

GAMBLING CONTROL BOARD

Agency Overview

*Dollars in Thousands*

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<b><u>Direct Appropriations by Fund</u></b>					
<b>General</b>					
Current Appropriation	202	0	0	0	0
<b>Recommended</b>	<b>202</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Change		0	0	0	0
% Biennial Change from 2004-05					-100%
<b>Special Revenue</b>					
Current Appropriation	2,526	2,526	2,526	2,526	5,052
<b>Recommended</b>	<b>2,526</b>	<b>2,526</b>	<b>2,800</b>	<b>2,800</b>	<b>5,600</b>
Change		0	274	274	548
% Biennial Change from 2004-05					10.8%
<b><u>Expenditures by Fund</u></b>					
<b>Direct Appropriations</b>					
Special Revenue	2,305	2,747	2,800	2,800	5,600
<b>Total</b>	<b>2,305</b>	<b>2,747</b>	<b>2,800</b>	<b>2,800</b>	<b>5,600</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	1,929	2,095	2,289	2,289	4,578
Other Operating Expenses	376	652	511	511	1,022
<b>Total</b>	<b>2,305</b>	<b>2,747</b>	<b>2,800</b>	<b>2,800</b>	<b>5,600</b>
<b><u>Expenditures by Program</u></b>					
Lawful Gambling Control	2,305	2,747	2,800	2,800	5,600
<b>Total</b>	<b>2,305</b>	<b>2,747</b>	<b>2,800</b>	<b>2,800</b>	<b>5,600</b>
<b>Full-Time Equivalent (FTE)</b>	<b>29.0</b>	<b>29.0</b>	<b>32.0</b>	<b>32.0</b>	

GAMBLING CONTROL BOARD

Change Summary

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
<b>Fund: GENERAL</b>				
FY 2005 Appropriations	0	0	0	0
Subtotal - Forecast Base	0	0	0	0
<b>Total Governor's Recommendations</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fund: SPECIAL REVENUE</b>				
FY 2005 Appropriations	2,526	2,526	2,526	5,052
Subtotal - Forecast Base	2,526	2,526	2,526	5,052
<b>Change Items</b>				
Compliance and Technology Funding	0	274	274	548
<b>Total Governor's Recommendations</b>	<b>2,526</b>	<b>2,800</b>	<b>2,800</b>	<b>5,600</b>

# GAMBLING CONTROL BOARD

## Change Item: Compliance and Technology Funding

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$0	\$0	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	\$274	\$274	\$274	\$274
Revenues	0	0	0	0
Net Fiscal Impact	\$274	\$274	\$274	\$274

### Recommendation

The Governor recommends a direct special revenue fund appropriation of \$2.8 million in FY 2006 and \$2.8 million in FY 2007. The recommendation will increase the Gambling Control Board's funding by \$274,000 annually to support increased compliance staffing and technology investments.

### Background

The Gambling Control Board regulates lawful charitable gambling, which is a \$1.4 billion industry in Minnesota generating \$56 million in net state taxes and \$74 million in charitable contributions in FY 2004. Prior to FY 2004 the operating budget for the Gambling Control Board was appropriated from the General Fund. All license fees collected by the board were deposited as non-dedicated receipts into the General Fund. Legislation was enacted in 2003 that significantly revised the industry fee structure to support a dedicated funding source for board operating expenses.

This funding request will support three additional compliance specialists to increase the overall frequency of compliance reviews, site visits and create additional opportunities for training and mentoring of gambling managers and organizations. The funding will also support automation of operations at the Gambling Control Board. The board has been limited in its proficiency due to a significant reliance on manual paper processes. Much of the computer equipment in place at the board is surplus equipment from other agencies and is well beyond its useful life. The board made initial investments in FY 2005 in information systems upgrades, software/programming and hardware acquisitions. This investment will increase communication and automation of operations specifically related to on-line licensing, and data transfer and conversion of gambling tax records maintained by the Department of Revenue. The new software will also allow for on-line reporting and electronic filing of expenditure reports by the non-profit organizations enhancing the sophistication of compliance audits. Board employees are working with the Department of Administration on the acquisition and implementation of this new system. The operational changes and investments in technology are outlined in the Gambling Control Board's Strategic Plan.

### Relationship to Base Budget

The Governor's recommendation reflects an annual increase of \$274,000, which is a 10.8% increase in the agency's FY 2006-07 forecast base budget.

Based on activity in the current biennium, the recommendation to fund an additional \$274,000 annually will continue to provide an adequate level of reserves as more experience is gained with the dedicated fee structure.

### Key Measures

The three additional compliance staff will increase frequency of compliance reviews, site visits and create additional opportunities for training and mentoring of gambling managers and organizations. Currently Board employees are conducting approximately 550 compliance reviews per year or an average of approximately 40 reviews per compliance specialist. There are 1,420 licensed organizations and over 3,000 sites conducting some form of lawful gambling and 14 compliance specialists. The board will conduct an estimated 120 additional compliance reviews annually with the additional staff.

Increased oversight and added opportunities for training and mentoring charitable organizations will result in fewer license terminations of charitable organizations. Since FY 1996, over 500 non-profit organizations have

# GAMBLING CONTROL BOARD

## Change Item: Compliance and Technology Funding

terminated their gambling license. The increase in license terminations is in part a result of limited oversight and review by the Gambling Control Board.

