding from the gambling control regulation account in the special revenue fund to enable the Gambling Control Board (GCB) to create an information system to monitor the flow of data, connect with stakeholders and end users, move away from manual manipulation of data, and separately create an interactive website for the Board.

The GCB currently has an annual base budget \$3,472,000 for the FY 2022-23 biennium. This request would increase that funding by 25% in FY 22, and 7.5% in FY 23.

Rationale/Background:

The GCB is working to improve business processes by updating its information system to provide access to relevant data when needed to perform regulatory functions, as well as by updating its website to create an interactive platform for stakeholders and internal/external end-users to view, obtain or report on GCB data. Both internal and external stakeholders identified that data was generally unavailable in a searchable relational database and that access to viewing, obtaining, and reporting data via the internet would be beneficial in the Board's mission to protect the integrity of lawful gambling. The goal of the project is for internal and external stakeholders to access relevant data in addition to getting away from the manual manipulation of data—ultimately increasing efficiency and accuracy of the services the board provides.

Proposal:

This request is a change to the existing proprietary information system so the agency may incorporate other standalone databases that have become an integral part in the GCB's operations. The recommended funding will be used to create an information system to monitor the data flow of key performance indicators to aide in regulatory oversight and educations of the industry, as well as increasing communication with stakeholders and internal/external end-users. It will also cover the costs to change the current static website to a dynamic website. The GCB currently allocates 3 FTE employees to manually manipulate data for internal use. This request is driven primarily by the growth of the gambling industry and both the amount of data to be managed as well as the risk to the integrity of the industry when the data is manually manipulated and employees are taken away from their regulatory duties to accomplish data management.

Estimated completion of the project from budget approval to intended final product is 12-18 months.

Impact on Children and Families:

Lawful gambling in the State of Minnesota provides significant fundraising resources to children and families. Increasing the ease of access to information would assist these groups.

Equity and Inclusion:

Building a dynamic website with information that is easily accessible to all Minnesotans is a primary goal of the project.

IT Related Proposals:

<i>Category</i>	<i>FY 2022</i>	<i>FY 2023</i>	<i>FY 2024</i>	<i>FY 2025</i>	<i>FY 2026</i>	<i>FY 2027</i>
Payroll	90	60	30	30	30	30
Professional/Technical Contracts	760					
Infrastructure	15	30	30	30	30	30
Hardware						
Software		170	170			
Training						
Enterprise Services						
Staff costs (MNIT or agency)						
Total	865	260	230	60	60	60
MNIT FTEs	.75	.5	.25	.25	.25	.25
Agency FTEs						

Results:

Performance data will be measured by improvements in the ability of employees to access information collected by the GCB in the system, a reduction in the number of external stakeholders needing to make formal data requests for information that would instead be available on the agency website, and the ability for Minnesotan's to connect with the agency and its mission.