HIGH STAKES: GAMBLING IN MINNESOTA

MARCH 1992

MN PLANNING

Minnesota Planning is charged with developing a long-range plan for the state, stimulating public participation in Minnesota's future and coordinating public policy with state agencies, the Legislature and other units of government.

Prepared by the Minnesota Planning Long-Range Planning Team.

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Overview

THE GAMBLING INDUSTRY is expanding rapidly in Minnesota and the Midwest. During the next few years, state and tribal officials face opportunity and uncertainty as they make decisions about the shape and direction of gambling in Minnesota. Their decisions are likely to have significant social and economic consequences.

■ Gambling in 1991 was a **$2.5 billion industry** in Minnesota, nearly as great as that of all of the state's eating and drinking establishments.

■ Gross sales were **$558 per capita**. This was **4th highest** in the nation behind Nevada ($58,670), New Jersey ($3,429), and South Dakota ($650), using 1990 figures. After prize pay outs, actual gambling losses per capita in Minnesota were $117.

■ Tribal gaming grew dynamically to an estimated **$900 million wagered**. It is likely to surpass charitable gambling in 1992 or 1993. Gamblers' net losses after prize payouts were an estimated **$180 million**.

■ The charitable gaming industry in Minnesota (mainly pull-tabs and bingo) remains the largest of any state that keeps records, with an estimated **$1.2 billion** in gross wagering in 1991. It experienced a decline of about $60 million from 1990.

■ The lottery grew to **$288 million in sales** in its second year of operation, but sales flattened as the year progressed.

■ Horse racing at Canterbury Downs declined for the fourth year out of the last five, with **$87 million wagered** in 1991. With the opening of St. Croix Meadows greyhound track in Hudson, Wisconsin, total wagering on racing in the region actually increased last year—but both tracks operated at a loss.

■ Tight government revenues, depressed local economies, and interstate competition for tourist and entertainment dollars are putting pressure on many Midwestern states to authorize new types of gaming: riverboat casinos, electronic gaming in bars and hotels, and sports betting. These **snowball effects** could have significant impact on Minnesota's gambling industry.

■ Only about 1.5 percent of Minnesotans are currently estimated to be addictive gamblers. However, addiction often takes five years to develop. The proliferation of gambling opportunities fuels the addiction rate. Experts believe that **Minnesota's addiction rate could rise to 4 percent or higher**, the rate in other intensive gambling states.

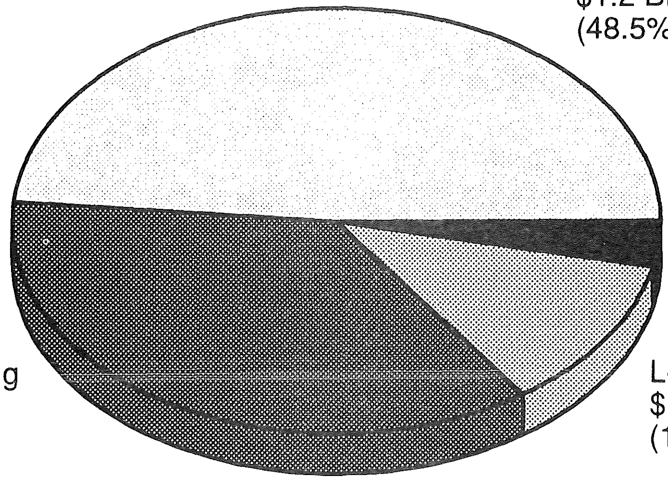
The greatest new *opportunity* presented by gambling is for tourism growth and for economic development in historically depressed tribal communities and their surrounding local economies in rural Minnesota.

The greatest *uncertainties* lie in the social and cultural consequences of expanded gaming opportunities, and in the threat of overall industry boom and bust caused by escalating expansion and competition within the state and among Midwestern states.

This Minnesota Planning report will highlight gambling trends, impacts and issues in Minnesota. In order to better understand where the industry may be going in the future, Minnesota Planning enlisted the knowledge of 18 leaders and experts in the field. Their predictions and comments are presented in the "Policy Issues" section and Appendix A. Panel members are listed in Appendix A.

State, local and tribal leaders need to closely monitor the accumulating impact of growth. Because the lottery and large-scale tribal casinos

Dollars Wagered in Minnesota
1991 Estimate



MN Planning

- **More than $2.47 billion was wagered in Minnesota in 1991, up from an estimated $200 million in 1985.**
- **$558 was wagered per capita in Minnesota, including wagers by out-of-state tourists and excluding wagers by Minnesotans in other states.**
- **Net losses *after* prizes were $117 per capita.**

Source: MN Planning estimate based on information from Gambling Control Board, MN Lottery and tribal officials. Actual data from MN Racing Commission.

are less than two years old, many patterns are still only developing. Much data is not yet available, and more research will be needed.

ECONOMIC EFFECTS

■ Minnesota has become **the largest casino gaming center between Nevada and New Jersey**, with $1 billion or more expected to be wagered in 1992. This position could change, however, as riverboats set afloat in Illinois and Louisiana, and historic mining town casinos open in Colorado. Minnesota's total casino wagering is still **less than one-fiftieth of casino wagering in Nevada**.

■ About **5,750 people** are employed in Minnesota tribal casinos and related facilities, with numbers expected to grow to **11,300** by 1994. An estimated 28 percent of the jobs are held by Indians, 72 percent are held by non-Indians.

■ An estimated **$550 million** in goods and services is generated in Minnesota's economy from tribal gaming and related gambler spending for food, lodging and travel.

■ Tribal gaming is **redistributing wealth to rural Minnesota,** spurring economic activity in many low and moderate income counties.

Tribal gaming is beginning to have a historic impact on the **self-sufficiency and self-esteem of Indian families**. More are becoming participants in mainstream economic life, opening bank accounts and purchasing homes. Tribes are reinvesting profits in education, community needs and economic diversification.

Local economies are benefiting from increased employment, purchasing, wage rates, lodging and hospitality business, construction and property valuation.

■ Tribal casinos are producing economic gain for the state. An estimated **15 percent of casino visitors are non-Minnesotans**. In addition, Minnesotans appear to be reducing travel to Nevada to gamble. Some competing entertainment and hospitality businesses may be hurt as Minnesotans shift their discretionary spending, but little documentation is available yet.

■ Tribal gaming in Minnesota leads the nation because of strong Indian leadership and organization, and a history of positive relationships with the state. Only **three** of 13 Minnesota casinos are run by outside private management companies. The other 10 are run by the tribes, keeping profits and control fully in local hands.

■ Minnesota holds a competitive advantage in the growing Midwest casino industry because:

It has **above average per capita income**.

It is already a very **strong destination state** for tourists.

Its casinos were **first into the market** in the Midwest.

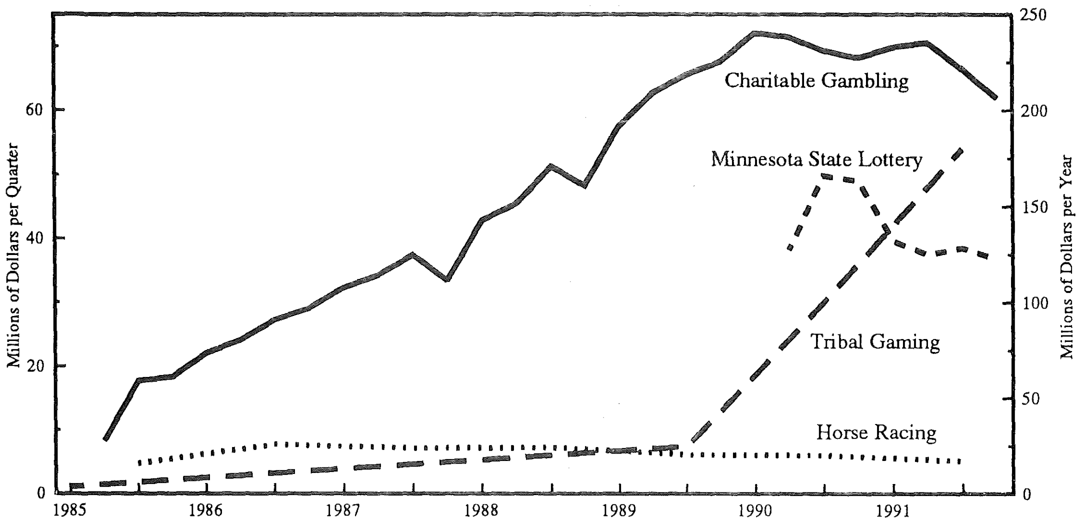
■ Lotteries in many states are experiencing **flattening of revenues**, creating pressure for higher prize payouts or for authorization of new types of games: video lottery, sports betting and home games. According to preliminary figures, **U.S. lottery sales fell about one-half of 1 percent** in calendar year 1991.

■ Horse racing has been on a **long downward trend** nationally, with total betting dropping 11 percent in constant dollars from 1982 to 1990. Pari-mutuel betting on dog racing slipped 6 percent in constant dollars from 1987 to 1990. A narrow market and overbuilding of competing racing facilities have hurt the industry.

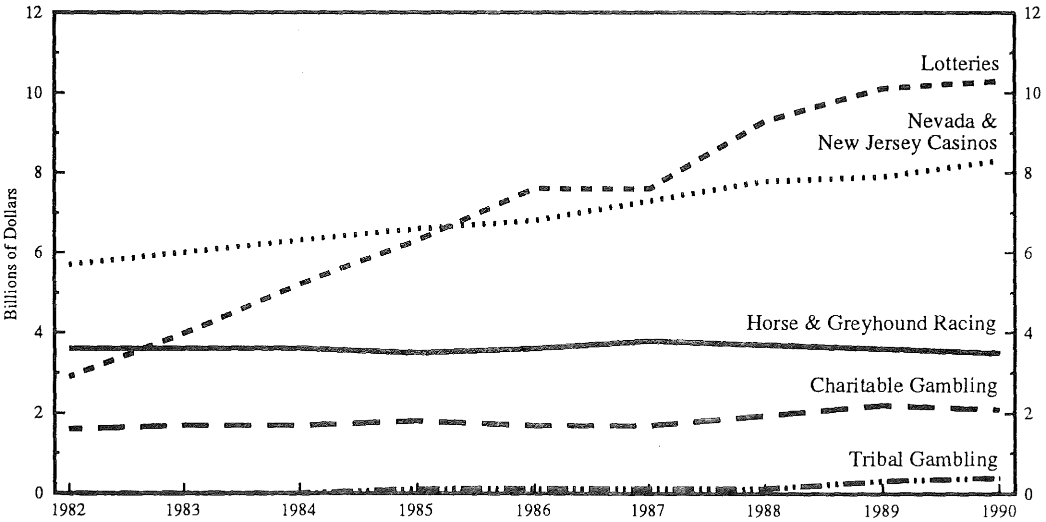
■ Off-track betting, including teletheatres, simulcasting and telephone betting, are the main strategies offered to save the pari-mutuel racing industry. Owners of several bankrupt or declining dog and horse tracks in the Midwest are **seeking salvation through subsidies** from other forms of gambling, or partnerships with Indian tribes to operate on-site casinos.

Gross Revenues/Consumer Losses
After Prize Payouts by Type of Gambling

Minnesota — Current Dollars



United States — Constant 1990 Dollars



- **Minnesota has the largest charitable and tribal gaming industries in the nation. They are the largest forms of gambling in the state, in contrast to their small share of all gambling nationwide.**

Sources: Minnesota Lottery, Racing Commission, Gambling Control Board, Department of Revenue, Gaming and Wagering Business.

Social Consequences

■ Rates of compulsive gambling in Minnesota may have already exceeded the 1.5 percent estimated in 1990. A new study in Connecticut has revealed a **6.3 percent addiction rate**, the highest recorded in any state.

■ Membership in Minneapolis-St. Paul area Gamblers Anonymous has **increased nearly six-fold** in the last 10 years. Calls to the Gamblers Anonymous hotline have tripled in the past year.

■ Experts agree that **fast-action, instant feedback, electronic video gaming is one of the most addictive forms of gambling**. South Dakota now has more than 4,800 video lottery terminals scattered in 1,329 liquor establishments; Wisconsin is now considering them.

■ **Compulsive gambling leads to other problems**, including debt, thefts, embezzlement and disruption of family life and work. The result can be increased social service demands and private health insurance costs.

Future Trends

Continuing **overall growth** of the gambling industry in the U.S. is likely because:

■ Most local markets are not yet saturated with full-range gaming facilities, especially casino-style gambling.

■ The population is aging. Older people have more disposable income and more time, and are seeking new leisure activities.

■ State and local governments are strapped for revenue. Local and tribal governments want job creation.

■ Competitive pressures will continue to push many reluctant states and localities into broader legalization, despite opposition by many governors.

Policy Choices

"What happens in gaming is that the government becomes hooked on gambling just like a compulsive gambler."

—William N. Thompson, University of Nevada

Minnesota citizens, state and local policy-makers, and tribal leaders face important decisions about the future. Community values and quality of life must be weighed against the economic development and revenue opportunities offered by gaming. Based on research, experience in other states, and input from our 18-member expert panel, Minnesota Planning has identified some key policy choices:

EXPANSION OF GAMING. Ongoing expansion of various new types of gaming and of new casino sites is likely to saturate the market, reducing profits for all types of gaming. Introducing electronic video gaming beyond current casino locations into liquor establishments or homes would be very likely to accelerate increases in compulsive gambling. Policy-makers could choose one of three directions:

■ If state and tribal leaders wish to preserve the viability of current forms of gaming, and retard the growth of gambling addiction, they could:

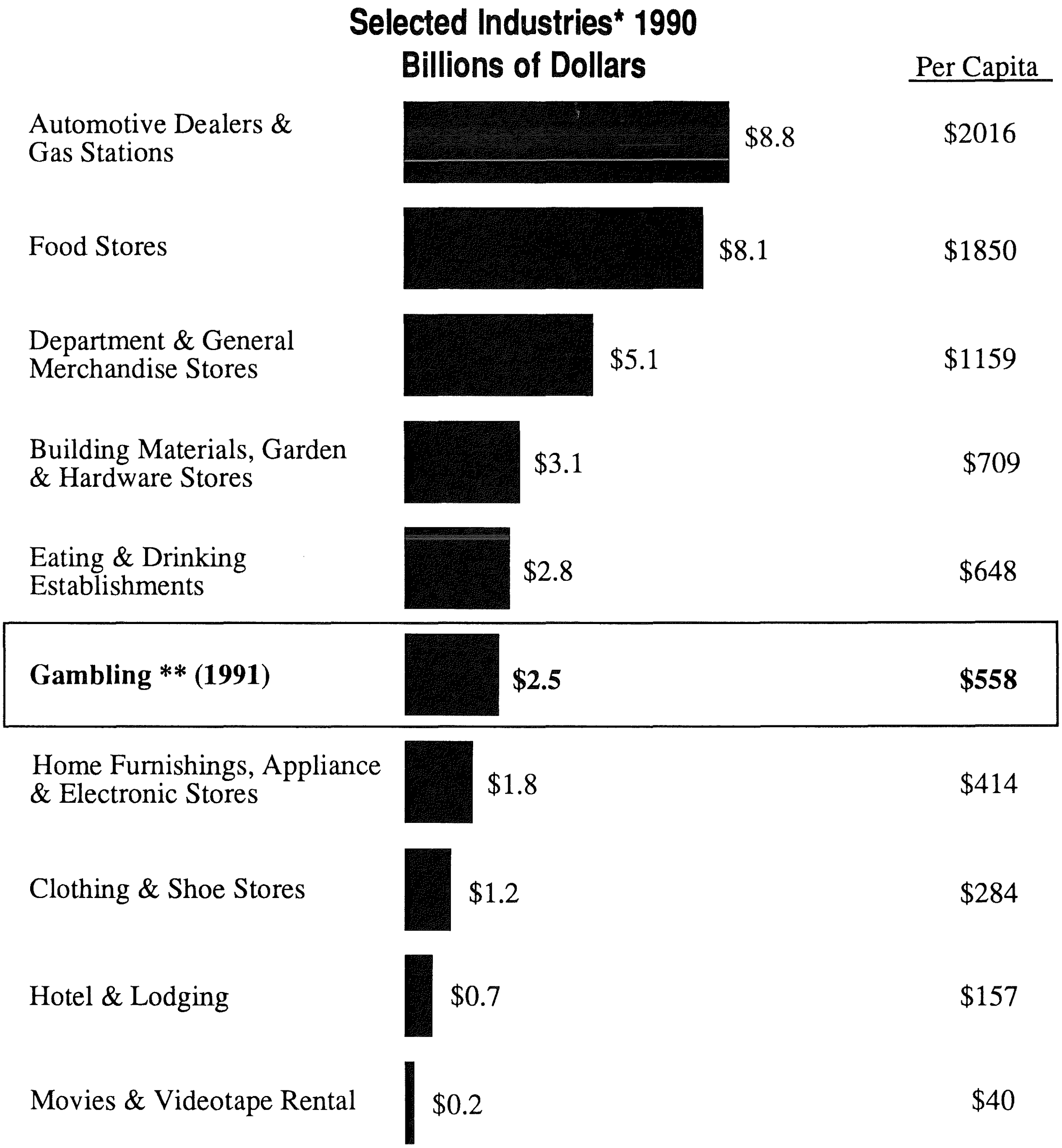
Agree to confine casino-style and electronic gaming to a limited number of high-quality locations, and strictly limit the number of new locations of any kind of gaming.

Forbid casino-style or electronic gaming in high-density urban areas.

Consider a 3- to 5-year moratorium on expansion of gaming.

■ If the state decides instead that it wishes to allow expansion of gaming, yet still try to limit undesirable social impacts and market saturation, it should give first consideration to less addictive forms of gambling (non-electronic, delayed feedback). Several options are:

Where Retail Dollars Are Spent in Minnesota



* Most recent year available. Industries by 2-digit SIC code except gambling.

** Total ticket sales and amount wagered (handle) before prize payout.

Source: MN Department of Revenue, MN Planning estimate of Tribal Gaming.

Off-track pari-mutuel betting could be expanded, if ruled constitutionally valid.

Sports betting through the lottery, with Minnesota teams and events off limits.

Riverboat casinos, only for the purpose of matching boats launched by neighboring states in border areas where there is not already a Minnesota tribal casino, with bet and loss limits to reduce social problems.

Electronic video gaming controlled and monitored through the state lottery network, with franchises limited to a small number of convention and tourist-oriented sites that do not allow minors. Sites could be phased in to monitor impact and allow a halt to expansion. Preference could be given to sites not in proximity to tribal casinos. Charitable organizations meeting high standards could be eligible for franchises.

■ If the state wishes to eliminate all casino-style gaming, it would have to pass laws outlawing all forms of public and private games of chance, and accept the economic consequences of elimination of lottery revenues, charitable revenues, and Indian casino employment.

CONTAINING SOCIAL IMPACTS. Limiting gambling locations is probably the most effective method of limiting addiction. However, if the state and tribes wish to make other efforts to aggressively contain the growth of compulsive gambling, and its spinoff social problems and illegal activities, some options are:

■ Restrict or outlaw advertising, and/or fund counterbalancing prevention campaigns.

■ Restrict use of credit cards and cash machines at or adjacent to casino or charitable gaming facilities.

■ Cooperatively dedicate a share of all types of gaming proceeds to a larger program of monitoring, regulation, prevention, research and treatment. Charge excess treatment costs back to the industry.

■ Consider casino regulations and state laws that curb gambling by problem or compulsive gamblers, similar to dramshop laws that limit bartenders serving alcoholics.

■ Set up training for gaming employees to prevent their own addiction and enable them to identify problem gamblers.

COOPERATIVE INDIAN/NON-INDIAN ECONOMIC DEVELOPMENT. If policy-makers wish to take advantage of Minnesota's current leading position in casino gaming to stimulate further rural economic development, public and private sector leaders could establish more partnerships with tribes to:

■ Promote tourism and tourist packages combining Indian and non-Indian attractions and facilities.

■ Upgrade tourist facilities, public and private.

■ Support infrastructure development such as airports, roads, and water treatment (already underway at Redwood Falls).

■ Provide loans and venture capital for economic diversification. (Tribes are already planning loan funds.)

To continue building positive relations between Indians and non-Indians, and retard any backlash against Indians' federal gaming franchise, leaders could publicly promote the positive economic impacts and partnerships.

AVOIDING RISKS OF REVENUE DEPENDENCE. Gambling is a volatile industry. States that have made key parts of their budgets, such as education (Florida and California), dependent on dedicated gaming revenues, have experienced instability and undermining of public support for general taxation. Currently, less than 1.3 percent of Minnesota's state budget is directly from gaming revenues, compared to 7 percent in New Jersey and 4 percent in Florida, and a national average of about 1.6 percent. If policy-makers wish to avoid dependence on the gaming industry, they should:

■ Establish in policy or law a limit on the percentage of state revenues coming from gambling.

■ Avoid making critical programs dependent on gaming revenues.

COORDINATING REGULATION AND POLICY. Our expert panel largely agreed that Minnesota's diverse gaming industries lack coherent and comprehensive policy objectives, uniform rules and regulations, and adequate enforcement resources. Several called for a central regulatory commission, while others wanted more study. Several pointed out that under treaty rights and federal law the state cannot exercise general authority over tribal gaming. Some urged cooperation with the tribes for mutual benefit; others urged the state to seek more authority. **Panelists were very concerned with problems in charitable gaming and the "hodgepodge" of state and local regulations.** Policy options for the state are:

■ Continue to recognize each type of gaming as a competing, independent venture, and decline to establish a central regulatory body. Increase resources for enforcement.

■ Develop a comprehensive gambling policy, in cooperation with the tribes. Carry out the policy through a centralized department of gaming with strong powers. The department would encompass charitable gaming, lottery, and pari-mutuel. It would seek to establish additional cooperative policies and systems with tribes.

■ The state and tribes could choose to maximize local identity of and profits from gaming by agreeing on means to restrict Nevada and other outside influences from financing or management of gaming in the state.

■ Simplify and tighten rules for charitable gaming, provide more training and technical assistance for operators, and streamline or repeal local authority.

Glossary

Comparing different forms of gambling can be difficult, given the wide variation in terms and accounting methods. This glossary was prepared to help understand and interpret the gambling terms used in this report. At the end of the glossary is a table listing equivalent terms for different types of gambling.

Breakage. Odd cents retained by race tracks after payouts to bettors. Payouts are rounded down to the nearest multiple of ten cents.

Casino. A gambling facility that normally includes some combination of slot machines, video games, card games, and other games.

Casino Win*. A casino's revenues after payment of prizes. Same as consumer losses or gross revenues.

Charitable Gambling or **Lawful Gambling.** Games run by non-profit groups under state regulation, such as pull-tabs, bingo, and raffles.