When compared to the top ten states in the nation, Minnesota ranks number one in gross receipts from charitable gambling. When compared to regulatory budgets for the same group, Minnesota ranks 7th (Source: 2002 Annual Report Charity Gaming National Association of Fundraising Ticket Manufacturers – NAFTM). Additional funding may increase that regulatory budget ranking for Minnesota.

### Technology Funding Detail (Dollars in Thousands)

Funding Distribution	2006-2007 Biennium		2008-2009 Biennium		2010-2011 Biennium	
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personnel	\$0	\$0	\$0	\$0	\$0	\$0
Supplies	0	0	0	0	0	0
Hardware	0	0	0	0	0	0
Software	0	0	0	0	0	0
Facilities	0	0	0	0	0	0
Services	94	94	94	94	94	94
Training	0	0	0	0	0	0
Grants	0	0	0	0	0	0
<b>TOTAL</b>	<b>\$94</b>	<b>\$94</b>	<b>\$94</b>	<b>\$94</b>	<b>\$94</b>	<b>\$94</b>

Further details of the technology funding allocation will be provided as they become available.

### Office of Technology Analysis

The Office of Technology recommends this work proceed in collaboration with the Drive to Excellence's strategic transformation work related to Licensing and Regulation. This effort needs to be explicitly considered and aligned to integrate within the enterprise-wide architecture and service approach to managing the licensing of businesses in Minnesota.

### Agency Purpose

The Gambling Control Board regulates lawful gambling in Minnesota, so that citizens are assured of the integrity of the industry and nonprofit organizations may continue to raise funds for charitable contributions.

### Core Functions

The Gambling Control Board has the power to issue, suspend, and revoke licenses. Additionally, the board conducts periodic audits and compliance reviews involving over 3,000 charitable gambling sites in Minnesota. The audits and reviews help ensure the integrity of operations and accountability of an estimated \$1.4 billion in annual gross receipts. Training and education is provided to licensed organizations affecting over 24,000 registered employees.

### Operations

The board is comprised of seven citizens and supported by 30 staff. It provides education, outreach, and guidance to the lawful gambling industry through:

- ◆ compliance reviews and site inspections;
- ◆ continuing education classes;
- ◆ gambling manager seminars;
- ◆ a comprehensive website and newsletter; and
- ◆ mentoring program.

**Compliance** conducts compliance reviews of licensed organizations and educates the industry using training classes, a newsletter, the website, and mentoring.

**Investigations** uncover theft and fraud in the industry by inspecting gambling products, investigating irregularities noted in compliance reviews, and through allegations made by players.

**Licensing** reviews license and permit applications for compliance with statutes.

**Administration** oversees the agency, providing rules coordination, and human resources and administrative support.

**Board Expenses** are payments to Gambling Control Board members for per diem and travel.

### Budget

The agency is funded from special revenue fees and has a biennial operating budget of \$5.1 million. Fees of \$6 million are collected by the board biennially in the form of license/permit and regulatory fees. The fees are paid by manufacturers and distributors of gambling equipment, bingo halls, and nonprofit organizations. Penalties and fines are paid to the state's General Fund.

### At A Glance

- ◆ The Gambling Control Board regulates five forms of lawful gambling: pull-tabs, raffles, bingo, paddlewheels, and tipboards.
- ◆ Lawful gambling is a \$1.4 billion per year industry in Minnesota.
- ◆ Net state taxes on lawful gambling were \$56 million in FY 2003.
- ◆ Charitable contributions exceeded \$67 million in FY 2003.
- ◆ Permits issued for over 3,000 gambling sites.
- ◆ Licenses/permits issues to:
  - ⇒ 1,450 nonprofit organizations
  - ⇒ 4,000 exempt/excluded organizations
  - ⇒ 10 bingo halls
  - ⇒ 18 distributors
  - ⇒ 8 manufacturers.
- ◆ The board annually conducts:
  - ⇒ Compliance reviews of 540 organizations
  - ⇒ Site inspections of 800 gambling sites
  - ⇒ 150 criminal investigations.

### Contact

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GAMBLING CONTROL BOARD

Agency Revenue Summary

*Dollars in Thousands*

	Actual FY2004	Budgeted FY2005	Governor's Recomm. FY2006   FY2007		Biennium 2006-07
<b><u>Non Dedicated Revenue:</u></b>					
<b>Other Revenues:</b>					
General	79	60	60	60	120
<b>Total Non-Dedicated Receipts</b>	<b>79</b>	<b>60</b>	<b>60</b>	<b>60</b>	<b>120</b>
<b><u>Dedicated Receipts:</u></b>					
<b>Departmental Earnings:</b>					
Special Revenue	1,983	1,743	1,743	1,743	3,486
<b>Total Dedicated Receipts</b>	<b>1,983</b>	<b>1,743</b>	<b>1,743</b>	<b>1,743</b>	<b>3,486</b>
<b>Agency Total Revenue</b>	<b>2,062</b>	<b>1,803</b>	<b>1,803</b>	<b>1,803</b>	<b>3,606</b>