Class II Games. Bingo, similar games, and certain card games.

Class III Games. Casino-type games, such as blackjack, poker, slot machines, electronic games of chance, roulette, and craps.

Compact. Voluntary agreements between tribes and states regulating tribal casino gaming. Required by 1988 Federal Indian Gaming Regulatory Act.

Compulsive or **Addictive Gambling.** The inability to resist impulses to gamble, resulting in damage to one's personal life, family, or job.

Constant Dollars. Dollars adjusted for inflation, indexed to a particular base year.

Consumer Losses*. The net amount all bettors lose after prize payouts. Same as casino win or gross revenues.

Craps. Most popular dice game in the world. Not permitted in Minnesota.

Drop. The amount of money used to purchase chips at a casino.

Gross Receipts or **Gross Sales.** Same as handle or total amount wagered.

Gross Revenues After Prizes*. Gross receipts minus prizes. Revenues to operation after payment of prizes. Same as consumer losses.

Handle**. Total amount wagered.

High-Stakes Bingo. Bingo conducted by Indian tribes. Prizes can be higher than Minnesota's charitable gaming limits of $100-500 per game and $2500-3000 per occasion.

Keno. A game in which players pick multiple numbers out of a grid, and can choose their own odds and payoffs.

Lotto. A form of lottery. Jackpots are very large, often pooled across states, and increase daily until winning numbers are drawn.

Net Proceeds or **Net Income.** Amount left to gambling operator after all prize payouts, expenses and taxes.

* For further explanation, see page 10.
**For further explanation, see page 10.

Off-Track Betting (OTB). Any form of betting on races from a site away from a track. Includes OTB parlors, teletheaters, and telephone wagering.

Paddle Wheel. A carnival wheel with numbered sections. A raffle wheel.

Pari-mutuel. A system of betting, mainly on races, in which winners split all funds wagered, after track and state shares are deducted.

Problem Gambling. Heavy gambling by persons who are not fully addicted and can stop, but experience problems related to their habit.

Pull-tabs. A charitable or casino game in which the bettor removes a flap to see if ticket is a winner.

REMI Economic Model. A computerized multifactor economic forecasting model leased to Minnesota state agencies by Regional Economic Model, Inc. Calibrated for Minnesota.

Simulcasting. Any televising of races for the purpose of betting, at an OTB parlor or, more commonly, at another race track.

Takeout. The percentage of total pari-mutuel betting retained by a race track, the state, and other parties.

Tipboard. A form of charitable gambling in which tickets are sold off a board and then a seal is broken to reveal the winner.

Video Lottery Terminals (VLTs) or Electronic Video Gaming. Electronic games played on a video screen, typically poker, keno, blackjack, or slots. Called VLTs if wired to a state lottery system.

Visitor Day. One person who spends all or part of a day at any tourist-related facility. A person who spends two days at a casino counts as two visitor days.

***Consumer losses or gross revenues** is a better measure than handle for comparing the size of one form of gambling with another, or with non-gambling industries. But while handle may exaggerate the amount players lose in some cases, consumer losses often understate the amount people "spend on gambling." When prizes or jackpots are huge and the odds are very long, net consumer losses obscure the fact that for most people, the amount they wagered (handle) is the amount they lost. If 100,000 people each spend $10 on chances for a $500,000 jackpot and one person wins, it is true that each person lost only $5 on average, but 99,999 players lost twice that much. Gambling awards prizes and redistributes money in a complex variety of ways, which makes accurate totals or averages of how much people "spend on gambling" very elusive. A true measure of how much people "spend on gambling" would be somewhere between handle and consumer losses.

****Handle** is not necessarily an accurate measure of how much people "spend on gambling." It is equal to all sales of pull-tabs and lottery tickets, all wagers at race tracks, casinos, and bingo parlors, and all coins cycled through slot machines. Casino table games do not even record handle, which produces numbers 20 to 50 times higher than the net amount players lose after prizes. A person at a casino might exchange $50 for chips (the "drop"), wager $400 at table games, and end up with $20 less than they brought with them. Another might spend $20 in a month on chances for a multimillion dollar Lotto and not have a winning combination of numbers. Both players lost $20, but one wagered $20 and one wagered $400. Most forms of gambling are somewhere in between these two extremes.

Sources: The North American Gambling Abstract, Scarne's New Complete Guide to Gambling, American Psychiatric Association, MN Planning.

Equivalent Terms in Each Type of Gaming

General Category	Casinos	Racing	Lottery	Charitable
Amount wagered or Handle	Handle* Drop	Handle	Lottery Sales	Gross Receipts
Gross Revenues/ Consumer Losses (Handle minus prizes)	Casino Revenue, Win, or Gross Revenues	Takeout	**	Net Receipts
Net Income/Loss After Expenses and Taxes	Net Income to Casino	Net Income to Track	Net Proceeds Net Income to State***	Net Proceeds to Charity

* Casinos record handle only for slot machines, and report "drop" (amount of money exchanged for chips) for table games such as blackjack, craps, etc. Handle figures for table games must be estimated. Win is recorded for both.

** No corresponding measure exists, since lottery accounting treats prizes as an expense. We have generated these numbers for purposes of comparison with other forms of gambling.

*** Not the same as net revenues to the state from lotteries, which includes sales tax.

Estimated Gross Annual Economic Impact of Tribal Gaming

■ Actual Casino Employment (Jan 1992):	5,747 people
■ Estimated Annual Visitor Days:	5.9 million
■ Estimated Amount Wagered (1991):	$900 million
■ Estimated Gross Revenues to Casinos: (after prizes, 1991)	$180 million

Using these figures, the Regional Economic Model, Inc. (REMI) estimates the gross direct, indirect and induced annual statewide impact of tribal gaming as follows:

■ Jobs	13,700 jobs
■ Gross Product (Value of Goods & Services)	$550 million

Major categories of jobs generated are eating and drinking establishments, retail, lodging, cleaning, construction, wholesale and professional services.

Impact From Out-of-State Visitors

An estimated 15 percent (900,000) of all visitor days to casinos are by non-Minnesotans. Many come specifically for gambling. Others are tourists already in the state. The REMI model estimates the total impact of these visitors to be:

■ Jobs	2,300
■ Gross Product (Value of Goods & Services)	$90 million

The estimates reflect total economic activity derived from tribal gaming, not all of which is *new* activity. Some represents a shift of Minnesota and tourist consumer expenditures from other activities. Some is new economic activity generated by new tourist spending or increased resident spending. These estimates are approximations based on annualization of limited available monthly data. Available economic models are not easily calibrated for the gaming industry.

Source: REMI model, MN Office of Tourism, MN Planning estimates.

Gambling in Minnesota

THE FACE OF GAMBLING has changed dramatically in Minnesota over the past 50 to 60 years, from complete prohibition to a vast array of legal gaming opportunities available statewide. Illegal slot machines, once widespread in Minneapolis-St. Paul and the resort areas, were eliminated in the 1940s. Now legal video-slots, lottery tickets, pull-tabs and other types of gambling are within reach of every Minnesotan.

Gambling laws were first relaxed in 1945, when religious and other non-profit or charitable groups were permitted to use bingo to raise money. In the late '60s and '70s, taxing, local governmental licensing and reporting requirements were added, and new types of gaming were permitted. Legal gaming was still restricted, however, to charitable groups.

The 1980s brought major changes in Minnesota gaming. Charitable gambling activity increased dramatically when pull-tabs were legalized in 1981. They quickly overtook bingo in popularity and proceeds. In 1985, pull-tabs, which had previously been restricted to private clubs, were permitted in public bars and soared in popularity. The state took control of charitable gambling from local government in that same year to improve tax collection and uniformity of law enforcement.

Two constitutional amendments authorized horse racing in 1982 and a state lottery in 1988. By 1985, a horse-racing track had been built in Shakopee and racing began. And in 1990, the state's lottery began.

Also in the 1980s, tribal governments in Minnesota started high-stakes bingo parlors and, later, casino-style gambling. Now 13 tribal casinos dot Minnesota's landscape.

State regulatory structures also changed with the changing face of gaming. Today, two boards, one commission, two committees, divisions or sections of four agencies, and more than 250 state employees deal directly with gambling. This regulatory structure and responsibilities are described in Appendix B.

Recent increases in gaming activity have not been confined to Minnesota. In 1976, New Jersey became the second state to legalize casinos; Nevada legalized them in 1931. Now South Dakota and Colorado have joined the ranks. Riverboat casinos were legalized in Iowa, Illinois, Louisiana and Mississippi in the late 1980s and early 1990s, and shipboard casinos began operating on cruise ships sailing out of American ports in California, Florida and the Gulf states. Lotteries were started in 32 states since 1970. The number of horse-racing and dog-racing facilities increased, as did the number of lottery games offered. Tribal gaming also expanded nationally, with 152 of the nation's 550 tribes operating high-stakes bingo parlors and 23 tribes operating casinos.

ECONOMIC EFFECTS

Nationally, legal gambling grew at twice the rate of personal income from 1982 to 1990, reaching 6.2 percent of total personal income. Gambling losses ($22.7 billion, 1990) dwarf expenditures for spectator sports ($14.4 billion), theater ($5.5 billion), and movies ($5.2 billion).

While more data is needed, our expert panel believes that most gambling dollars in Minnesota are coming out of discretionary income—dollars otherwise spent for such things as travel, vacations, recreation, entertainment, alcohol, and dining out. Minnesota is a relatively affluent state, ranking 19th in the nation in per capita disposable income—third highest in the 12-state region, behind only Illinois and Michigan (1989).

Percent of Gambling Customers From Outside Minnesota

Lottery		**4 %**
Horse Racing		**2-3 %**
Charitable Gambling		**NA**
Tribal Gaming:		**15 %**
Grand Portage Casino	90 %	
Lake of the Woods Casino	70 %+	
Jackpot Junction	33 %+	
Fortune Bay Casino	32 %	
Treasure Island Casino	20 %	
Fond du Luth Casino	10 %	
Grand Casino Mille Lacs (1992 goal)	10 %	

- Tribal casinos capture significant out-of-state revenues.
- Lottery and charitable gaming draw tourist revenues mainly in areas bordering North Dakota and Canada, and in resort areas.
- Future casino expansions and marketing campaigns at tribal casinos are expected to draw major increases in air and bus tours from Kansas City, Des Moines, Omaha, Chicago and Winnipeg.

Sources: MN State Lottery, Canterbury Downs, tribal officials, casino managers, MN Planning estimates.

WHO GAMBLES IN MINNESOTA? Minnesota lottery players have income levels just a little below the general population. A survey at a major tribal casino found slightly over half of players in the $20,000-50,000 income range, and about one-fourth under $20,000. More young people ages 18-34 play the lottery, more over age 55 go to casinos. Marketing experts report that typical casino gamblers in Minnesota are middle class, often blue-collar older couples who carefully budget small amounts ($20 to $100) for gambling trips. For them, gambling is entertainment. According to travel industry sources, some are reducing trips to Nevada in favor of lower--cost trips to area tribal casinos.

Of course, there are also high stakes and addictive gamblers. Minnesota is believed to have relatively few "hard core" or professional high stakes gamblers. More research is needed on this, on gambling prevalence among low-income people, and on what share of gambling revenues are generated by compulsive gamblers.

REDISTRIBUTION EFFECTS. Currently, the primary effect of Minnesota gambling industries is to ***redistribute*** wealth, rather than to generate new wealth. Bingo and pull-tabs redistribute players' dollars to community activities, subsidize non-profit groups, and funnel 25 percent of net receipts to the state general fund. The lottery is a form of indirect tax that channels 26 percent of sales to the state. Horse racing channels consumer dollars to 1,000 largely seasonal jobs in the southwest metropolitan area, to owners, breeders, farmers and other suppliers.

Tribal gaming is shifting wealth to rural Minnesota, to 11 historically low-income Indian communities and to counties with income levels well below those in the metro area. About 40 percent of Mille Lacs Grand Casino gamblers come from five metro counties. At least 4,300 of 5,750 casino jobs are in rural counties, and 4,700 more casino jobs are projected for those counties by 1994. A majority of the jobs are full time with health benefits, and wages are typically in the $5- to $8-an-hour range.

Tribal Gaming, drawing an estimated 15 percent of customers from outside the state, plays the largest role in bringing *new* income and wealth into Minnesota. It may also bolster Minnesota's commanding position as a "destination" state for tourists, complementing existing strong attractions—lakes, big-league sports, cultural events and shopping.

The **short-term** economic impacts of tribal casinos are detailed in this report: stimulation of local economies, jobs, increased property values, upward pressure on rural wages, reduction of public assistance costs, and support for tribal social programs cut by the federal government during the 1980s.

Most tribal governments are now heavily plowing profits back into their gaming operations to enhance facilities and rapidly pay off debt. Many are planning to allocate profits to economic development. Several, such as the Shakopee Sioux and Red Lake Chippewas, have established economic development corporations. None of the Chippewa bands are making per capita cash dividend payments to members from casino profits.

Smaller communities experience the highest relative economic gain from the infusion of outside dollars. The potential **long-term** impacts of tribal gaming may be very significant for specific areas of rural Minnesota. Among these are: (1) providing a source of development *capital* in rural areas; (2) upgrading of the tourist industry; (3) tribal diversification into other industries; (4) construction of public works, community centers, and schools; (5) improvement of Indian educational levels through scholarship funds; (6) extensive job training and experience in both line and managerial jobs; and (7) development partnerships between Indian and non-Indian interests.

Another area of potential long-term impact is the **breakdown of employment discrimination, racism, and isolation.** Tribes have integrated the work force in many communities where non-Indian employers have not. Indian and non-Indian people are working side-by-side in casi-

Passengers Traveling From Twin Cities To Various Gambling Destinations

	Number of Passengers					
	1989		1990		1991	
Destination	Charter	Sched.	Charter	Sched.	Charter	Sched.
Las Vegas	105,345	152,140	107,416	146,940	110,629	NA
Elko	2,342		1,351		912	
Reno	4,275		3,978		3,441	
Atlantic City	7,675		1,556		0	

Evidence is mounting that more Minnesota gambling dollars are remaining in the state.

- Fewer Minnesotans and other Midwesterners are leaving the region to gamble.
- The number of scheduled passengers leaving the Twin Cities for Las Vegas declined by 3.4 percent between 1989 and 1990 while flights from the top 20 cities to Las Vegas increased by 10.4 percent.

Source: Grand Casino, Leech Lake Tribal Council, Metropolitan Airports Commission, Las Vegas Convention & Visitor Authority.

nos. More tribal members are beginning to move into the middle class, setting up bank accounts and buying homes. Their self-esteem and community status are elevated.

UNCERTAIN IMPACT. While the tribal casino industry is in balance, bringing new dollars into local economies, benefiting many business sectors, there may be adverse effects on some businesses. Casinos in Minnesota, just as in Las Vegas, are beginning to offer "complementarities,"—low-price food, drinks, lodging, and transportation packages that are considered part of normal expenses. Mille Lacs Grand Casino has a popular high-quality restaurant, and offers lodging packages with 14 local motels and resorts. Casinos, like professional sports, the Mall of America, and large resorts are part of a long trend toward larger, glitzier leisure attractions. Traditional attractions often suffer. For example, over the last 20 years the number of small resorts in Minnesota has declined steadily. Fishing is in a gradual decline. Gaming may boost some activities and compete with others.

SOCIAL CONSEQUENCES

Gaming has been part of the social fabric of human life for thousands of years. Throughout this time, various factions have debated whether gambling is morally or culturally destructive, or simply another form of entertainment that should be pursued in moderation. Games have become more sophisticated, with flashing lights and video displays, but the basic reasons for gaming have remained much the same.

Gaming is recreation, a break for people from the everyday problems and pressures of life. As early as the 16th century, gambling was prescribed for melancholy and was noted to be beneficial in times of grief and sickness. Recent studies confirm gambling's benefits.

Elderly players find themselves once again engaged in life. For them, it is the action that counts—the number of jackpots won and the length of time the game is sustained—not the amount of money taken home. For people who feel they have little control over the world, gambling allows them to escape, gain control and leave the world behind. They find a sense of adventure and a chance to dream of big gains at minimal costs. In gambling, the odds of winning are equal, regardless of the job you hold or the amount of money you make.

Gaming also has its dark side. Some people become addicted to gambling in much the same way that people become addicted to alcohol. While gambling problems have existed for centuries, compulsive gambling was not recognized as a psychiatric disorder until 1980.

The American Psychiatric Association defines compulsive gambling as *"a chronic and progressive failure to resist impulses to gamble, and gambling behavior that compromises, disrupts, or damages personal, family or vocational pursuits."*

Compulsive gambling has been related to:

- Psychiatric disorders—including alcohol and substance abuse and depressive disorders.

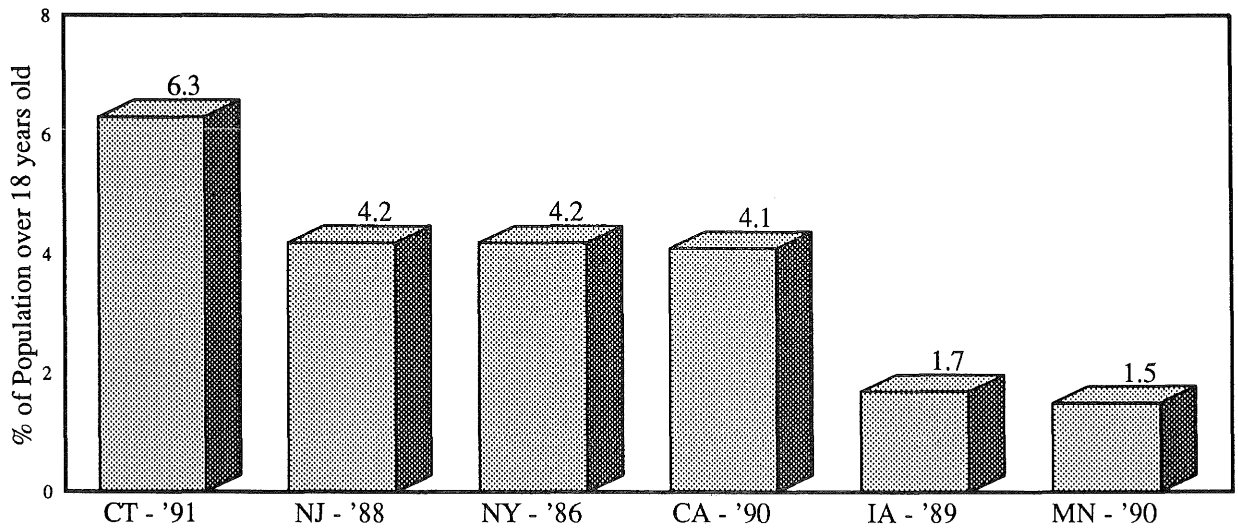
- Family problems—including physical violence, suicide attempts and child abuse.

- Problems for children of gamblers—including depression, psychosocial maladjustment, substance abuse and gambling problems of their own.

The compulsive gambler has lost control and has lost the ability to quit. This loss can happen with the first bet, but more often takes years to develop. Numbers of compulsive gamblers have been consistently higher per capita where gambling is more available, suggesting that as more states expand gambling, more people will become compulsive gamblers. Numbers of problem gamblers will also likely increase. These individuals can stop, but still spend significant amounts on gambling and experience related problems.

The need for gambling money leads to debt, thefts, fraud, embezzlement and other crime.

Compulsive Gamblers Estimates in Six States
Percent of Adult Population*



MN Planning Graphic

- **Minnesota has fewer compulsive gamblers than other states evaluated, but its numbers are expected to increase.**
- **Evidence suggests that increased access to legal gambling leads to a higher incidence of compulsive gambling.**
- **While some people feel hooked with the first bet, the time from the first bet to losing control or "compulsive gambling" can take from one to 20 years. Normally gambling addiction takes about five years to develop.**

* Percent of potential and probable compulsive gamblers in the adult population estimated by using South Oaks Gambling Screen, where an individual's score of ≥ 5 = probable and of 3 or 4 = potential.

Sources: "Estimating Prevalence of Pathological Gambling in the United States," Rachel A. Volberg; "Adult Survey of Minnesota Gambling Behavior: A Benchmark, 1990," J. Clark Laundergan, et.al.

Family life and work are increasingly disrupted as all efforts are directed toward gambling and getting more money for gambling.

The American Insurance Institute estimates that gambling today is the root of at least 40 percent of all white-collar crime.

One study of Gamblers Anonymous members found that 47 percent had engaged in insurance fraud or thefts where insurance companies had to pay victims. The average amount paid was $65,000.

Several surveys of Gamblers Anonymous members revealed that two-thirds admit to illegal activities to support gambling.

One study of prisoners found that 30 percent showed signs of pathological gambling, and that 28 percent of females and 23 percent of males were problem gamblers.

Thirteen percent of both the men and women stated that the reason they were in prison was either totally or partially related to gambling.

Surveys of compulsive gamblers in treatment found that for 8 to 18 percent, gambling lead to bankruptcy, and that gambling debts ranged from $50,000 to $90,000.

Large or concentrated gambling operations have also been associated with increased criminal activity, including organized crime. However, Minnesota's regulatory requirements and disbursed gaming opportunities lessen the likelihood of these problems.

In response to compulsive gambling concerns, Minnesota established the **Compulsive Gambling Treatment Program** in the Department of Human Services in 1989. The treatment program includes public education, training and certification standards for assistance providers, and a toll-free hotline for people seeking help. Funding for the program in the 1992-93 biennium stands at $1.4 million, more than double the initial funding. The monies come from the state's General Fund; however, $200,000 per year of lottery proceeds deposited in the General Fund are earmarked for this program.

FUTURE ISSUES

LEVELS OF ADDICTION. Minnesota's estimates of youth and adult problem and compulsive gamblers were conducted before full lottery operation and increases in Indian gaming. Routine surveys are needed to determine the effects of increased gaming and the appropriate responses.

RISKS TO GAMING ESTABLISHMENT EMPLOYEES. Studies of college students near Atlantic City, N.J. suggest that casino workers may be particularly at risk to gambling addiction. Specific surveys of gaming employees are needed to determine the extent of their risk and whether special efforts should be directed toward this population.

INCREASED GAMING OPPORTUNITIES. Experts agree that increased opportunities for gaming lead to increased numbers of problem and compulsive gamblers. When gambling opportunities are few, gamblers can isolate themselves from temptation, as in the case of casino gaming where a special trip must be made to one of a few sites. As opportunities proliferate, gambling becomes more convenient and harder to avoid. In-home gambling could also increase youth exposure and involvement.

MORE ADDICTIVE GAMES. Electronic games offer fast action and short amounts of time between bet and pay-off, and are considered to be highly addictive. Wide placement of such games in bars or the home could substantially increase the numbers of problem and compulsive gamblers in Minnesota.

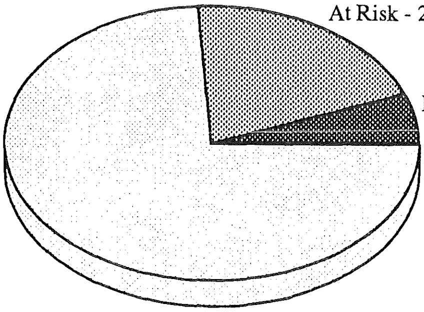
GAMES OF CHANCE IN PRODUCT MARKETING. Even without expansion of actual gambling opportunities, people are becoming more exposed to gambling. Games of chance are now a widely used marketing tool. From the scratch-ticket at the fast-food restaurant to the

Minnesota's Gambling Youth

Profile of the Problem Youth Gambler

86 % male
60 % began gambling during or before 6th grade
83 % engage in illegal activities
72 % regular drug users
75 % at least one parent gambles

Severity of Youth Gambling*



Twenty-six percent of Minnesota teenagers surveyed in 1990 were more than casual or recreational gamblers. They were problem or at-risk gamblers.

- **Numbers may underestimate youth gambling problems since the survey was conducted prior to the start of the lottery and major casino expansions.**

- **Most frequent games were cards, bingo, betting on games of personal skill and sports teams, pull-tabs and scratch tabs. The latter two likely require adult involvement or illegal acquisition.**

Studies in New Jersey, where lottery and casino gambling have been in place since the 1970s, show greater problems.

- **Forty-six percent of surveyed 11th and 12th graders claim to have gambled in casinos, with 3 percent claiming to gamble there weekly.**

- **Thirteen percent have used fake IDs to get into casinos.**

- **Almost 45 percent play numbers or bet on the lottery, with almost 13 percent doing so weekly.**

* Severity based on adolescent version of South Oaks Gambling Screen plus frequency of gambling activity.

Sources: "Adolescent Survey of Gambling Behavior in Minnesota: A Benchmark," Ken C. Winters, et.al. "Report on Pathological Gambling in New Jersey," Henry R. Lesieur.

"you may have already won" announcement in the mail, gambling has become an accepted part of society and has been woven into our everyday lives. The effect of these games on gambling problems and addiction, particularly of children, should be evaluated.

COMMUNITY PROBLEMS. Problems of crime, drug abuse and alcoholism can be associated with the high influx of tourists, the transient work force and the general fast-paced, pleasure-seeking atmosphere surrounding casinos. Minnesota's current approach to gambling does not lead as readily to these problems, due to the isolated and dispersed nature of casinos. However, a coordinated and cooperative approach is needed to ward off future problems.

RESPONSES TO ADDICTION. Some argue that the freedom of the majority to gamble should not be restricted because of the minority of persons with gambling problems. Yet governments have taken active roles to curb and respond to addiction. European countries place restrictions on credit, betting limits and marketing, as have states within the U.S. The effectiveness and appropriateness of such restriction for Minnesota should be explored, as should increased government and industry efforts to assess and address compulsive gambling and its related problems.

FUTURE SCENARIOS

Many places around the country will begin to resemble Nevada localities outside of Las Vegas, with many low-overhead facilities attracting low-stakes "grind gamblers."

—Dr. William Eadington, University of Nevada Reno

Based on the forecasts of our expert panel, and other interviews and research, Minnesota Planning has composed several scenarios describing directions for the gambling industry and the state in the next five to 10 years. Many of the developments described are already being proposed or beginning to happen. Other scenarios are possible. In order to illustrate the issues at stake, the scenarios are purposely drawn in sharp contrast.

SCENARIO #1: A HONEYMOON OF PROSPERITY AND PARTNERSHIP. Under this scenario, tribal leaders, state and local leaders, and gaming and tourism industry leaders band together and limit the expansion of gambling in Minnesota. They recognize both the public's taste for gambling, and the public's wariness of any kind of transformation of Minnesota culture and values that might result from becoming a wide-open gambling mecca. In order to contain compulsive gambling, and to preserve the profitability of current gaming activities, they limit consumer access points and competitive pressures. To maximize local re-investment of revenues and build a public image of an independent and unique industry, tribal leaders resist involvement of Nevada and New Jersey firms.

Stability and quality become the bywords of the industry, not expansion. Video lottery games are barred at the South Dakota border. Riverboat casinos are left to Wisconsin, Illinois, and Iowa. If any riverboats are allowed, they are limited to no more than three or four, at locations that do not directly compete with tribal casinos—such as Winona or Stillwater. Bets are limited on the boats; their appeal is targeted to low-stakes gamblers and tourists.

In order to maintain the current competitive advantage relative to other states, the casino industry and state pursue a strategy of developing high-quality destination facilities that elevate the resort industry and connect with a wide variety of amenities and activities. In fact, many of these amenities are already on the drawing board: marinas, interpretive centers, convention facilities, live entertainment theaters, child care centers, golf courses, arts and crafts shops, and so on. Tribal leaders, resort owners, and economic development interests expand the cooperative activities now happening at Mille Lacs, Leech Lake and Redwood Falls to other areas. Motel-casino packages are widely used, as well as fishing, golf, snowmobile and skiing packages. Using expanded local tax bases and perhaps gaming revenues, several key local airports are expanded to handle charter flights. Tribal casino hotels and RV parks are carefully scaled to handle mainly demand that has outstripped the capacity of neighboring facilities. Out-of-state tourists increase as a share of total customers.

Charitable gambling and the lottery continue as no-growth or slow-growth forms of gaming drawing mainly local customers. A share of revenues is directly dedicated to education and treatment programs. Stricter standards and enforcement as well as training and technical assistance lead to increased professionalization of management in charitable gambling. There is consolidation and a reduction in the number of organizations involved, state rules are simplified and local powers streamlined or eliminated. Lottery revenues and the Environment and Natural Resources Trust Fund are focused to accomplish distinct objectives that capture the public's imagination and loyalty.

More unemployed urban Indians will be trained for emerging jobs and move or commute to reservations. Acute poverty and social problems will continue on larger reservations and in cities, but on a reduced scale. The number of college-educated Indian people will rise significantly, and more will return to their home areas. Many Indian people will move from casino employment into other positions in the hospitality, tourism, and forest industries, as well as other industries. Tribes will buy back ancestral lands and develop commercial and recreational forests. With a number of tribal governments established as magnets for investment capital, new industries will be operating on or near reservations. Some will flourish, others will struggle. Overall, standards of living will continue to rise in and around tribal communities.

In spite of education and prevention efforts, the rate of compulsive and problem gambling will rise from the current 1.5 percent to at least 3 percent to 4 percent between 1995 and 2000.

SCENARIO #2: REGIONAL BOOM AND BUST. In this scenario, gambling fever sweeps the Midwest despite opposition or reluctance by several governors. The pressure of strapped state and local government budgets, the lure of revenues, public romance with gambling, and resentment and reaction against tribal prosperity lead to expanded legalization of gambling. Gambling and hospitality industry lobbyists—representing suppliers, management companies, bar owners, fraternal organizations, racing, and others—gain increasing influence in financing political campaigns and lobbying at state capitols.

Tribes establish and expand casinos in Upper Michigan, Wisconsin, and Iowa, many aided and driven by outside management companies. At the same time local financiers and major Nevada and New Jersey gambling corporations court tribes to establish casinos in the Chicago area and elsewhere in Northern Illinois and in Iowa. While most of these efforts to establish tribal gaming far from reservations are blocked by the Secretary of the Interior, the resultant publicity and raising of expectations creates a bandwagon effect that opens new doors. The same firms increasingly court Minnesota tribes.

Within five years, casinos are established on the lakefront in downtown Chicago. Convention and hotel interests argue that these are necessary to compete with conventions drawn to Las Vegas and the new riverboat gambling established in New Orleans in the early 1990s (currently authorized). Several casinos are also established in suburban Chicago, including O'Hare airport.

Intensive lobbying by tourism interests in Wisconsin prevail, and five or more riverboat casinos are built for the Mississippi, Lake Michigan, and Lake Superior. Video slots are authorized for Wisconsin taverns and hotels. Wisconsin riverboats, like those in Iowa, start out with modest bet limits, appealing to tourists, retirees and locals. Pressure from Illinois' high-stakes riverboats and other casinos in the region eventually leads Wisconsin and Iowa to elevate or eliminate their bet limits.

With dog and horse racing continuing to decline, lawmakers in Wisconsin, Iowa, and Kansas feel obligated to save the industries, and authorize video slot machines or casino gambling at the tracks to save them.

Meanwhile, Colorado's mountain casinos lure an increasing share of affluent Midwestern travelers. After a period of feverish growth, by the mid-1990s profits begin to fall for many gaming operations in the Midwest, and a shakeout begins. Pull-tabs are badly damaged, and some of the less glamorous tribal casinos and riverboats without access to good transportation or population centers go bankrupt. The survivors intensify advertising and pressure government to renegotiate compacts and loosen restrictions on games and bet limits.

SCENARIO #3: PROLIFERATION, BOOM AND BUST IN MINNESOTA. This scenario continues the previous one, though it could develop on its own in Minnesota. Minnesota policy-makers adopt all of the new types of gambling emerging in neighboring states, and problem gambling triples or quadruples within five to 10 years. Profitability in all sectors of the industry declines. With each decline, there is pressure to save the industry by loosening restrictions.

Video slots, keno, and poker are found in hundreds of bars and hotels, perhaps 20,000 machines altogether. The state generates roughly $150 million in additional revenues, making up for drops in revenue from charitable gaming, the lottery and pari-mutuel betting. The video gambling machines are tied to the state lottery network, but due to a decline in pull-tabs and bingo, certain charitable organizations are also franchised to own and operate video machines. Bar business and perhaps pull-tab business are bolstered, but alcohol and food sales slip somewhat. Local law enforcement is increasingly occupied with disputes over underage gamblers, illegal unlicensed video operations and other gambling problems. Locally oriented tribal casinos have a fall-off in business.

Sports betting is legalized, expanding the gambling industry's appeal into the undertapped market of affluent younger males.

As many as 10 riverboat casinos are authorized, floating at such places as South St. Paul, Winona, Duluth, Grand Marais, Mankato, Lake of the Woods, Rainy Lake, Stillwater or Moorhead. St. Paul interests, having gotten video slot machines, lessen their interest in a riverboat. The boats start along the Iowa model, with $5 bet limits and $200 trip loss limits. However, once the novelty effect wares off, and business flattens, riverboat interests lobby for higher limits, and the addition of new games: roulette, craps and dice.

Canterbury Downs props up its business with a riverboat on the muddy Minnesota, or by convincing local tribes to purchase the track or locate a casino on site.

With new games authorized on the riverboats, tribal governments seek a renegotiation of compacts to allow the same games. Under federal statute, the state eventually goes along.

Regulatory responsibilities for the state would be greatly magnified and dispersed, with 300 or more liquor establishments having video gaming machines. Regular local law enforcement would have more energies absorbed. County social services would be receiving more problem families. Health insurance rates would edge up as physicians found ways to authorize treatment for problem gamblers. Minnesota's social service industry would grow, as progressive organizations established gambling treatment centers that served the entire Midwest.

The Legislature would be devoting increasing time and energy to gambling-related issues, with pressure from a growing array of stakeholders. The media also would focus on the industry and increased gambling advertising would bolster their revenues. Schools would be pressured to add gambling-awareness curriculum to counteract the broadening social influences.

At some point, the saturation might lead to a public backlash. This could result in pressure to add restrictions to the federal Indian Gaming Act, especially if the state found itself paralyzed in cutting back on the large gambling interests it had authorized in previous years.

Overall, tensions between Indians and non-Indians would tend to flare. Due to saturation, tribal casinos would have to lay off staff and cut back on economic development. More bars would go bankrupt. Once-booming areas of rural Minnesota would again see an increase in unemployment and public assistance costs for both Indian and non-Indian residents.

Policy Issues

Our panel of 18 experts was asked, "What are the *biggest issues* facing the gaming industry in Minnesota over the next five years?" and "What issues involving *local government or state policy* should be dealt with?" The main themes are clustered below, with varying positions summarized under each issue. The first five all received attention from at least eight panelists:

PROLIFERATION AND SATURATION. Policy-makers need to understand that the market is limited, and the threat of overgrowth. The gambling market will move towards saturation. This will mean: 1) sapping of profitability; 2) a shakeout of weaker players in gambling and/or entertainment and tourism; 3) expansion of chronic gambling; and, 4) pressure on policy-makers to feel obligated to "save" declining forms of gambling. More research is needed on how the public is using discretionary income and on the economic spinoffs of each type of gambling.

SOCIAL CONSEQUENCES. The increase in compulsive gambling will be the overriding issue. Underage gambling and perhaps increased crime will also be issues. The desirability of promotional advertising, especially of the lottery, should be debated. Earmarking of a share of tax revenues for education and treatment should be considered.

RELATIONS BETWEEN INDIAN AND NON-INDIAN GAMING. Tribes are at the forefront of the industry. Many are developing sophisticated expertise, while others may lack it, and may not be returning adequate benefits to their members. However, expansion of tribal gaming, especially in new towns, is seen as creating a reaction and desire for a "level playing field." This may lead to increased state legalization of gambling, including video slots in bars and clubs. One view is that the state should try to get more authority from the federal government to regulate tribal casinos. The other view is that the state should accept the fact that it has limited authority over sovereign tribes and should work closely with tribes so that all can benefit.

PROFESSIONAL, COORDINATED REGULATION AND COMPREHENSIVE STATE POLICY. The state lacks coherent and comprehensive policy objectives, uniform rules and regulations, and adequate enforcement resources. A central regulatory commission should be considered. Tribal gaming should be invited to be part of comprehensive policy and regulation.

PROBLEMS WITH CHARITABLE GAMBLING. Many panelists voiced a variety of forms of uneasiness about the direction of charitable gambling. Strongest was the view that regulations are a "hodgepodge," and that local government authority should be clarified, limited or repealed. Some feel lawful gambling has lost its charitable focus. It has a deteriorating base and may need video games to survive. The tax rate is oppressive. Organizations are becoming too dependent on gaming revenue. There are security problems, "hanky-panky," and conflict of interest with bartenders selling both liquor and pull-tabs.

VIDEO GAMING AND OTHER NEW FORMS. Electronic video games have great potential for revenue and for abuse. If they are introduced, who would have oversight and control? Control of home wagering and sports betting is a further concern.

PUBLIC ATTITUDES. Panelists disagree about public attitudes toward gaming. More research is recommended.

Expert Panel Forecast
Industry Trends

What trend do you foresee in Minnesota for each type of gaming between 1992 and 1996 (given current state laws)?

For each type of gaming, the 18 panelists were asked to forecast one of five trends: high growth, slow growth, no growth, decline or collapse. The survey results tallied below show a definite tendency toward consensus in each case.

INDIAN GAMING:	*High Growth*	*11*
	Slow Growth	7
CHARITABLE GAMING:	Slow Growth	4
	No Growth	*8*
	Decline	6
LOTTERY:	High Growth	1
	Slow Growth	*7*
	No Growth	5
	Decline	3
HORSE RACING:	High Growth	1
	No Growth	4
	Decline	*12*
OFF-TRACK BETTING:	High Growth	2
	Slow Growth	*9*
	No Growth	4
	Decline	1
	Collapse	1
DOG RACING (Wisconsin):	No Growth	8
	Decline	*9*
	Collapse	1

Source: MN Planning Expert Survey, January 1992.

What Part of Their Budget Are People Spending on Gambling?
Expert Panel Responses

- *"Most of the spending is discretionary."*
- *"Discretionary income."*
- *"Gambling does not create new wealth for society; it merely shifts the service dollar from one pocket to another."*
- *"It is estimated that 10 to 50 percent of gaming revenues are produced by problem gamblers."*
- *"Lack of facts on this."*

What Other Activities Are Losing Business to Gaming?
Expert Panel Responses

- *Other forms of entertainment*
- *Other travel and recreation*
- *Out-of-state vacations*
- *Negative effect on fishing and boating*
- *Resort areas not near casinos*
- *Some Twin Cities restaurants*
- *In Iowa, tourism at non-gambling sites*

Source: MN Planning Expert Survey, selected responses, edited.

Expert Panel Forecast

Is the rate of addiction in Minnesota likely to reach the 4 percent or higher range in the next 5-10 years, given no new types of gambling in the state? Of 12 panelists, 6 answered <u>yes,</u> 1 <u>close,</u> 1 <u>maybe,</u> 2 <u>some</u> increase, and 2 <u>no</u>.

"Yes. It may go higher — 5-7 percent."

"Yes. Available evidence suggests that where more forms of gambling are legal, there is a higher incidence of pathological gambling."

"It is expected that the 4 percent compulsive gambling rate will be reached in 5-10 years in Minnesota. There is a need to monitor the incidence of compulsive gambling with periodic surveys of both adults and adolescents."

"The recent history of gambling in Minnesota indicates that the state is not immune to gambling fever, and we may eventually reach the population level of compulsive gamblers that exists in other states."

"If the studies from states with longer histories of gambling are reliable, Minnesota should see an increase in the percentage of problem and compulsive gamblers. How high that percentage number ultimately goes will depend on public policy."

"No — gambling in Minnesota is not really new, just more visible. Pull-tabs (the most addictive game), sports pools, etc. have existed in large numbers for years."

"No, not as high as other states. We draw the line. It's a matter of personal responsibility."

How high could the addiction rate get if Minnesota added riverboat gambling? Home Nintendo or bingo? Off-track betting? Video gambling in bars?

"5-7 percent. We have only begun to suffer."

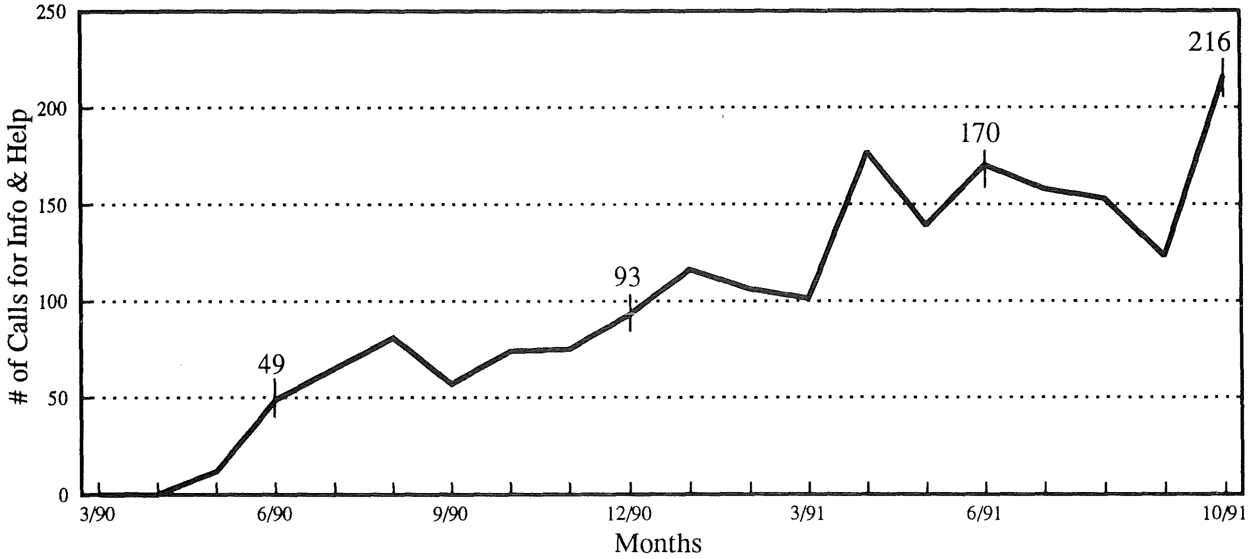
"Video games in bars have the greatest potential for creating problems, particularly if not adequately controlled."

"Increased gambling options mean fewer inhibitions to gambling from factors such as location, convenience and cost. Increasing exposure almost certainly means more compulsive gambling. Five percent of the population may be present upward limit, but increased availability and acceptance of gambling may change that."

"The rate of compulsive gambling is likely to hold at about 5 percent with the full option of games in the same manner as alcoholism holds at about 10 percent."

Source: MN Planning Expert Survey, selected responses, edited, January 1992.

Calls for Help



MN Planning Graphic

Since Minnesota's Compulsive Gambling Hotline was started in 1990, more than 1,700 calls for help have been received. Many additional callers hung up when the phone was answered.

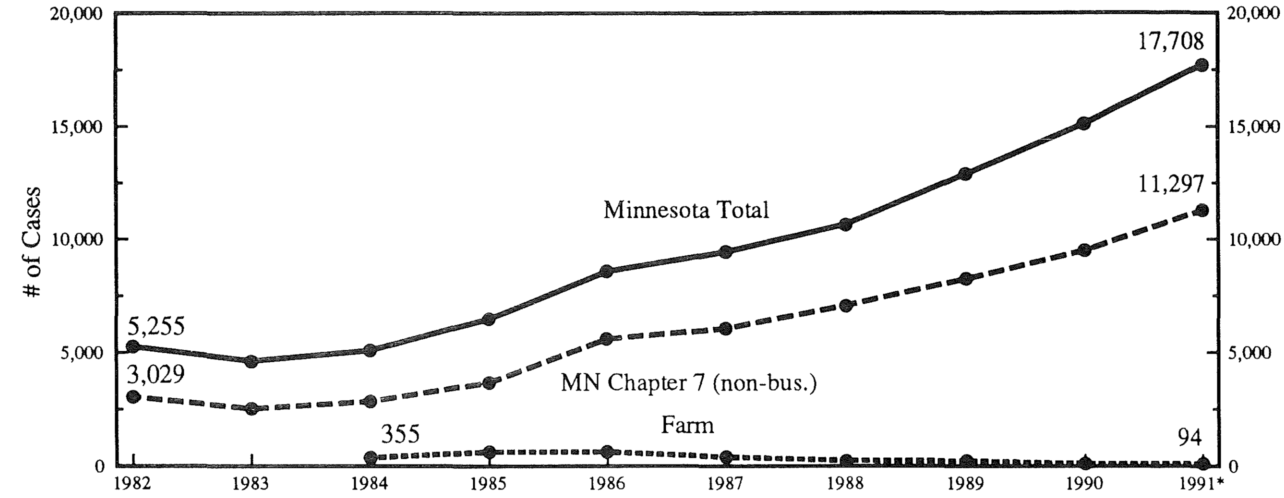
- **Callers are predominantly male.**
- **Pull-tabs were the most frequently mentioned problem in both 1990 and 1991.**
- **Lottery was the second most frequent in 1990, but fell to fourth behind casinos and bingo in 1991.**

Requests for help to Gamblers Anonymous have also increased.

- **Minneapolis-St. Paul area membership has increased nearly six-fold in the last ten years and the number of meetings has increased five-fold.**
- **Calls to Gamblers Anonymous Hotline have tripled in the past year.**
- **Most new members speak of problems with pull-tabs; other problems include sports betting, casinos and racing.**

Sources: MN Council on Compulsive Gambling, Inc. Monthly Hot-line Reports; "Don't Bet the Farm: The Expansion of Legalized Gambling and Growing Bankruptcy Rates in Minnesota: Is There A Link?" Mikal Aasved.

Are Increased Bankruptcies Related to Gambling?



* estimates based on 10 months of data

Annual growth rates of Minnesota bankruptcies have consistently been higher than national rates since 1984.

Business (Chapter 11 and Chapter 7 business) and farm bankruptcies have declined since the mid-80s, while wage-earner (Chapter 13 individual and business) and individual (Chapter 7 non-business) bankruptcies have increased.

Causes of bankruptcies are not recorded, but interviews with Minnesota bankruptcy and credit specialists provide insights.

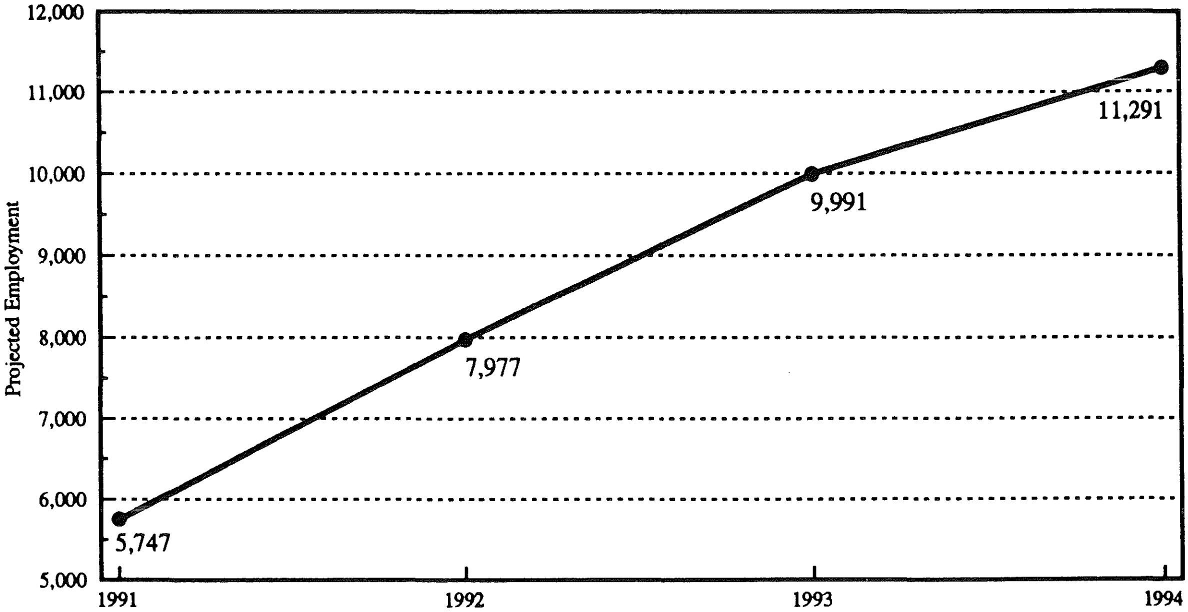
- **Gambling-caused bankruptcies are considered rare, but most felt gambling is becoming a factor in clients' financial problems.**
- **Many felt gambling-related financial problems were increasing, some dramatically.**
- **All felt the major problem was easy credit and easy access to cash.**

Some bankruptcy and credit specialists' clients:

- **Admit that many of their credit card cash advances are used for gambling, with single advances of as much as $500 for lottery tickets.**
- **Admit "chasing," going into debt and continuing to gamble to get their money back, with some ending up $10,000 to $60,000 in debt.**

Source: "Don't Bet the Farm: The Expansion of Legalized Gambling and Growing Bankruptcy Rates in Minnesota. Is There A Link?" Mikal Aasved.

Projected Future Employment at Tribal Casinos in Minnesota
Including Related Facilities



MN Planning Graphic

- **Total employment is expected to nearly double, increasing by 5,544 by the end of 1994.**
- **Of these new jobs, 4,744 are expected to be in rural counties.**

Source: MN Planning Projections based on information from tribal officials, casino managers and Grand Casino.

Types of Gambling: Future Developments and Issues

THE FOUR MAJOR FORMS of legal gambling in Minnesota are tribal gaming, charitable gambling, pari-mutuel horse racing and the lottery. Of the four, the most money is wagered on charitable gambling. In 1991, charitable gambling gross receipts were $1.225 billion. Charitable gambling is operated by non-profit organizations and includes such games as pull-tabs and bingo. Tribal casinos are a rapidly growing form of gambling, making Minnesota the largest center of Indian gaming in the nation. Other recent additions to gambling in the state are pari-mutuel horse racing, which began in 1985, and the lottery in 1990. This chapter describes legal gambling in Minnesota and highlights developments and issues facing policy-makers.

TRIBAL CASINOS

Gaming has always been a part of tribal culture, from social settings to tribal ceremonies and celebrations. Casino gaming as we know it today, however, has evolved only since the early 1980s. Federal court rulings on tribal government rights in the late 1970s and 1980s made it clear that for types of gaming permitted within a state, tribal governments have exclusive regulatory authority on reservations.

This finding is consistent with federal law and rulings reaffirming treaty rights and tribal self-government over the last half century. In the late 19th century and early 20th century, however, federal policy was to assimilate Indians into the broader culture and eliminate tribal government. To that end, tribal lands retained under treaties were allotted to individual Indians. Much of the "excess" land was sold, and much of the allotted land was also later transferred to non-Indian hands. By the time the allotment process was halted in 1934 with passage of the federal Indian Reorganization Act, some reservations in Minnesota contained less than 10 percent of their original treaty land.

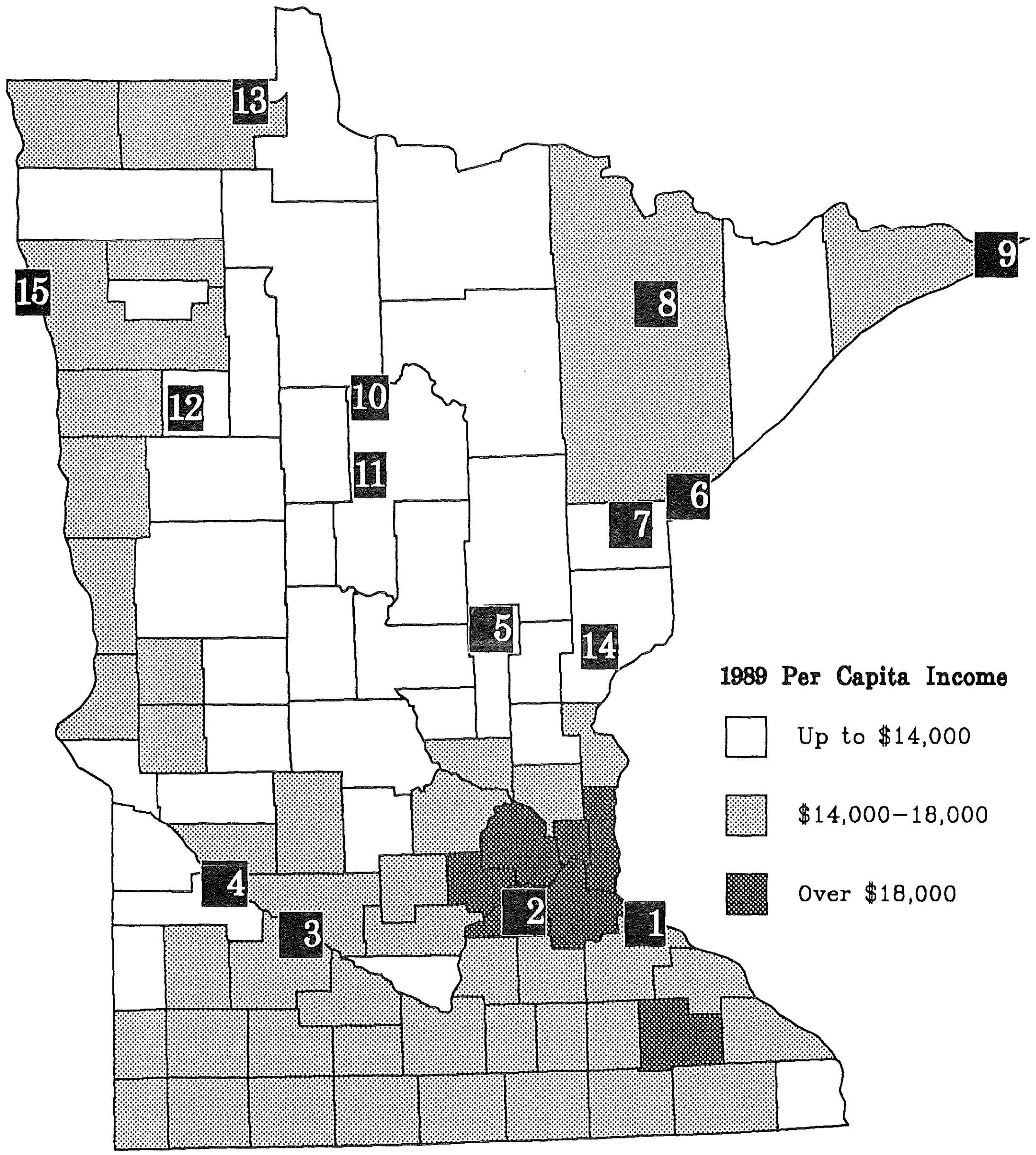
The Indian Reorganization Act signalled a shift in the federal relationship with tribes. It was intended to encourage economic development, self-determination and a revival of tribal culture. With the Act, tribal sovereignty was reaffirmed, and has been through numerous laws and court rulings since. Tribes have the legal right to govern themselves and to raise and receive money in much the same way as states. However, diminished land holdings and years of poverty and cultural repression made self-sufficiency and prosperity hard to attain.

Gaming rose as a revenue-generating enterprise in Minnesota in the early 1980s with high-stakes bingo parlors on several reservations. By the mid-1980s, video games of chance began to appear. Nationally, competing concerns mounted among Nevada and New Jersey gaming interests, states and tribes. In 1988, after years of debate, a compromise was reached and Congress passed the federal **Indian Gaming Regulatory Act.**

The Act generally affirms Indian sovereignty over gaming, but also imposes restrictions and requirements on Indian tribes that are not imposed on state gaming operations. It ensures that tribal governments are the sole owners and primary beneficiaries of gaming and is intended to prevent infiltration of organized crime.

The Act also restricts sovereignty with respect to casino-type gaming. Tribes may not conduct casino-type gaming without a valid tribal-state compact. Tribes and states are required to sit as equals and negotiate compacts.

Tribal Casinos in Minnesota
January 1992



- **Casinos are creating jobs and development in many rural counties with low or moderate income, relatively high seasonal unemployment and above average welfare usage.**

The numbers on the map refer to the location of tribal casinos listed and numbered on page 33. Number 14 refers to Grand Casino in Hinckley (under construction) and number 15 is East Grand Forks (proposed.)

Employment at Tribal Casinos in Minnesota

January 1992

Casinos	*Indian Population on or near Reservation*	*Total Employ-ment*	*Estimated Percent Indian*
1. TREASURE ISLAND - Red Wing			
Prairie Island Sioux Community	191	986	1%
2. LITTLE SIX - Prior Lake			
Shakopee Mdewakanton Sioux Community	218	1,200	5
3. JACKPOT JUNCTION - Morton			
Lower Sioux Community	237	990	7
4. FIREFLY CREEK - Granite Falls			
Upper Sioux Community	148	120*	50*
5. GRAND CASINO MILLE LACS - Garrison			
Mille Lacs Band of Chippewa	1,151	900	40
6. FOND DU LUTH - Duluth			
Fond du Lac Band of Chippewa	2,922	267	20
7. BIG BUCKS - Cloquet			
Fond du Lac Band of Chippewa		245	70
8. FORTUNE BAY - Lake Vermillion			
Bois Forte Band of Chippewa	1,926	141	33
9. GRAND PORTAGE CASINO & LODGE			
Grand Portage Band of Chippewa	330	140	75
10. LEECH LAKE PALACE - Cass Lake *(and)*			
11. NORTHERN LIGHTS - Walker			
Leech Lake Band of Chippewa	5,771	540	74
12. SHOOTING STAR - Mahnomen			
White Earth Band of Chippewa	4,395	150	90
13. LAKE OF THE WOODS CASINO - Warroad			
Red Lake Band of Chippewa	5,087	68	80
TOTAL	22,376	5,747	28%

Estimated Total Indian Employment (28%) —	1,615
Estimated Total Non-Indian Employment (72%) —	4,132
Indian Population 16-64 on or near all reservations (1991) —	13,396
State-wide Indian population age 18+ (1990) —	29,418

Compiled by MN Planning

*Unofficial estimate.

Source: Tribal officials, casino managers, East Grand Forks Exponent, Bureau of Indian Affairs, U.S. Census.

Minnesota has now become a major center of tribal gaming. Tribal-state compacts covering video games and blackjack have been negotiated with all 11 tribes in the state. Compacts create a cooperative regulating system between the state and tribes and ensure the integrity of employees and games (see appendix for compacts and regulatory/management structure).

Initially set up in existing buildings, casinos are now growing, with large new facilities appearing in prime tourist locations. They are prospering, providing tribes with employment and revenues for a variety of social programs and investments. Minnesota's 13 Indian casinos employ more than 5,700 workers, 72 percent of whom are non-Indian. Casino business is benefiting tribes, their surrounding communities and the state, with employment, casino-related economic activity, investments and tax revenues (see appendix for taxing information). However, for the tribes of northern Minnesota with large populations, gaming revenues fall far short of meeting needs. Still, gaming may provide the new revenues to propel tribes toward self-reliance and prosperity.

The games allowed on Indian lands through Federal Indian Gaming Regulatory Act:

- Social Games (Class I)—governed by tribe

- Bingo (Class II)—governed by tribe and federal government

- Casino-type (Class III)—governed by compacts between tribe and state

Tribes may offer any bingo or casino-type games that the state allows, even if the game is only allowed for social or charitable purposes.

Where can Indian casinos be built? Some people are concerned that Indian casinos could spring up anywhere in Minnesota. However, the Indian Gaming Regulatory Act dictates that Indian casinos may be built only on:

- **Reservation Lands.** Indian lands within boundaries of existing reservations which are governed by tribes.

- **Newly Acquired Lands Bordering Reservations.** Indian lands contiguous to existing reservations which the federal government acquires title to for the benefit of the Indians and are governed by the tribe.

- **Other Newly Acquired Lands Approved by Governor.** Indian lands away from existing reservations which the federal government acquires title to for the benefit of the Indians and are governed by the tribe. Gaming can take place on these lands only if:

U.S. Secretary of Interior finds, after consulting with tribal, local and state officials, that gaming is in best interest of tribe and not detrimental to surrounding communities.

Governor concurrs with Secretary's finding.

COMPETITIVE ADVANTAGE. Tribal casinos in Minnesota currently hold a competitive advantage over other casinos in the Midwest. Early development of tribal-state gambling compacts enabled Minnesota's casinos to quickly expand, making the state the largest center of casino gaming outside Nevada and New Jersey. At the same time, Minnesota is a leading destination state for tourists, drawing people from throughout the Midwest and Canadian border areas to its lakes, forests, shopping, and cultural and sporting events. If Minnesota's casinos remain comparable with those of other tourist states, this double competitive advantage could be maintained.

OPPORTUNITIES FOR JOINT EFFORTS. Minnesota has the opportunity to compound the economic benefits of casinos. Tribes are developing partnerships with resort associations, motel operators, suppliers, counties and cities that will help the economic success of gaming and of related small businesses. In addition, by marketing and developing complementary services and attractions, such as golf courses, convention facilities and craft/shopping villages, more tourist dollars can be captured. Cooperation could reduce negative effects on some competing small businesses.

TRIBAL CONTROL AND SELF-SUFFICIENCY. Ten of Minnesota's 13 tribal casinos are managed by tribes or tribal corporations. Tribal management returns a higher percentage of profits to local communities than management by outside profit making firms, and particularly out-of-state firms. Gaming revenues are having positive effects on economic self-sufficiency, self-esteem, and economic development, especially for the smaller tribal communities.

GAMING REGULATION. Tribal casinos are regulated through federal law and tribal-state compacts. This joint regulatory system between the state and the tribes gives some authorities to the state and places some restrictions on tribal gaming. Continued state cooperation on regulation, coupled with federal regulations and the tribes' own security networks can minimize illegal activity and ensure the integrity of casino games.

FUTURE EXPANSIONS. Casino expansions may be necessary in order to maintain market dominance against regional competitors and to provide sufficient revenues to benefit larger tribal communities. Excessive expansion, however, could saturate the market, driving down traffic and profits. It could also lead to pressures for statewide relaxation of gaming restrictions and increased opposition to gambling in general and Indian gaming in particular. Cooperative efforts are needed among tribal, local and state governments to preserve industry health for the benefit of all parties. Off-reservation expansions of tribal gaming desired by Minnesota communities and tribes should be judged case by case.

VULNERABILITY AND DIVERSIFICATION. Competition and changes in federal Indian gaming regulations could adversely effect tribal casinos. Moreover, gaming may not endure and is not necessarily a desirable long-term economic base. It cannot be expected to eliminate the historically high unemployment, undereducation and poverty of large northern reservations in the short term. However, given wise investments in education and economic diversification, gaming money can become an engine for steady improvement in living standards of tribal members and surrounding communities. Tribal governments are limiting new investments to those that can be paid off in a short period of time. Such cautious investment strategies are necessary for long-term economic health.

JACKPOT JUNCTION: PROFILE OF A TRIBAL CASINO

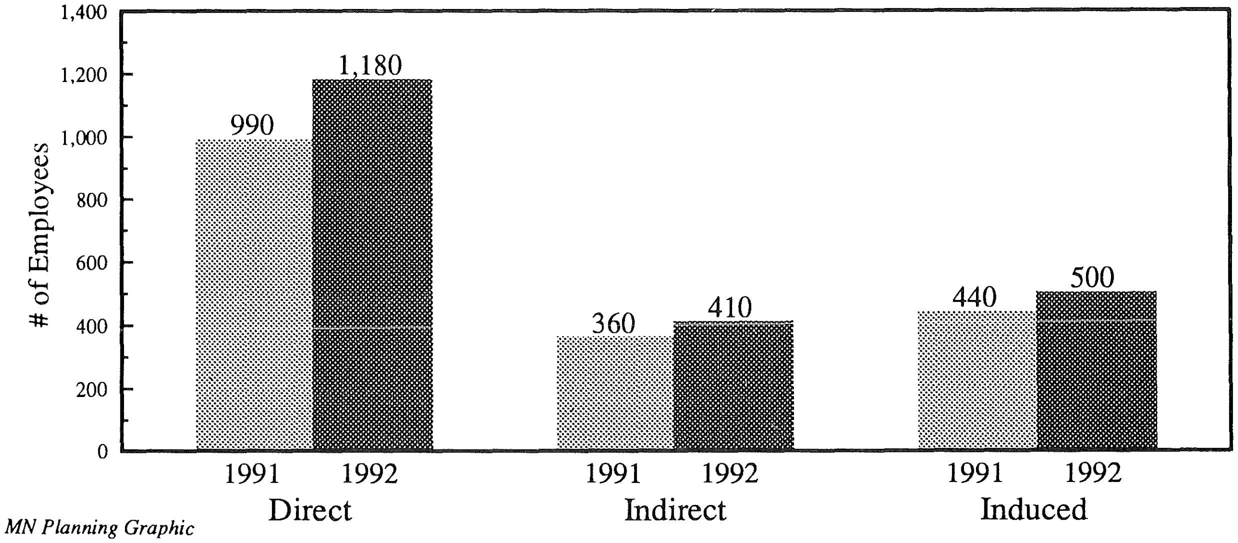
Jackpot Junction casino is located in the 1,743-acre Lower Sioux Community in Redwood County, on the bluffs of the Minnesota River two miles south of Morton and six miles east of Redwood Falls. The casino opened in 1984 as a 12,000-square-foot high-stakes bingo parlor, with initial investments and management provided by a group of Minnesota businesses.

In 1991, the Jackpot Junction was expanded into a **full scale, 24-hour casino** and entertainment complex, with 80,000 square feet. It now includes a 500-seat bingo parlor, more than 1,100 slot machines, more than 40 blackjack tables, a 65-seat keno lounge, a full service restaurant and buffet, several liquor and snack bars, entertainment and a 96-unit RV park. A convention center/hotel complex with skywalk connection to the casino is slated for construction in 1992. The Lower Sioux Community now has exclusive ownership and management of the facility.

Jackpot is similar in size to Minnesota's three other large casinos: the Prairie Island Sioux's Treasure Island, the Shakopee Sioux's Little Six and Mille Lacs Chippewa's Grand Casino. Also, like Prairie Island and Shakopee, the Lower Sioux Indian Community is small. With about 250 tribal members including children and adults, a **majority of the nearly 1,000 casino employees must come from outside the community**.

Approximately 50 tribal members are employed at the casino, holding 25 of 40 supervisory and

Jackpot's Economic Effects



MN Planning Graphic

Employment: The REMI economic model projects total employment generated by Jackpot to be 1,790 in 1991 and 2,090 in 1992, including:

- **Direct employment — casino employees**
- **Indirect employment — vendors and suppliers of Jackpot, including trucking, printing and wholesaling**
- **Induced employment — services to Jackpot's employees and suppliers, including education, retail and construction**

Economic Activity: The REMI model projects total value of goods and services generated by Jackpot to be $81 million in 1991 and $92 million in 1992. More than half is indirect and induced activity above and beyond the casino itself.

Effects identified by Redwood Area Development Corporation:

- **Motels and restaurants constructed and planned**
- **New homes constructed and sold**
- **School enrollments increased**
- **Wages up $1/hour across the board in area**
- **Banking activity increased in surrounding communities, including by Native Americans**
- **Many businesses with record years and increased employment**

Sources: Tribal officials; REMI model, MN Office of Tourism; Redwood Area Development Corp.

management positions. Another 20 Native Americans from outside the community are also employed. Other employees are drawn from a broad geographic area, due to labor force and housing shortages in the immediate area. **Commutes of 70 miles are not unusual**, with some employees commuting from Iowa and the Twin Cities. Many take advantage of the casino-run shuttle buses for commuting.

The jobs have helped to **decrease unemployment** and have **stimulated economic activity**. Competitive pay-scales and benefits provided at Jackpot have served to drive up local wages. Local business leaders see the casino as positive for the surrounding communities and urge the state to take no actions which would jeopardize Jackpot or Indian gaming.

While each of Minnesota's Indian casinos is unique, in general, issues and effects associated with Jackpot Junction apply to the other casinos to a greater or lesser extent. The extent to which they apply depends on such factors as casino size, tribe size and involvement of outside managers; that is, the amount of employment and revenues, and the number of persons with whom benefits are shared.

Several effects and issues deserve close consideration by tribal, local and state government, and the private sector. The extent to which all parties can work cooperatively will strongly influence the degree of positive effects the casino will have on the region.

TRANSPORTATION. Due to Jackpot's aggressive promotion of long-distance bus trips and air packages, a high percentage of patrons come from outside of Minnesota. However, repeat business may be discouraged by patrons' long bus rides, including the two-hour bus trip from Minneapolis/St. Paul airport. If Jackpot is to maintain and increase the number of out-of-state patrons, improved airport facilities are needed. Local action is needed to develop an updated Airport Master Plan and Capital Improvement Program for Redwood Falls that reflect current and projected needs, and to begin discussions with state and federal officials on implementation. State government cooperation is needed to incorporate identified needs into state and federal systems plans.

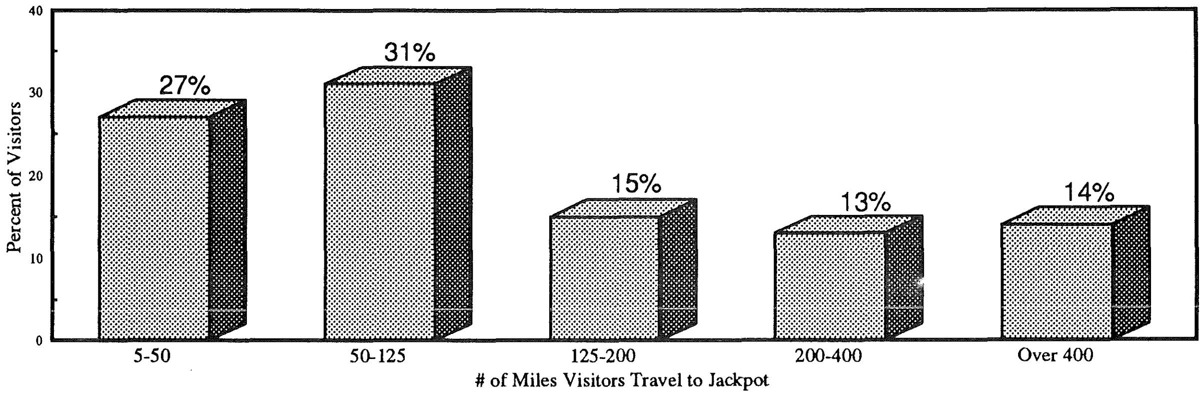
RELATED SERVICES. Visitor surveys document a demand for local tourist activities, indoor and outdoor recreation, and services. Jackpot's planned convention center will address only some of these demands. Additional tourist dollars can be captured for the area by responding to these demands. Such activities and services will also enhance the patrons' stay and increase the likelihood of return visits. Tribal, local and state leaders may wish to cooperatively pursue additional tourist development.

INFRASTRUCTURE AND SERVICES. Developments of this size and speed put pressures on local water, sewer, waste disposal and highway facilities. They also tax the ability of local medical, fire and police departments and schools to meet needs. Cooperation and coordination among communities in the area through master plans is vitally important in addressing needs. Redwood Falls and the Lower Sioux Community are exploring a joint powers agreement under state law to collectively address needs.

HOUSING. Local housing stock falls far short of meeting needs, causing many employees to commute long distances. The private sector has not responded to rental needs and many developers left the area as subdivisions went into default following the farm crisis of the mid-1980s.

COMPETITION FROM OTHER STATES. Jackpot's out-of-state patronage could be particularly hurt by increases in gambling opportunities in other states. The extent to which cooperative efforts can enhance related services and lessen transportation disadvantages will dictate how well Jackpot stands up to the competition. Expansion of gambling opportunities within Minnesota could also affect Jackpot's patronage. Diversification and long-range development strategies should be explored.

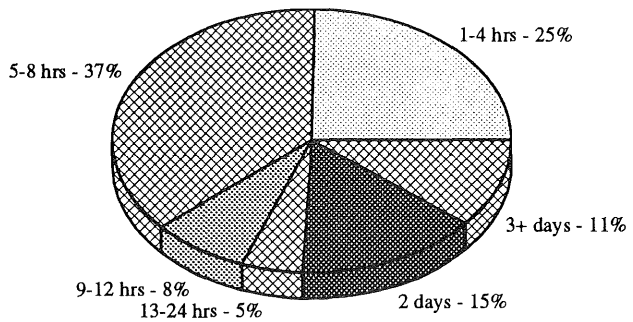
Casino Draws Visitors to Region



MN Planning Graphic

- **More than 28,000 patrons visit Jackpot Junction weekly, with more than 30 percent coming from outside Minnesota.**
- **Most travel from 5 to 125 miles, but travel over 400 miles is not uncommon.**
- **Tour buses and chartered airline flights bring patrons from Chicago, Cleveland, Memphis, Denver, Dallas and other cities.**
- **Air service terminates in the Twin Cities, Willmar or Mankato due to inadequate local airport facilities.**
- **Shuttle bus service connects casino, lodging facilities, surrounding communities and the Twin Cities.**
- **Lodging facilities are heavily booked within 50 mile radius, including those in Mankato, New Ulm, Marshall and Sleepy Eye.**

Length of Stay



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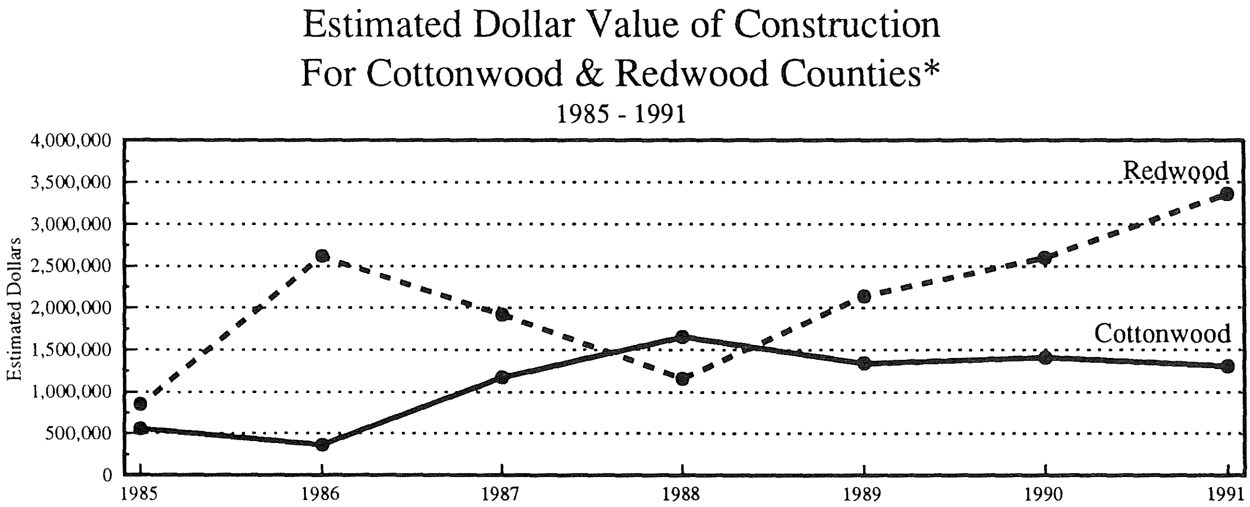
Source: Jackpot Junction Visitors Surveys; Lower Sioux Community.

Construction Activity and Housing Values Increase



* unincorporated areas only
MN Planning Graphic

- **The value of construction activity in Redwood County has increased substantially, especially in comparison to counties in the region more remote from Jackpot Junction.**
- **Redwood County Assessor estimates that homes in Redwood Falls have increased in value by 1 percent per month over the past three years.**
- **Rents have increased as much as $60 over the last year.**
- **Rental vacancies are virtually non-existent, with apartment waiting lists of more than 70 persons being reported.**
- **Home sales are up within a 30-mile radius, enabling people once caught in a stagnant market to now sell their homes and build new homes or move to retirement locations.**

Source: Redwood and Cottonwood County Zoning Departments.

Jackpot Revenues Benefit Lower Sioux Community

Economic development expands.

- Land purchase and 58-room hotel development in Redwood Falls, with planned expansion
- Convenience store/service station co-located with casino
- Planned convention center/hotel complex at casino
- Planned sewer and water improvement

Jobs and dividend payments lessen dependence on public assistance programs and increase disposable income.

- More than 15 new homes on reservation
- Assistance programs eliminated, including Temporary Food Assistance Program and Emerging Homeless Grant
- More than 20 families removed from welfare rolls
- Number of adults receiving Aid to Families with Dependent Children decreased from 18 in 1988 to 3 in 1991

Social programs increase well-being and opportunities.

- Trust fund established for children under 18
- Education fund guarantees payment for post-secondary schooling
- Housing repair/purchase grant and loan program for elderly
- Multipurpose community building under construction, including pool, gym and day care facilities

Source: Lower Sioux Community, MN Department of Human Services

Examples of Education and Social Investments

From Gaming Revenues

Shakopee Mdewakanton Sioux Community - Prior Lake
Guaranteed college scholarship fund
New child-care center
New comprehensive health plan; health and dental care center

Red Lake Band of Chippewas
Plan to expand college fund and other education and training

Grand Portage Chippewa
Subsidized child-care center
Support county schools and athletic teams

Fond du Lac Chippewa - Cloquet
Plan bond issue to build school
Support for health clinic, elderly nutrition, elderly housing, and drug treatment programs

Mille Lacs Chippewa
Plan bond issue for new school, child-care center, health clinic, housing, community centers

Leech Lake Chippewa
Head Start, weatherization, Housing Improvement Program

- Many persons are receiving training for casino operations and management jobs through technical colleges and Indian job training programs.
- Only Sioux tribal governments are making per capita payments to individual members.
- Tribes in the north have newer, smaller casinos and far larger populations. They are not currently in a position to finance programs as extensive as the smaller tribal communities.

Sources: Tribal officials, casino managers, Isle Messenger, Star Tribune.

Examples of Economic Development Investments
From Gaming Revenues

Shakopee Mdewakanton Sioux Community - Prior Lake
- Business acquisition, diversification through semi-autonomous corporation, including light manufacturing (start-up phase)

Red Lake Band of Chippewas
- Resort purchase and development (1991)
- Creation of tribal Economic Development Commission (1991) — business acquisition, venture capital fund (planned)
- Enhancement of timber lands

Grand Portage Chippewa
- Built wood chipping plant

Fond du Lac Chippewa - Cloquet
- Low-interest loan fund for Indian entrepreneurs (planned)

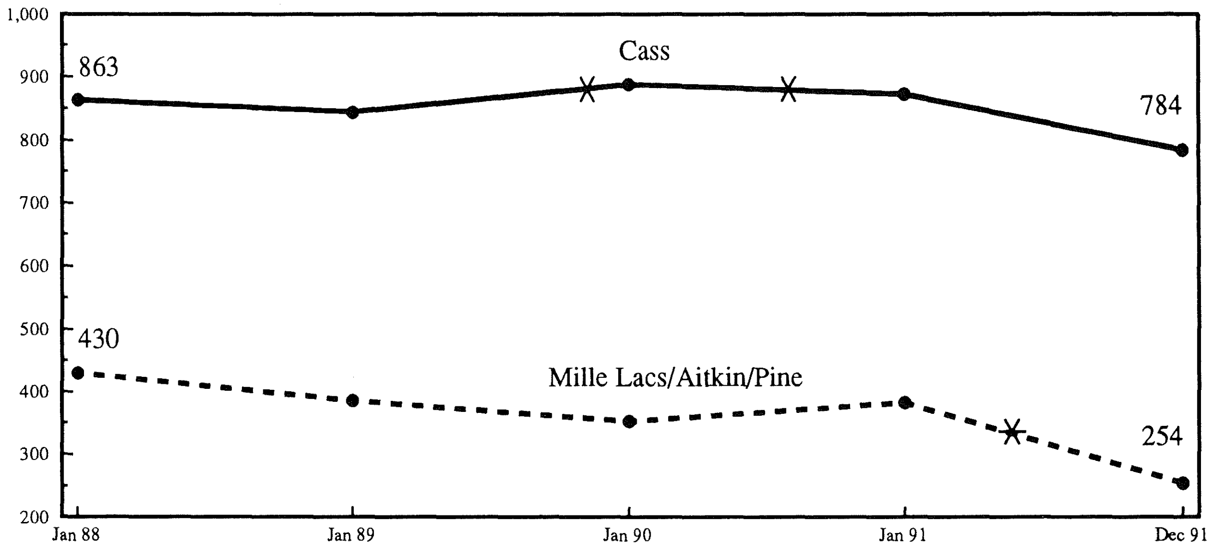
Mille Lacs Chippewa
- Twenty-eight percent of net revenues to economic development beyond gaming (planned)
- Land purchase, roads, water system (planned)
- Business start-up assistance for tribal members (planned)

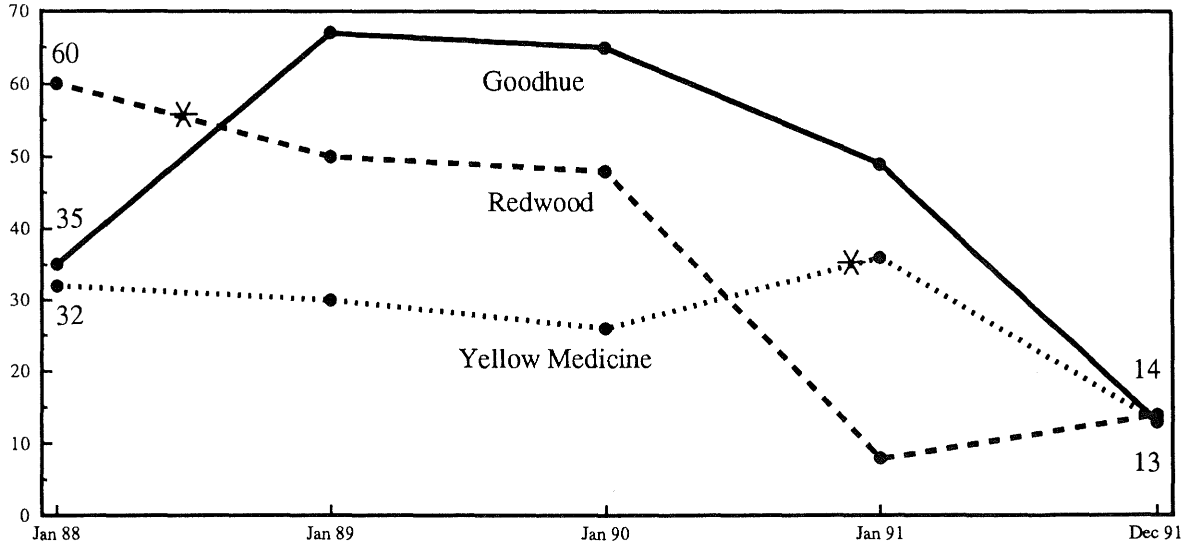
Leech Lake Chippewa
- Forestry staff

Bois Forte Chippewa
- Business training and start-up assistance for tribal members (planned)

Sources: Tribal officials, Grand Portage Lodge and Casino, Indian Gaming.

Changes in American Indian Adults and Children Using AFDC
Selected Counties With Tribal Gaming
1988-1991





* Major casino opening or expansion.

Source: MN Department of Human Services.

Tribal Casinos

Projected Employment Expansions 1992 - 1994

1992	GRAND CASINO MILLE LACS - Hinckley ***New Casino, Restaurant, RV Park***	+1000
	LITTLE SIX - Prior Lake ***New Casino Building***	+650
	SHOOTING STAR - Mahnomen ***New Casino Building***	+350
	FOND DU LUTH - Duluth ***Add Blackjack, open 24 hours***	+150
	FIREFLY CREEK - Granite Falls ***Expanded Casino and Restaurant***	+80
1993	BIG BUCKS - Cloquet ***New Casino Building, Motel, Shops, Indian Arts and Crafts Center, Live Entertainment***	+500
	JACKPOT JUNCTION - Morton ***Hotel and Convention Center***	+100
	FORTUNE BAY - Lake Vermillion ***Expansion, Hotel, Shops, Marina, Golf Course***	+600
	NORTHERN LIGHTS - Walker ***Expansion, Hotel, Convention Center, Restaurant, Theater, Child Care Center***	+314
	GRAND CASINO MILLE LACS - Garrison ***Expansion***	+500
1993-94	RED LAKE CHIPPEWAS - East Grand Forks ***(Proposed, subject to compact approval by Governor and Secretary of the Interior. Endorsed by East Grand Forks City Council, Economic Development Association and Chamber of Commerce.)***	+500
1994	GRAND CASINO MILLE LACS - Hinckley ***Hotel, Convention and Entertainment Center, Golf Course***	+800

Source: Tribal officials, casino managers, Grand Casino, East Grand Forks Exponent.

Indian Gaming Regulatory Act
Purpose & Requirements

"The principal goal of Federal Indian policy is to promote tribal economic development, tribal self-sufficiency and strong tribal government."

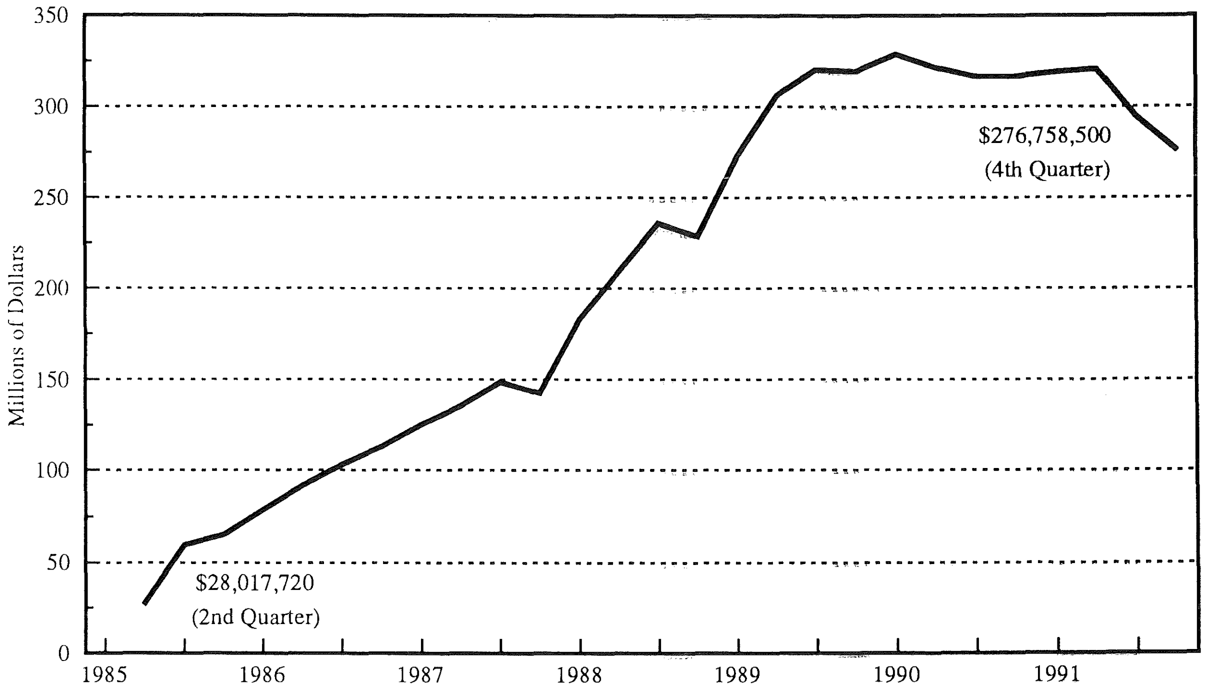
"The purpose of this Act is to provide a statutory basis for:

- the operation of gaming by Indian tribes as a means of promoting tribal economic development, self-sufficiency and strong tribal government;
- the regulation of gaming by an Indian tribe adequate to shield it from organized crime and other corrupting influences, to ensure that the Indian tribe is the primary beneficiary of the gaming operation..."

Major features of the 1988 Act:

- Creates the three-member National Indian Gaming Commission to oversee class II (bingo) and, to a certain extent, class III (casino-type) gaming
- Requires negotiation of compacts between tribes and state governments for class III gaming
- Requires tribal adoption and commission approval of ordinances or resolutions regulating class II and III gaming
- Requires commission approval of any contracts for outside management of class II and III gaming, and limits the percent of net revenues allotted to management firms to 40 percent
- Requires tribes to issue licenses for class II and class III gaming facilities and employees
- Imposes fines and prison terms for thefts from gaming establishments by officers, employees, or customers.
- Restricts use of gaming proceeds to tribal operations, programs, welfare and economic development

Charitable Gambling in Minnesota
Gross Receipts by Quarter



Receipts by Year

Millions of Dollars

	1985	1986	1987	1988	1989	1990	1991
Gross Receipts	111	386	552	857	1,219	1,285	1,225
Net Receipts (after prizes)	28	85	110	155	208	234	231
Taxes	3	8	13	18	27	53	55
Net Proceeds (after expenses)	16	36	51	79	101	94	79

- **State taxes on lawful gambling increased in 1990 and 1991, while net proceeds to organizations decreased.**

Source: Gambling Control Board

Charitable Gambling

Charitable gambling, also called "lawful gambling," is presently the largest form of gambling in Minnesota. It generated $1.225 billion in gross receipts (the amount wagered) and $231 million in net receipts (after prizes) in calendar 1991. For more than three decades after it was legalized in 1945, bingo was the only form of charitable gambling permitted in Minnesota. In 1976, paddle wheels, tip boards, and raffles were legalized, followed by pull-tabs in 1981. Sales of pull-tabs grew explosively between 1985 and 1990 from less than $100 million to over $1 billion, and now account for nearly 90 percent of all charitable gambling in the state. During the same five years, bingo by charitable organizations rose more modestly from $57 to $83 million (6.5 percent of all gross charitable gambling receipts in 1990).

Spending on charitable gambling (gross receipts) comes to $277 per Minnesotan, while average losses (net receipts) are about $57 per capita. Because of payout rates just over 80 percent and a limit of $250 on pull-tab prizes, the odds are favorable for many players to win back a large portion of what they spend (unlike games with longer odds and huge jackpots, where most people lose almost everything they wager, while a small few win huge prizes). On the other hand, only a distinct segment of the population buys most pull-tabs, which means many people are spending well over $1,000 a year, while a large majority spend little or none at all. Almost all pull-tabs are sold in either VFW and American Legion posts, fraternal halls, or bars (with rented space for booths). Minnesota law requires all charitable gambling sales and prize payouts to occur on premises owned or leased by the charitable organization.

While charitable gambling nationwide has more than doubled between 1987 and 1990, it is nowhere near the level of Minnesota. Gross receipts from pull-tabs, bingo, and other charitable gambling in 1990 were as high in Minnesota as the second and third largest states combined (Texas and Washington). Only Alaska and North Dakota had higher charitable gambling per capita. Nationally, bingo and pull-tabs each account for slightly less than half of all charitable gross receipts, with casino nights, raffles, and all others accounting for the remaining 10 percent. However, almost a third of the states where charitable gambling occurs do not keep records (including California and Florida).

The number of organizations licensed to conduct charitable gambling in Minnesota has gradually declined from nearly 2,000 in 1988 to about 1,750 in 1991. Another 817 organizations received exempt permits to conduct gambling less than five days a year. In 1988, 37 percent of gross receipts went to veterans organizations, 16 percent went to fraternal organizations (such as Lions and Eagles clubs), 5 percent went to religious organizations, and 43 percent went to a variety of other charitable groups including human service organizations, fire departments, hockey clubs, medical research charities, and cultural groups. In that same year, the largest 100 organizations made about one-third of all after-tax profits. Net proceeds from charitable gambling were donated to a wide range of causes and recipients, as illustrated on page 46.

VIOLATIONS OF LAWFUL GAMBLING STATUTES. Fraud and mismanagement of funds is the largest issue facing charitable gambling. Beginning in 1989, widespread reports of inappropriate expenditures, poor accounting, and missing funds have come to light. A review of tax returns from 2,000 organizations (January 1987 through February 1989) by the *Star Tribune* found that 25 percent had cash accounting too perfect to be true, 21 percent had disappearing inventory estimated at $2.1 million, 19 percent had large cash shortages (totalling $2.3 million for large or unexplained shortages), and 17 percent had disappearing profits totalling $4.3 million. Numerous reports surfaced that some establishments were providing insider information to favored players about whether any major prizes were left in jars of pull-tabs that were nearly empty.

In response, reform legislation was passed in 1990 that required the names of winners of

Where Do Charitable Gambling Proceeds Go?

Estimated Lawful Purpose Expenditures in 1988

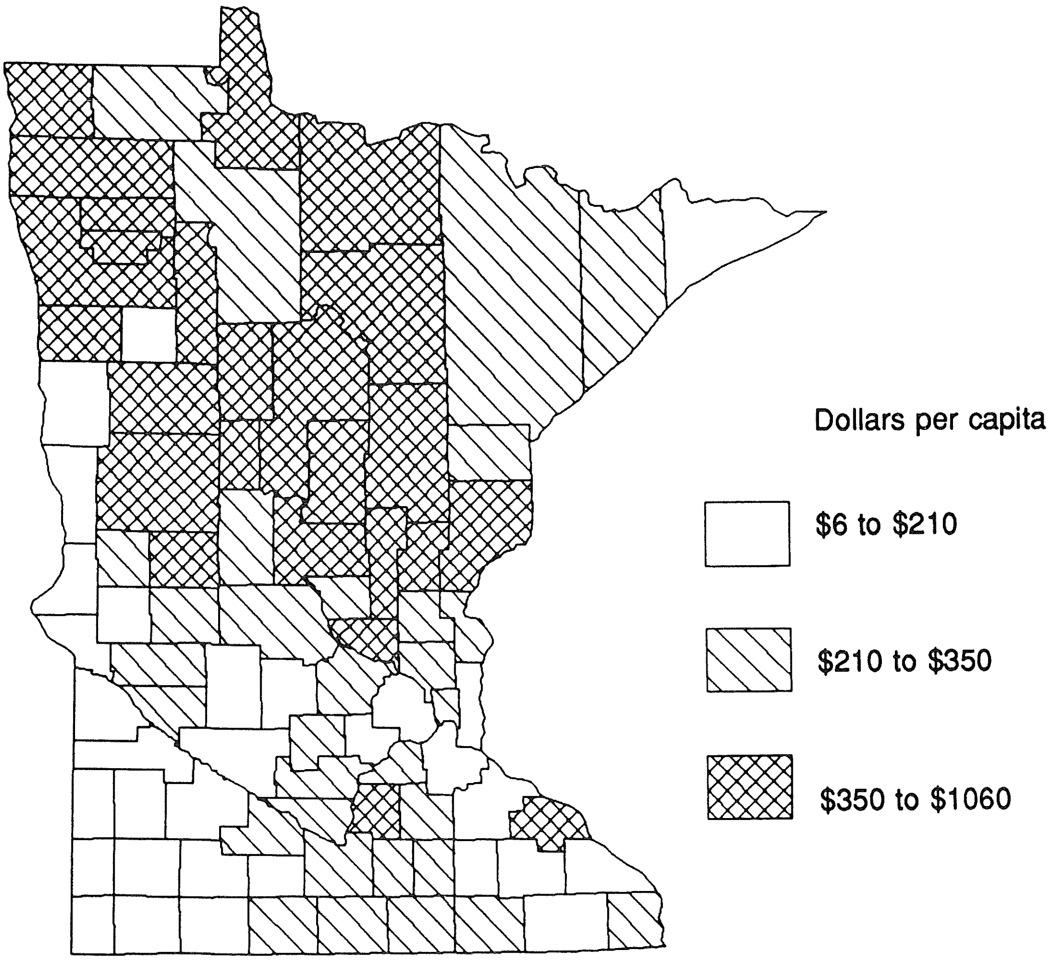
(Categories over $1 million)

Organization Expenses		**$15.9**
Buildings (maintenance, mortgage, etc.)*	$12.1	
Local, Federal and State taxes (mostly property taxes)	3.8	
Human Services Organizations		**8.9**
Youth (scouting, drug ed, safety, etc.)	3.4	
Other than youth (United Way, Meals on Wheels, shelters, etc.)	5.5	
Sports		**8.1**
($5 million to non-school youth sports, $3.1 million to hockey)		
Medical (to research and hospitals)		**5.2**
Religious Groups		**4.6**
(churches, youth groups, parochial schools, fraternal)		
Fire Departments (government)		**4.4**
Park & Recreation Departments (government)		**3.3**
Veterans Programs		**2.9**
(veterans funds, memorial funds, activities, posts)		
Aid to Needy Individuals		**2.9**
(food, medical, hardship, senior citizens)		
Other Charitable Groups (non-human services)		**2.2**
Schools, Non-athletic Extracurricular		**1.7**
(music, drug ed, clubs, flags)		
Parties, Picnics, Dinners, Lunches		**1.2**
Scholarships (both to individuals and funds)		**1.1**
All Other		**6.4**
TOTAL (categories over $1 million)		**$68.8**

*Beginning in mid-1988, most contributions for building construction or repair and property taxes were disallowed without gambling board approval, but building loans exempted under a "grandfather clause" will keep this category expenditure high for many years.

Source: "Legislative Auditor's report: Lawful Gambling," January 1990.

Charitable Gambling Per Capita
1991



- **Charitable gambling is strongest in northern and central Minnesota. Some of this is due to tourism.**

- **Lottery play is also stronger in northern and central counties, but it has far less regional variation.**

Source: Minnesota Department of Revenue, Special Taxes Division, Lawful Gambling.

major prizes be posted, and required recipients of charitable gambling contributions to register with the Gambling Control Board. These provisions were reversed in 1991 legislation, which also abolished the Department of Gaming created in 1989 and removed the board's authority to adopt rules defining allowable expenses, giving them the power to review expenses on a case-by-case basis. Other measures of the 1990 reform law include increased fines for violations, professional audits required of all pull-tab operations and an increase in the staff at the Gambling Control Board from 13 to 37 employees. Even so, the board's disciplinary committee currently has a backlog of 75-80 cases to be reviewed. Most of the problems that the short-lived 1990 reforms were intended to address remain unresolved.

PUBLIC OVERSIGHT OF CHARITABLE GAMBLING. Responsibilities for regulation and oversight of charitable gambling are presently divided between the Gambling Control Board, the Gambling Enforcement Division of the Department of Public Safety, the Criminal and Special Taxes Divisions of the Department of Revenue, and the Gambling Division of the Attorney General's Office. In addition, cities and counties have authority to approve permits on premises in their jurisdiction, and can levy taxes and adopt gambling regulations in addition to those set by the state. Many of these responsibilities are overlapping, and the scope of their authority is not always clear. Numerous members of our expert panel suggested that this situation deserves to be reviewed.

TAXATION. Some charitable gambling interests can be expected to call for a reduction in taxes on the larger pull-tab operations. Prior to 1989, the state taxed all charitable gambling at 10 percent of net receipts (after prizes). Beginning in October 1989, a new graduated tax system was implemented for pull-tabs, which had the effect of increasing taxes on the larger charitable gambling operations. While taxes remain close to 10 percent of net receipts (after prizes) for charities selling less than $500,000 a year (the vast majority), they are now 25 percent to 30 percent of net receipts (after prizes) for organizations with pull-tab sales of several million dollars.

COMPETITIVENESS WITH OTHER FORMS OF GAMBLING. New competition from the lottery and tribal casinos is likely to bring calls to allow charitable gambling to be more competitive. Pull-tab prizes are currently limited to $250, compared with top prizes of $5,000 or more for most instant lottery games. Charities in Montana and Louisiana are permitted to operate video poker terminals. Such "hard" forms of gambling for charities may be promoted by some charitable gambling interests, or by the bars and taverns where the machines would be located.

LOTTERY

The Minnesota Lottery began operation April 17, 1990, when instant (scratch-off latex) tickets went on sale across the state. In August 1990, two on-line games were added: Lotto Minnesota (with jackpots more than $2 million) and Daily 3 (with far better odds and prizes of $500). For these games, players select three to six numbers that are entered into an on-line terminal, and watch a televised drawing to see if they have won. Gopher 5 was added in May 1991, with jackpots starting at $100,000.

In late 1991, the Lottery announced plans to test a Nintendo lottery system in 10,000 homes. The system would have allowed players to purchase instant or on-line tickets over phone lines. However, this proposal aroused considerable opposition, and the test was called off.

Total lottery sales of $321.5 million in FY 1991 exceeded projections due mainly to very strong instant sales. Sales have fallen off gradually since September 1990. Projections for FY 1992 are $302 million.

Measured by gross revenues after prizes, lotteries became the largest form of gambling in the U.S. in 1985, surpassing Nevada and New Jersey casinos. Since New Hampshire began a sweepstakes in 1964, a total of 33 states and the District of Columbia have started lotteries. Twenty started just since 1980. With a couple of exceptions, earlier lotteries in the north and northeast states continue to have the highest per capita sales.

After growing at a rapid pace throughout the 1980s, total U.S. lottery sales increased at less than the rate of inflation in FY 1991 (2.8 percent), while revenues to the states from lotteries increased at only 0.3 percent. Based on unaudited figures, U.S. lottery sales fell by one-half percent in calendar 1991. However, stable sales for the last three months of the year do not suggest a continued decline. Most of the increase in the first half of the 1980s came from the explosive growth of Lotto in older lotteries, while most of the growth in the second half was due to new lotteries starting up (particularly California and Florida). Total U.S. sales levelled off suddenly because there were no new lotteries in FY 1991—sales for most older lotteries have been slowing for several years.

DEPENDENCE ON LOTTERY REVENUES. Fluctuations in lottery sales can cause serious problems when lottery proceeds are dedicated to cover specific critical public needs. In California and Florida, where all proceeds are dedicated to education, lottery sales fell by -17 percent and -5 percent, respectively, in 1991. In California, numerous school bond issues have been defeated, with opponents arguing that schools didn't need additional money, since they received lottery proceeds. The result has been that some schools now receive less money than they would have without dedicated lottery funds.

NEW DEVELOPMENTS TO INCREASE SALES. With sales declining in 1991 for 14 lotteries and growing at less than the rate of inflation in another seven, states are considering new ways to increase sales. Some innovations involve new types of games, others make it more convenient to play existing ones. Among the new approaches are:

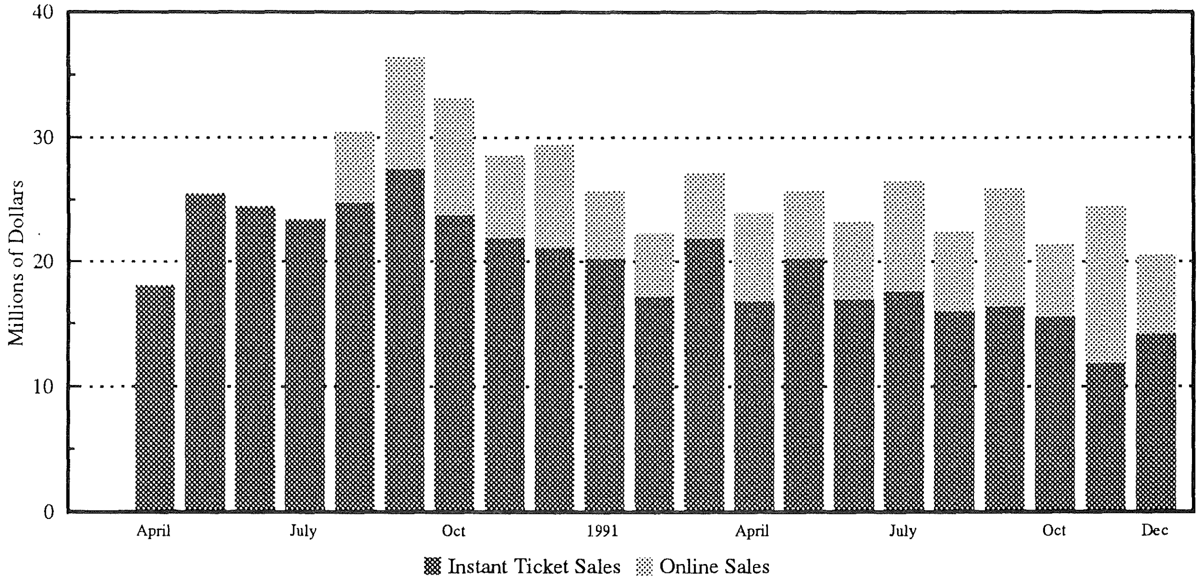
- **Video Lottery Terminals.** High sales from these devices in South Dakota bars have attracted attention nationwide, with 17 states reportedly offering legislation on VLTs. South Dakota's is the only lottery that has them in full scale operation, while charities are allowed to operate video gambling machines in Montana and Louisiana. South Dakota video terminals offer draw poker, keno, blackjack and bingo. In order to restrict access by minors, they are allowed only in establishments licensed to serve alcohol. The Iowa Lottery had planned to conduct a test last year, but the project was scrapped due to protests.

These games are essentially the same as the video slots and card games now in casinos. Bar and tavern owners are often their greatest proponents. Illegal terminals are widespread: 74 Iowa taverns and clubs had their liquor licenses suspended during the past two years for having illegal video gambling machines. VLTs are believed to be much more addictive than instant and on-line games. Concerns exist about how effectively proprietors will prevent minors from playing.

- **At-Home Betting.** A number of lottery systems have been proposed to enable consumers to play the lottery from the convenience of their homes. All use phone lines in one way or another. Suggested methods include interactive television shows and at-home wagering devices, as well as simply calling in a bet. Massachusetts and Indiana have just instituted "lottery-by-phone" systems using a 1-900 number, where a $1 bet costs players $1.95 on their next phone bill. This billing approach would likely be prohibited in most states by legislation banning purchases of lottery tickets on credit, and offers essentially no safeguards against play by minors. Other systems (like Minnesota's proposed Nintendo-betting) require that a special account be set up in advance. Direct withdrawals from regular bank accounts may become another possibility.

- **Instant Ticket Vending Machines.** ITVMs are another method of increasing sales through greater convenience. Players do not have to wait in line, and retailers need not tie up sales help. These machines operate on the same principles

Minnesota State Lottery
Sales by Month
April 1990 - December 1991



Source: Minnesota State Lottery
MN Planning Graphic

- **Minnesota's per capita instant sales are among the strongest in the nation, second only to Massachusetts in FY 1991.**

- **Studies in other states have found that less than 10 percent of the players account for more than half the sales.**

- **Like most lotteries started in the last 10 years, Minnesota's lottery sales dropped after an initial surge. The same "novelty effect" tends to occur in the sales of new games when they are first introduced.**

- **Of 14 lotteries started between 1985 and 1989, only Iowa and Florida did not experience a significant drop in sales after the first three to six months. Six of these equalled or surpassed this initial peak two to three years later.**

Source: Minnesota State Lottery, Gaming and Wagering Business, Public Gaming.

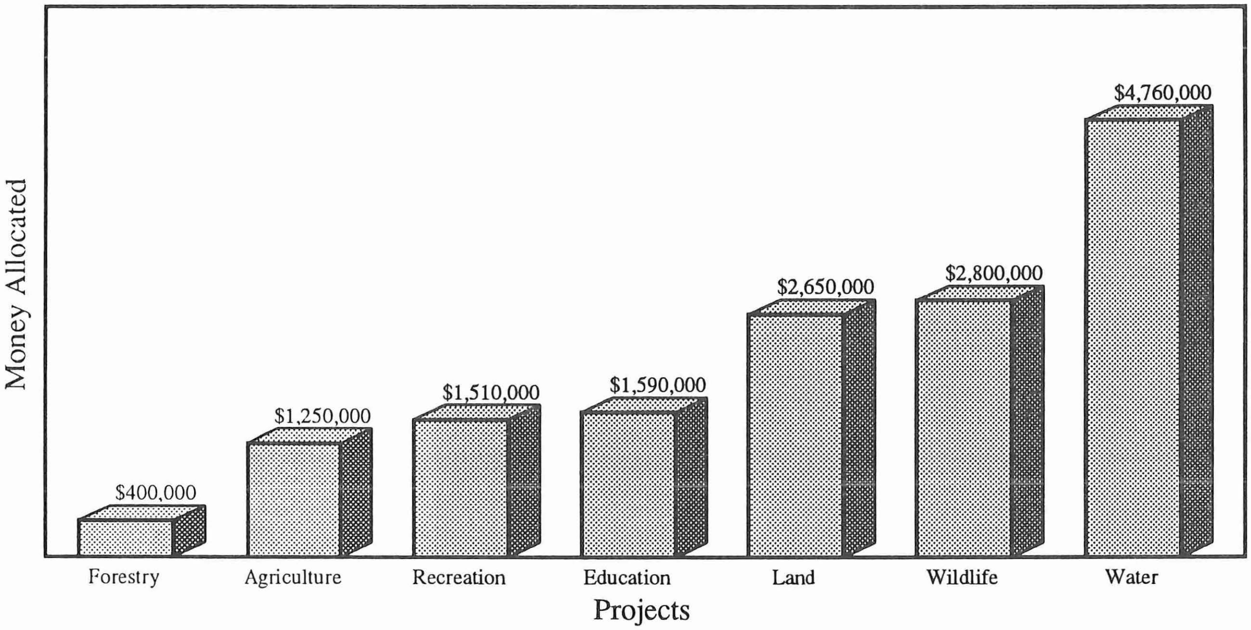
as vending machines for newspapers or candy. They are far more sophisticated, however, with electronic safeguards and record-keeping systems. ITVMs cost from $3,000 to $8,000. Virginia, in 1991, was first to introduce the machines on a large scale. Kentucky, Massachusetts, and Ohio have followed suit.

■ **Sports Pools** offer potential for states to tap revenue from a major form of illegal betting, but their future remains uncertain. Several professional sports associations have put pressure on Congress to pass legislation that would ban professional sports betting in lotteries, and have threatened to pull their franchises from individual states if they establish sports pool lotteries. Currently, sports betting is legal in only four states. The Oregon lottery offers a game based on professional football, but it has met with less than stirring success.

■ **Increasing Prize Payouts** is one major strategy being used to boost sagging lottery sales. In many cases, increasing the share of sales devoted to prizes (and thus decreasing the percent kept by the state) may attract enough additional sales to increase total revenue. Lottery prize payouts have tended to be close to 50 percent, but many states have recently increased prizes on instant tickets to 60 percent or, in a couple cases, 65 percent on instant games. As an indication of this trend, revenues from lotteries to the states nationwide (including sales tax) have steadily decreased from 41 percent of total U.S. lottery sales in fiscal 1986 to 37.5 percent in fiscal 1991.

■ **Multiple Instant Games.** With this marketing technique, most lotteries run five to six instant games at one time with themes tailored to the interests of particular groups of players. A new game is started every 4-8 weeks.

Environmental and Natural Resource Trust Fund
1991 Allocations

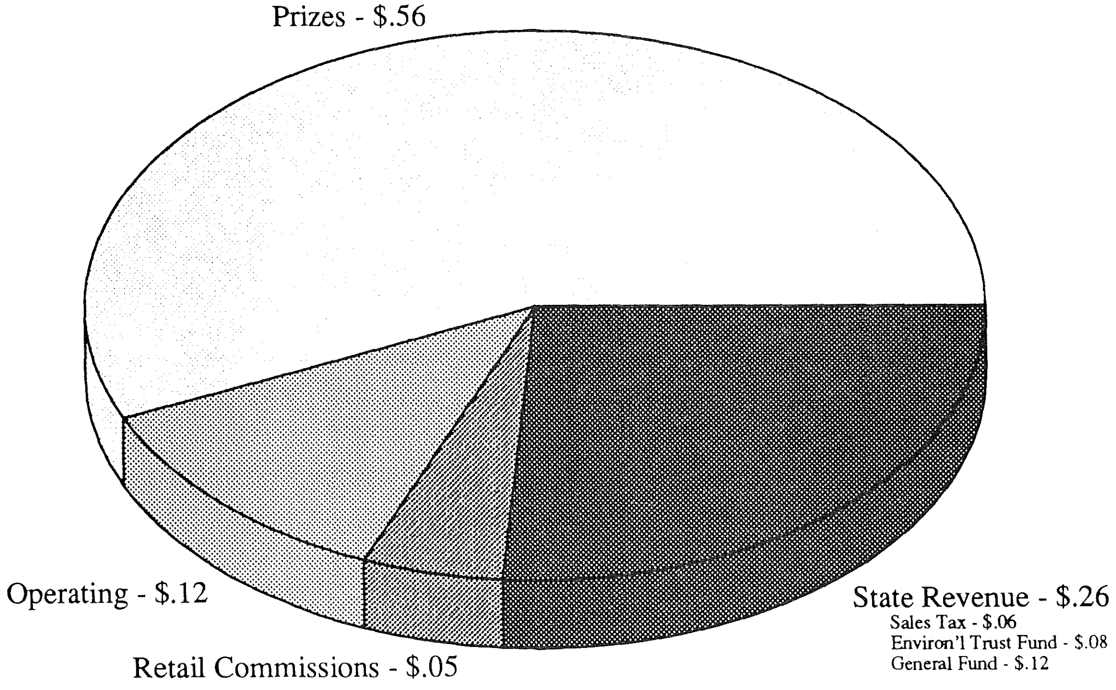


Lottery Benefits to the Environment and Natural Resources

- **Forty percent of the lottery proceeds are credited to the Minnesota Environment and Natural Resources Trust Fund, amounting to 8¢ of every lottery dollar spent.**
- **Trust Fund balance from lottery revenues now stands at more than $30 million.**
- **Interest on the funds, plus a portion of yearly revenues through July 1996, is available each biennium for eligible projects.**
- **Allocations in 1991 totalled $14, 960,000. The estimated allocation for 1993 is $13,000,000.**

Source: Legislative Commission on Minnesota Resources.

Where the Minnesota State Lottery Dollar Goes
Fiscal Year 1991*



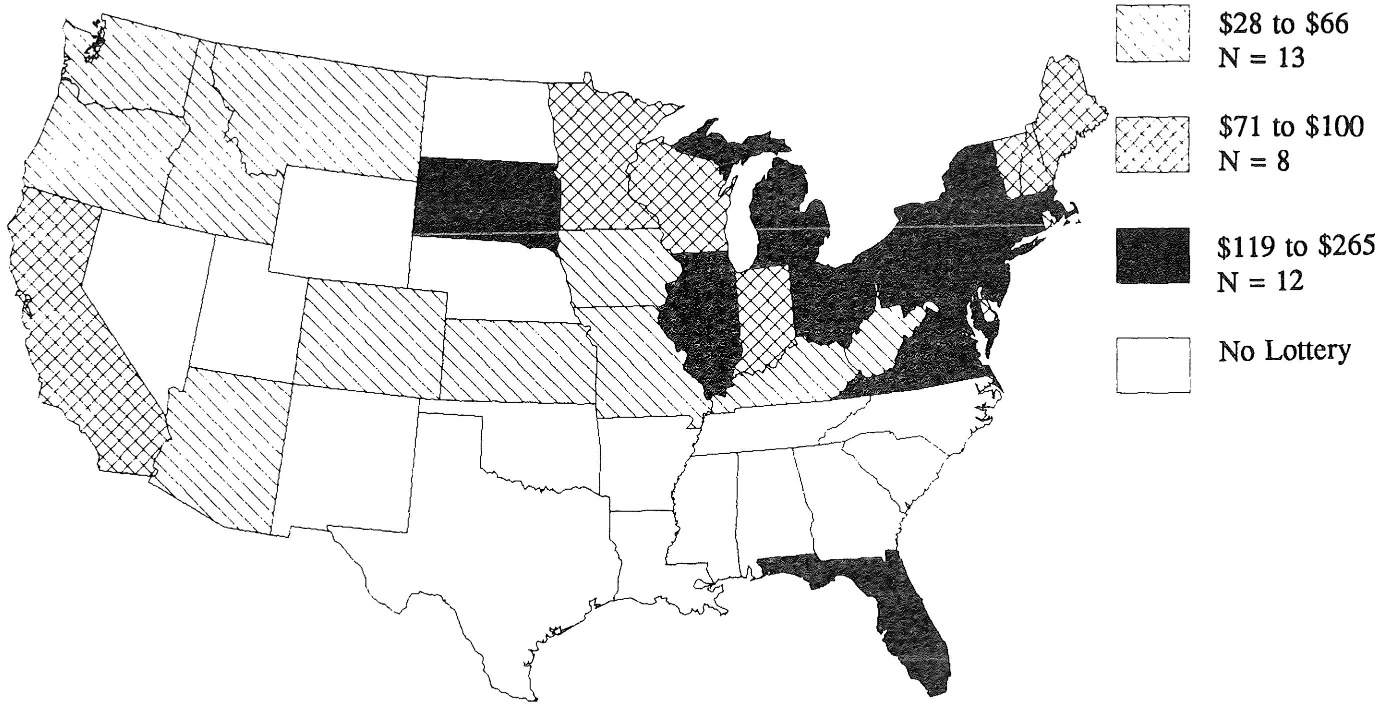
MN Planning Graphic

- **Minnesota Lottery combined net proceeds and sales tax revenue of $86.2 million in FY 1991 contributed to 0.7% of the state's budget expenditures.**
- **In at least half of the 34 lottery states, lottery revenues are more than 1% of total state government expenditures (Florida is highest at 3.7%).**

* Due to rounding, total may not be 100 percent

Source: Minnesota State Lottery

Lottery Sales Per Capita
Fiscal Year 1991



	Rank	Sales per Capita	Rank	Revenue to State per Capita	Prize Payout
Massachusetts (high)	1	$265.29	1	$80.95	60%
South Dakota	2	$179.16	10	$50.74	45%
Illinois	9	$137.08	11	$49.85	52%
Michigan	12	$124.67	13	$41.67	46%
Wisconsin	18	$80.05	20	$26.08	50%
Minnesota	**20**	**$73.49**	**24**	**$19.70**	**56%**
Iowa	25	$56.90	29	$15.56	53%
Kansas (low)	33	$28.37	33	$ 8.51	45%

- **Lottery sales are generally strongest in the industrial North.**
- **South Dakota's strong sales are due to the video terminals in bars. Tourist sales fuel Florida's success.**

Source: Public Gaming Research Institute.

PARI-MUTUEL RACING

Pari-mutuel horse racing began in Minnesota in June 1985 when Canterbury Downs opened in Shakopee. In pari-mutuels, the players who bet on the winners divide the total amount wagered in proportion to the amounts they bet, with a percentage (takeout) retained by the track. Takeout is usually 15 percent to 25 percent, with the portions going to the track and to the state set by law. **In the peak year of 1986, a total of $134 million was wagered at Canterbury Downs and the state gained more than $7 million in revenue. Since 1986 handle and attendance have declined.** Beginning in 1988, the state's share of takeout, breakage, and admissions were revised sharply downward to provide tax relief to the track. Canterbury Downs was sold by its original owners in early 1990 at a price that enabled the new owners to retire the debt.

Simulcasting was first offered in the same year, enabling bettors to wager on races televised from tracks in California and Illinois. In 1991 it was expanded to winter months when no live racing occurs. In 1991, the Legislature approved the creation of up to four off-track betting parlors and the Racing Commission proposed rules for their operation. However, the Attorney General's office has challenged the constitutionality of off-track betting (including telephone wagering). All plans are now on hold.

The state received about $1.5 million in general revenues from the track in 1991, while Scott County received $2.5 million in property taxes in the same year.

The racing industry relies heavily on a core of regular gamblers, partly because of the skill involved in picking winning horses. Because race tracks compete for the dollars of a limited segment of the population, new tracks gain much of their business at the expense of existing ones. With the opening of St. Croix Meadows greyhound track in Hudson, Wisconsin last June, total racing handle in and around the region actually increased significantly last year, yet individually Canterbury Downs lost $4.3 million and St. Croix Meadows lost $1.5 million.

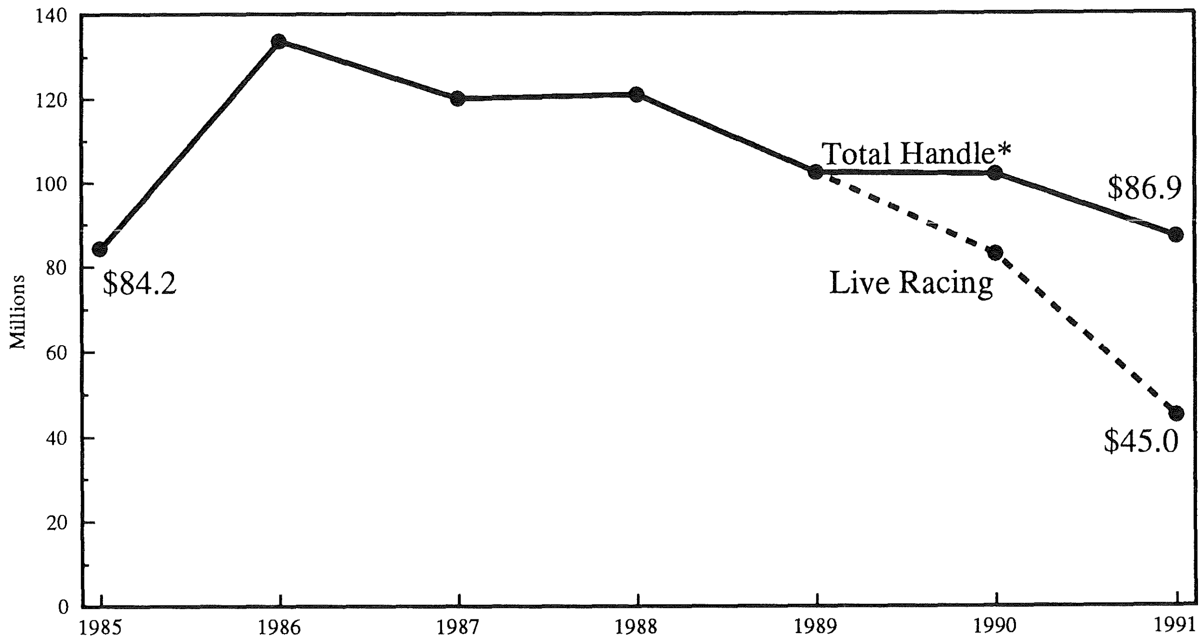
A comparable situation exists in the nine Midwestern states bordering the Mississippi and Missouri rivers. Total racing handle nearly doubled between 1984 and 1991 as a string of new tracks opened. Nevertheless, handle at most individual tracks dropped by significant amounts last year, several by one-third or more. Among horse tracks in Illinois, Iowa, Kansas, Minnesota, Nebraska, and South Dakota, the only ones not losing money are five in the Chicago area and Fairmont Park in southern Illinois. Woodlands greyhound track in Kansas City is making a healthy profit, and several of Wisconsin's five tracks probably will, but most other Midwestern dog tracks are facing hard times.

Prior to the introduction of lotteries, racing had a virtual monopoly on "serious" gambling outside Nevada. By most accounts, pari-mutuels reached their peak in the late 1970s, and have since declined in the portions of the country where they were strongest. Nationwide, racing just kept pace with inflation through most of the 1980s. Horse racing failed to do even that. Greyhound racing has maintained growth as many new tracks continue to open, but is still only 20 percent of all wagering on racing. Thoroughbred racing handle fell by approximately 0.9 percent in 1991, while total U.S. greyhound handle increased by 0.6 percent.

Ladbroke Racing and Canterbury Concessions directly employed 75 full-time and 990 seasonal employees in 1990, for a total of 1,065 jobs. Wages and salaries for the track, the backside, and vendors totalled $17.7 million in 1990. Other Canterbury Downs expenditures totalled $13 million, just over half of this for business and professional services.

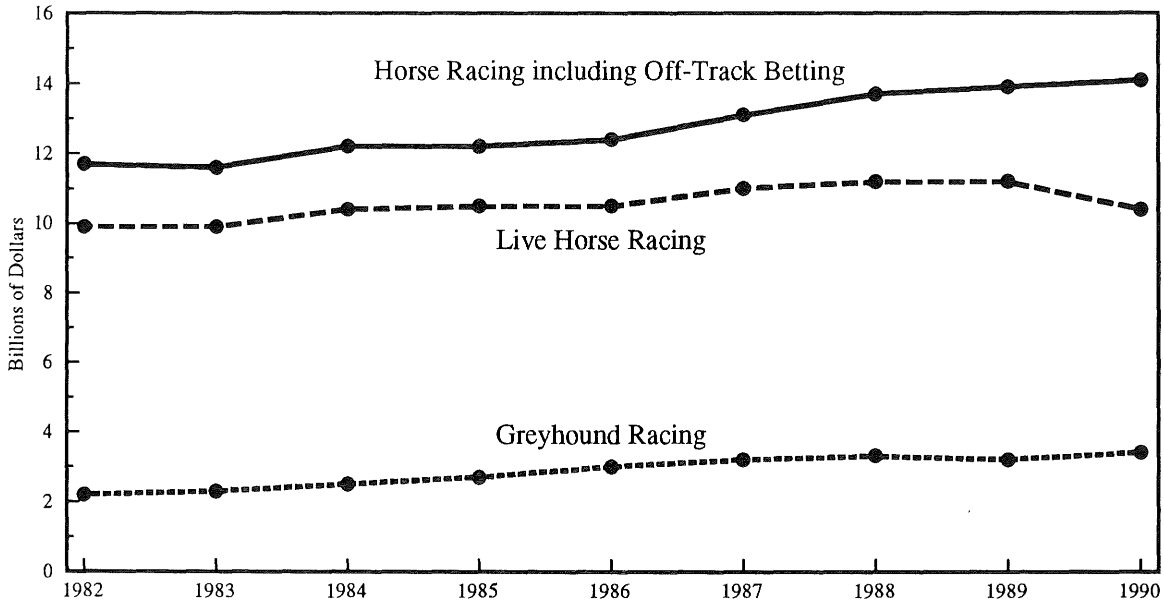
Minnesota Planning estimates that owners and breeders of racehorses had expenditures of $26 million in 1991, including a little more than $3 million for feed. This includes all costs for roughly 4,500 Minnesota racehorses (predominantly thoroughbreds), and also about $7 million for keeping out-of-state racehorses at

Minnesota Horse Racing
Live & Simulcasting Handle



* Total Handle includes simulcasting.

U.S. Greyhound & Horse Racing
Total Handle



*Greyhound off-track betting amounts to less than one percent of total greyhound handle in 1990.

Sources: Minnesota Racing Commission, Gaming & Wagering Business Harness Tracks of America, Inc., American Greyhound Track Operators Association, **Daily Racing Form.**

Canterbury during the racing season. Part is spent outside Minnesota.

Thoroughbred breeding in Minnesota expanded rapidly with the opening of Canterbury Downs, from 51 named foals in 1982 to more than 700 in 1988-89. Since 1989, however, the number of mares has decreased by more than one-fourth, and the number of farms breeding racehorses has declined. The decrease in purses for live racing at Canterbury is one major factor in the decline; a change in tax laws on deductible business expenses (most affecting smaller breeders and owners) is another. Minnesotans gain only a portion of the $7 million in purses awarded at Canterbury, which does not go very far towards covering $26 million in expenses.

FUTURE DEVELOPMENTS AND ISSUES. A variety of approaches is being used and proposed to bolster pari-mutuel racing, particularly horse racing. Most of these involve betting on televised races from remote locations or coupling racetracks with other forms of betting. Many states also intervene with direct and indirect assistance, including tax breaks, loans, grants, and in some cases, even purchasing and operating tracks.

■ **Inter-track Wagering.** Inter-track wagering or "simulcasting" made up nearly half of Canterbury's racing handle in 1991. ITW allows bettors to wager on races televised from tracks either in the same state or elsewhere in the country. The track broadcasting the live race and the receiving track where bets are placed divide the takeout. This allows tracks in colder climes to offer betting year-round, and generates additional handle for both host tracks and receiving tracks. On-track simulcasting accounted for about 10 percent of total U.S. horse-racing handle and about 4 percent of U.S. greyhound handle in 1990.

■ **Off-track Betting.** The future of off-track betting in Minnesota is uncertain. OTB includes off-track betting parlors, teletheaters, and telephone wagering. All three make betting accessible at sites distant from a live racetrack. Teletheaters and off-track betting parlors perform essentially the same function, but the term "teletheater" is only applied to newer off-track betting sites with restaurants and other amenities. Few states have adopted telephone wagering. Various forms of OTB accounted for over one-fourth of total U.S. horse-racing handle in 1990, but less than one percent of U.S. greyhound handle.

■ **Coupling Tracks with Other Forms of Gambling.** Recently, many tracks have considered locating casino gambling on-site as one way to attract more bettors to racing. West Virginia has placed video lottery terminals in its Mountaineer Park track, New Jersey now offers simulcasting in its Atlantic City casinos, and Florida offers betting on thoroughbreds at dog tracks. Iowa interests are seeking legislative authority to operate a casino at Prairie Meadows race track.

■ **Public Assistance or Ownership.** Many state and local governments will be forced to make difficult choices about whether to help keep race tracks afloat. Last year the state of New York bought the second largest group of tracks in the nation (Belmont, Aqueduct and Saratoga). Polk County, Iowa, has extended $11.7 million in payments and loans to the recently bankrupt Prairie Meadows track, because it guaranteed the bonds for start-up in 1986. The governor of Iowa has stated a policy of opposition to any new forms of gambling in the state, in large part to bolster Prairie Meadows and other existing forms of gambling. South Dakota uses revenues from its Deadwood casinos to pay for administration costs of racing. It allowed the Black Hills greyhound track to close in 1990.

■ **Racehorse Breeding.** The decline in live racing at Canterbury Downs is an issue of serious concern to racehorse owners and breeders. Despite the fact that many are involved in racing out of a strong love for horses (most are losing money), viable live racing is essential to sustaining the racehorse breeding industry in Minnesota. While simulcasting races from other states significantly boosts wagering at the track, it does nothing to provide purses to Minnesota owners and breeders.

The Effects of Competition
Racing Handle in Millions of Dollars by Track

Start up		1985	1986	1987	1988	1989	1990	1991
5/85	Canterbury Downs, MN (T)	84.2	133.7	120.0	121.0	102.2	101.8	86.9
3/89	Prairie Meadows, Altoona IA (T)					37.9	30.4	20.5
6/91	St. Croix Meadows, WI (G)							40.1
6/85	Dubuque Greyhound Park, IA (G)	41.7	63.6	65.8	66.9	65.2	41.0	28.2
4/90	Wisconsin Dells, WI (G)						35.1	37.6
***	Quad City Downs, IL (H)	37.8	26.7	27.7	19.7	20.8	17.9	11.8
***	AkSarBen, Omaha NE (T)	154.2	108.7	94.5	96.6	91.9	69.6	64.5
***	Sodrac, North Sioux City SD (G)	23.1	10.8	7.9	13.0	13.0	11.7	8.3
2/86	Bluffs Run, Council Bluffs IA (G)		122.5	123.3	122.2	105.5	82.3	81.0
8/89G 5/90	Woodlands, Kansas City KS (G,T)*					65.5	197.4	169.8

* Greyhound racing began August 1989, thoroughbred racing began May 1990.

G - Greyhounds T - Mainly thoroughbreds H - Mainly harness racing

- **Competition from new race tracks appears to have affected Canterbury Downs, and had clearly devastating effects on tracks in Omaha, Nebraska; South Dakota; and Dubuque, Iowa.**
- **When Iowa riverboat casinos opened in 1991, wagering at Dubuque Greyhound Park and Quad City Downs dropped more than 30 percent in one year.**
- **While total wagering on racing in the Midwest has nearly doubled since 1984, most individual tracks are seeing lower handles in recent years.**

The race tracks are grouped by proximity to represent the impact they have on each other.

Sources: Illinois Racing Board, Iowa Racing & Gaming Commission, Kansas Racing Commission, Minnesota Racing Commission, Nebraska State Racing Commission, South Dakota Commission on Gaming, and Wisconsin Racing Board.

Gambling in Neighboring States

The number and variety of gambling opportunities have exploded in Minnesota and surrounding states during the past three years. The region is now leading the nation in new attractions including riverboat gambling in Iowa and Illinois, video lottery and casinos in South Dakota, major Indian casinos in Minnesota, and televised bingo in Wisconsin. North Dakota permits poker and blackjack. Pari-mutuel activities are also common.

Although experiencing rapid expansion of the gambling industry, the Midwest still ranks relatively low compared to other parts of the country in per capita expenditures on gambling. In 1990 the per capita expenditure in the Midwest was $68, compared to $464 in the West, $170 in the Middle Atlantic, and $105 in New England.

RIVERBOATS. Riverboat gambling in the region is a very recent phenomena, in operation for less than a year. Seven riverboats were operating at the close of 1991 (five in Iowa and two in Illinois). Six are located on the Mississippi River and one on the Illinois River. Illinois expects to add nine more riverboats by the end of 1992, several of which will be near Chicago. Iowa may add an additional boat on the Missouri River near Sioux City, pending developments in Indian gaming in the area. In Wisconsin, a recently released Governor's Task Force report recommends two riverboats on the Mississippi and one each on Lake Superior and Lake Michigan. Minnesota has yet to decide on riverboat gambling but legislation on the matter is expected during the 1992 legislative session. Should Wisconsin proceed with riverboat gambling, there will be significant pressure to pass a similar measure in Minnesota.

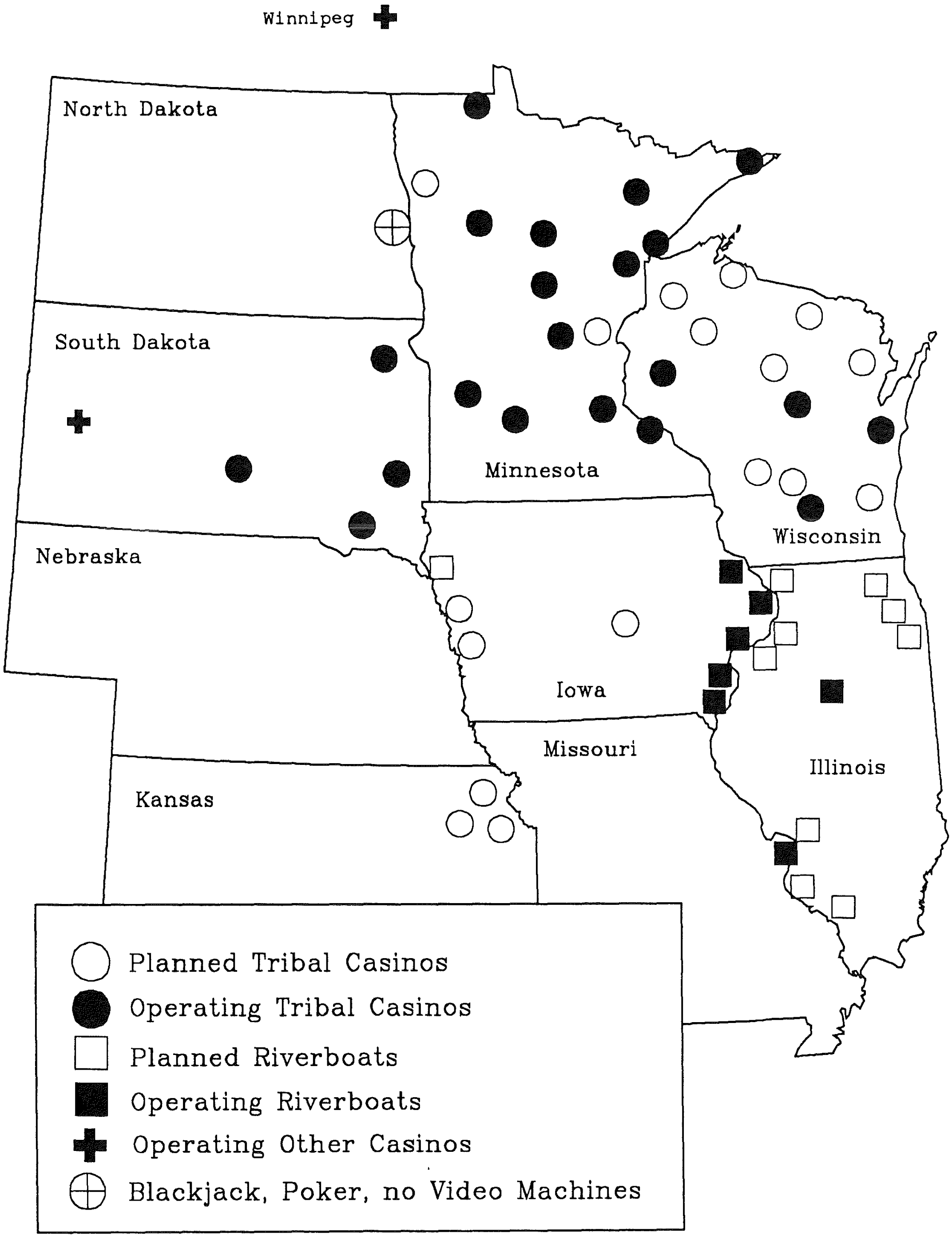
Riverboat tax revenue in Illinois is based on a 20 percent wagering tax (15 percent state and 5 percent local governments) and a $2 admission tax. The admission tax is shared with local governments. State revenue is used to support tourism activities. Iowa uses a graduated rate with 3 percent going to gambler assistance programs, 1 percent shared between cities and counties, and the remainder going to the state's general fund.

INDIAN CASINOS. While Indian casino operations in adjoining states vary in size and activities, none are of the same magnitude as casinos in Minnesota. The largest are those operated by the Menominee and Oneida in Wisconsin, having between 400 and 500 slot machines each. Other Wisconsin tribes conduct gambling activities on a more limited basis. In Michigan, tribes are engaged in casino-type operations offering video slots, bingo, and pull-tabs but they are generally small, most having fewer than 200 slot machines. Indian gaming in North Dakota and Iowa is limited to bingo, while South Dakota permits video slots, poker, and blackjack at Flandreau, Sisseton-Wahpeton, and Yankton. Compact discussions are still underway with the Lower Brule.

Compact discussions have been concluded with seven of 11 tribes in Wisconsin and one of three tribes in Iowa. Compact discussions continue with three tribes in North Dakota. Michigan is currently in litigation with seven tribes arguing that the state constitution does not permit such gaming activities as blackjack, video slots, and poker, currently in play on several reservations. Obviously, with the number of compacts recently completed or about to be completed in neighboring states, Minnesota casinos can expect increasing competition.

Despite the great deal of publicity riverboats are receiving, tribal casinos in Minnesota operate on a much larger scale. In 1991, total employees and net receipts of the Minnesota tribal casinos were more than double those of Iowa riverboats. Unlike land-based casinos, riverboats are limited

Regional Casinos



Source: State and tribal officials

in size and access. Iowa also limits bets, total wagering and boat trips per day.

LOTTERY. All neighboring states except North Dakota have state lotteries. All except South Dakota and Wisconsin experienced no growth or a slight decline during 1991. However, South Dakota permits video gaming devices that can be located in any establishment having a liquor license. South Dakota experienced a significant increase in state revenues from the lottery between 1990 and 1991 because of an increase in the number of machines and the popularity of this form of gambling. No other state in the region permits video lottery devices, although a Wisconsin Governor's Task Force report, issued in January 1992, recommends video lottery devices for that state.

PARI-MUTUEL. Prospects for dog and horse racing do not appear bright for any state in the region. The newly opened St. Croix Meadows track in Hudson, Wis., was 42 percent below revenue and attendance projections during its first year of operation. Other Wisconsin tracks except the one at Wisconsin Dells also failed to meet projections. It may be too soon to know if the tracks are in trouble or if the projections were too high. Most Wisconsin tracks have been in operation for less than a year. The Prairie Meadows horse-racing track near Des Moines, Iowa, filed for bankruptcy in 1991. Offers to buy the track are contingent on the state permitting casino-type gambling at the site. Although authorized in Missouri, there is no interest in building horse- or dog-racing facilities. Previously, South Dakota revenue from horse and dog racing went to the general fund; now all revenue is returned to the horse-racing industry. Pari-mutuel racing in South Dakota experienced a 20 percent to 30 percent decline in revenues each of the last three years. A 1991 Nebraska law subsidizes horse racing with 2 percent of keno proceeds. Track revenue has decreased in each of the last eight years. Tracks in Illinois have done best near Chicago but are doing poorly in western Illinois, closer to the riverboats.

Neighboring States: State-by-State Analysis

Experience in other Midwestern states provides lessons for Minnesota. Emerging developments are likely to have an economic impact on Minnesota gaming and tourism, and may influence Minnesota policy-makers. Additional data on authorized gambling activities in neighboring states can be found in the appendix.

ILLINOIS

- There is pressure to allow casinos in Chicago. Legislation was introduced but not heard in 1991. No new legislation is expected until 1993 or 1994. Pressure would increase if Wisconsin allows riverboats on Lake Michigan.

- The fate of race tracks is not clear but some argue that riverboats have already had an adverse effect. Currently only two riverboats are operating but at least nine more are expected in 1992.

- There is concern in Illinois that the no-bet limit may attract hardcore gamblers and organized crime.

- Chicago area interests are attempting to "recruit" Wisconsin tribes to establish casinos. This could be vetoed by the governor or U.S. secretary of the interior.

IOWA

- Tourism officials believe that riverboats are adversely affecting horse and dog racing and other tourist attractions. They are also concerned that new riverboats and no limit betting in Illinois may reduce revenue of the Iowa riverboats.

- Riverboats on the Missouri River and Indian casinos would create even more problems for struggling pari-mutuel operations in Nebraska and Iowa.

The Growing U.S. Gambling Menu
The Number of States That Have Authorized Various Types of Gaming

	Number of States*	Minnesota
Bingo	48	yes
Thoroughbred or Quarter Horse Racing	44	yes
Pull-tabs	35	yes
Lottery	35	yes
Greyhound Racing	19	no
Off-track Betting Parlors	15	yes**
Casinos (including riverboat, tribal)	11	yes (tribal)
Telephone Betting	8	yes**
Slot Machines	7	yes (tribal)
Electronic Video Lottery Machines	7	no
Sports Betting	4	no

- **Lotteries multiplied rapidly in the 1980's. Now there is pressure in many states for electronic video machines in bars, riverboat casinos and casinos in tourist towns and major cities.**

* Includes District of Columbia. Includes some states that have been authorized but not yet implemented particular types of gaming.

** Facing court challenge.

Source: Gaming and Wagering Business

MICHIGAN

■ Lottery sales declined by 5 percent in FY 91 but had been stable for the previous four years. This has increased pressure to expand lottery gambling to allow video games in bars and other establishments. Legislation has been introduced but the governor and lottery board remain opposed.

■ Pressure continues to mount to amend the bingo law to permit more widespread use of pull-tabs.

MISSOURI

■ There will be a referendum on riverboat gambling in November 1992.

■ Lottery sales had been declining until legislative changes enacted in 1988 provided larger prizes. Additional changes may be necessary if riverboat gambling is authorized.

MONTANA

■ Discussion is underway with Indian tribes to develop compacts but none has been negotiated. Video gaming, poker, keno, bingo, raffles, sport pools, pull-tabs, and rummy are being considered. Large casino-type operations are not likely in Montana.

■ Video slots, authorized in 1985, have provided a steady increase in state revenue. Total revenue produced was $17 million in FY 90 and $20.5 million in FY 91. Applications for licenses are increasing at a rate of 10 to 20 percent each year. Near-term prospects are for continued growth.

SOUTH DAKOTA

■ There is some legislative interest in ridding the state of video gaming devices. An effort will be made during the 1992 legislative session to put video games on the ballot in 1993. There is also a petition circulating to place the issue on the ballot. The public may not support elimination of video gaming because it would create pressure to replace lost revenues by enacting a state income tax.

■ Pari-mutuel is doing poorly in the state. The handle at the two dog tracks and one horse track decreased during the 1980s and 20 to 30 percent each of the last three years.

NORTH DAKOTA

■ Despite rejection by a public referendum in 1990, legislative interest in video gaming may reappear in 1992.

■ Compact discussions are underway with three tribes. Most Indian gaming occurs on reservations that border South Dakota. Gaming activities on these reservations actually occur in South Dakota.

WISCONSIN

■ If Wisconsin loses the lawsuit with the Lac Du Flambeau Tribe, currently in federal mediation, the types of gaming activities permitted on tribal lands could greatly expand.

■ In January 1992 a special Governor's Task Force on Gambling recommended *video lottery terminals* "only if there is strict state oversight, local approval, control by referendum, and strong regulation and enforcement."

■ *Riverboats* offering video lottery terminals, slot machines, and blackjack could also be offered according to the task force report. The Task Force recommends limiting the number of boats to four: one on the Mississippi, one on Lake Superior and two on Lake Michigan. Strict regulation, state oversight and local approval and control by referendum are also recommended.

■ While the governor and lottery board are opposed to riverboats and video lottery terminals, increasing competition from nearby states, pressure by tourism interests, legislators, and task force recommendations may change their minds.

How States Use Gambling Revenues
Selected States 1991

State	Type	State Share	Use
Minnesota	Lottery	20%	Environmental Trust Fund - 40% General Fund - 60%
		6%	Sales Tax - General Fund
Wisconsin	Lottery	35%	Property Tax Relief
Iowa	Lottery	30%	Iowa Plan for Economic Development ■ Job Creation ■ Community Economic Betterment ■ Education and Agricultural Research and Development
	Riverboats	Graduated Rate (5-20%)	City and County Government Gambler Assistance Programs General Fund
Illinois	Lottery	38%	Public Schools - Buildings, Salaries, etc.
	Riverboats	17%*	Tourism
South Dakota	Casinos	3.2%	General Fund
	Lottery	35%	General Fund
California	Lottery	34%	Public Education - K thru University
Colorado	Lottery	30%	Conservation Trust Fund - 40% Parks and Outdoor Recreation - 10% Public Facilities Construction - 50%
	Casinos	Graduated (4-15%)**	General Fund, Historic Preservation, Local Government
Oregon	Lottery	24-34%	Economic Development

- **Several states, including California, have found that dedicating lottery revenues to education has created instability and inadvertently undermined public support for increasing general taxes for schools.**

* Includes 15 percent tax on all wagers and admission tax of $1.00/person
** Graduated sale based on the following adjusted gross proceeds: $0-$440,000, 4 percent; $440,000-$1.2 million, 8 percent; $1.2 million+, 15 percent

Source: State officials, Handbook of Lottery Operations & Statistics.

Appendix A: Excerpts from Expert Panel Survey

Expert Panel Members

GEORGE ANDERSEN
Director
Minnesota State Lottery

TOM ANZELC
Former Director
Gambling Control Board

HARRY W. BALTZER
Executive Director
Gambling Control Board

CHARLES BERG
Minnesota State Senator

JOE BERTRAM, Sr.
Minnesota State Senator

DON FEENEY
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Minnesota State Lottery

BETTY GEORGE
Executive Director
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GIL GUTNECHT
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ARNOLD J. HEWES
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PAT McCORMACK
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HANK TODD
Director
Office of Tourism
Department of Trade
& Economic Development

JOHN WILLIAMS
Legislative Analyst
MN House of Representatives

KING WILSON
President
Allied Charities of Minnesota

In addition, informal interviews were conducted with the following persons:

RICK ANDERSON
Manager
Grand Portage Lodge

WILLIAM HALLETT
Director of Economic Development
Red Lake Band of Chippewa

JACK MALISOW
Vice President of Marketing
Grand Casino

LEONARD PRESCOTT
Former Tribal Chairman
Shakopee Mdewakanton Sioux
President
National Indian Gaming Assn

Minnesota Planning wishes to express its appreciation to all of these persons for the high quality of insight contributed to this report. In addition, we offer our sympathy to the Red Lake community and the family of William Hallett, who passed away in a car accident February 3, 1992. He was former director of the U.S. Bureau of Indian Affairs, and a leader for economic development in northwestern Minnesota.

Expert Panel Forecast and Recommendations

1. If riverboat casinos and major Indian casinos continue to expand in neighboring states, how will various types of gaming in Minnesota be affected?

Effects on Tribal Casinos

"Year-round destination resorts with entertainment will easily prevail over the novelty and expense of riverboats."

Growth of tribal casinos will continue, with some loss of tourist customers, but no general decline. Slowed growth is possible, which could create pressure for new games. Hardcore, out-of-state gamblers will be lost to new casinos that operate without limits, such as Illinois riverboats, or the proposed Telemark resort casino. There could be decline or even failure at some smaller tribal casinos.

Charitable Gambling

"Out-of-state casinos and riverboats will increasingly shrink the market for big-time charitable bingo and may cut into pull-tabs."

Charitable gambling is tending to decline anyway due to in-state competition, internal problems and a decline in drinking. Neighboring-state casino competition may or may not add to the trend.

Lottery

There is an even split on how the lottery would be affected. One school says that effects would be minimal and the lottery will grow anyway. The other school predicts slowed growth or decline. The lottery might then pressure the legislature to allow innovations, such as electronic video games in order to maintain revenues to the state.

Horse Racing

Horse racing and pari-mutuel betting are in serious decline already due to internal problems and a less appealing product. Neighboring-state casinos and riverboats would provide "one more 'destination' gambling option that would further shrink the horse-racing market, but the actual effect would depend on location." The industry could be saved by off-track betting or by cooperation with tribes, which is being explored.

2. What effects would riverboat casinos in Minnesota have on other forms of gaming?

A majority of the panel projects the impact of riverboats as follows:

- **Lottery** - slight impact
- **Pull-tabs** - moderate impact, mainly in immediate geographic area
- **Horse racing** - potentially substantial impact
- **Tribal casinos** - potentially substantial impact on higher end of casino market, especially if no bet limits

A significant minority on the panel believes that all forms of gaming would be hurt.

Panelists tend to agree that **the key factor in shaping the impact of riverboats would be whether or not there are bet limits**, such as in Iowa. Limits on bets limit riverboat appeal to primarily tourists and low stakes gamblers.

Several panelists predict that tribal casinos could be heavily impacted if there were several riverboats located on the Mississippi River and Lake Superior, especially if high stakes betting were allowed. However, one cautions that relatively few new tourists will be drawn to the state, because our existing tourist and gambling base is already drawing heavily. New games, such as roulette or craps, would do the most to draw new tourists.

Several panelists predict that riverboats would have a novelty boom period, followed by a decline in receipts caused by competition from riverboats in other states.

3. If electronic video games in bars were introduced, which other types of gaming would be most affected, and how?

"With machines on every street corner, you would see an impact on destination gaming facilities such as Indian casinos."

"This would kill pull-tabs and hurt the lottery."

Most of the panel agrees that electronic video games in liquor establishments would have a very adverse impact on pull- tabs and significantly affect tribal gaming. Currently, tribal casinos are the only place offering video games. They would retain the advantage of a wide variety of games. A panelist points out that electronic games "offer more exciting, faster action," than pull-tabs and that pay-out limits are 85-92 percent for videos, compared to 75-80 percent for pull-tabs. If videos were run by the state lottery or for-profit firms and closed to charitable operators, pull-tabs would definitely be hurt.

Several panelists offer a different scenario: video games in establishments with pull-tabs could draw more traffic and actually enhance charitable gaming sales. They could also help liquor establishments survive.

However, they could hurt food and liquor sales.

A number of panelists predict a decline in lottery sales. South Dakota experienced tremendous overall state revenue gains from introducing video lottery games, but their regular lottery had suffered a net 20 percent drop.

4. What might be the social effects of electronic videos in bars?

"These are very alluring, fast-action machines with many bells/whistles. They eat money fast. Gambling would dramatically increase."

"Not any. People are in there anyway, and it simply gives them one more thing to do."

"Do we want every bar (5,000) to be a casino? Pull-tabs have a social atmosphere; machines simply eat and create more losers faster."

"More compulsive gamblers, more broken homes. Higher tax revenues to the state. Expansions in gambling have already begun to change the face of Minnesota; this will continue."

"Minors would have new opportunities to play. The connection between gambling and worthy causes would be further eroded."

"In Nevada, 97 percent of women compulsive gamblers at Charter Hospital Treatment Center named electronic gaming machines as their number one form of gambling."

"Depends on who regulates and operates. If it is given to charities, they will not be able to control or regulate it—they do not have the expertise. All sorts of problems with security and problem gambling will result. For bars in South Dakota, this has been a license to print money."

"Devastating."

5. If home Nintendo or other home gaming were introduced, which other types of gaming would be most affected, and how?

"The entire gaming industry is going to go through an economic shakeout. Some will fail, others survive. New forms of gaming, like Nintendo lottery, are an attempt to adapt to the harsh reality of a leveling off in demand."

Many of the panel believe home gaming would have minimal impact on current gaming. It would appeal to specific niches—the convenience market and those who prefer solitary activity. Hence it might have minimal impact on more social forms of gaming, such as casinos and charitable gaming. The lottery could gain revenues if it operated home gaming, or lose if they didn't, since lottery would, as a more solitary form of gaming, be in some competition.

Another viewpoint predicts an across-the-board impact on other gambling and recreation, as additional discretionary consumer dollars are absorbed.

6. What might be the social impact of home Nintendo or other home gaming?

"Socially, a deterioration between private and public. The concept of "home" will be invaded by the state."

"Gambling would be further legitimized, and could for the first time be seen as a family activity. In some households, there would be a substantial increase in gambling by minors. Compulsive gamblers with no need for socialization would find unprecedented opportunities, depending on the extent to which credit is allowed."

"Very little. In reality, lottery play is already in the home. Most tickets are scratched off at home; drawings determine winners during at-home hours. The social impact of lottery has already occurred."

"I would be particularly concerned about the potential for children and youth being introduced to gambling at a very impressionable age, many without adequate adult supervision and, therefore, being at greater risk of becoming addicted. I also believe many adults would be vulnerable to becoming addicted, who, for many reasons don't presently play the lottery. The most vulnerable group would be retired persons lacking alternative recreational outlets or transportation who would, for the first time, have the opportunity to gamble."

"Major expansion of "problem gambling." A little like the alcoholic drinking alone."

7. What actions should government and the industry take to address compulsive gambling? Restrict advertising? Require additional warnings similar to those in cigarette ads? Restrict credit card/cash usage? Establish daily limits? Develop/expanded treatment and assistance programs?

"If you accept gaming, you accept its consequences."

"Where do we draw the line of taking over personal responsibility? We can't have treatment expected for every area people aren't responsible in."

"Moratorium on all new forms of gambling. Requirements in rules to make the compulsive gambling hotline number available. Restrict advertising. Improve funding for regulation, enforcement and compulsive gambling."

"Credit cards should not be allowed for gambling."

"Credit is too readily available nearby for restrictions at gambling sites to matter. With daily limits, a person can just move to the next bar. Also, limits are specific to the individual and too much for one person may be insignificant to another."

"Advertising restrictions could cripple lottery and horse racing. The absence of advertising didn't keep pull-tabs from becoming a billion-dollar business. Warning labels would be useless. Daily limits would be unenforceable except in access-controlled riverboats. Credit betting prohibitions might be effective, but should be

extended to prohibit credit card-operated cash machines at racetracks. The most effective method of limiting compulsive gambling is to limit exposure to gambling."

"Establish comprehensive prevention strategy and programs for youth. Fund a comprehensive cost-to-benefit analysis."

"Government should (a) set aside a percentage of the proceeds to support a comprehensive statewide treatment program; (b) mandate that health insurance include coverage for treatment of problem and compulsive gambling; (c) enforce laws concerning the legal age for gambling; (d) prohibit any legal form of gambling in private homes; (e) establish a basis in law to limit gambling by persons observed to be problem/-compulsive gamblers similar to dram shop laws."

"Industry should (a) acknowledge addiction and take some responsibility for informing the public; (b) provide all employees with general information about the scope and nature of the problem and in-depth training to help them recognize individuals who may be problem/ compulsive gamblers."

"Government and industry should (a) fund public information-prevention programming at a level to balance the gambling hard sell. Involve the schools, paid and public service announcements, print media and billboards; (b) educate clergy, criminal justice workers, mental health workers and social service workers about gambling addiction; (c) encourage third party payment sources and create a consolidated fund type program to pay for treatment.

Appendix B: Federal and State Regulatory Structure and Policy

Minnesota's Indian Gaming Compacts

Tribal-state compacts must be negotiated to cover the operation of casino-type gaming. Minnesota's compacts create a cooperative regulatory system between the state and tribes and ensure the integrity of employees and games.

State of Minnesota and the 11 tribes in Minnesota have negotiated 22 compacts: one for "video games of chance" and one for "blackjack" for each tribe. Compacts for all tribes are virtually identical.

Eleven "video games of chance" compacts cover:

- Hardware and software specifications, inspection and testing
- Licensing of manufacturers and distributors of equipment by tribe
- Independent financial audits and state audit reviews
- Employee licensing by tribes and background checks by state
- State inspection to verify compliance with compact

Eleven separate "blackjack" compacts cover:

- The manner in which blackjack must be played, including staffing levels and video surveillance
- Independent financial audits and state audit reviews
- Employee licensing by tribe and background checks by state
- State background checks of officials of firms under contract to manage casinos
- Annual payments by each tribe of over $13,000 to help cover state regulatory expenses

Taxes from Casino Operations

Tribal gaming generates tax dollars for federal, state and local governments. However, Indian tribes are distinct, independent political communities and enjoy sovereignty rights similar to those of a state within the United States. Treaties and federal laws define the taxes imposed on tribal governments and tribal members living on reservations.

Taxes on Casino Salaries and Wages:

▪ Federal Income	- paid by all employees
▪ FICA	- paid by all employees
▪ Unemployment Insurance	- paid by all employees
▪ State Income	- paid by all employees, except tribal members living on reservations

Taxes on Casino Revenues:

▪ Federal & State Corporate	- paid by casino management companies - paid by companies leasing equipment to casinos - not paid by tribal governments[1]
▪ Federal Income Tax	- paid on dividends (per capita payments) received by tribal members
▪ State Income Tax	- paid on dividends received by tribal members living off reservations

Taxes on Goods & Services:

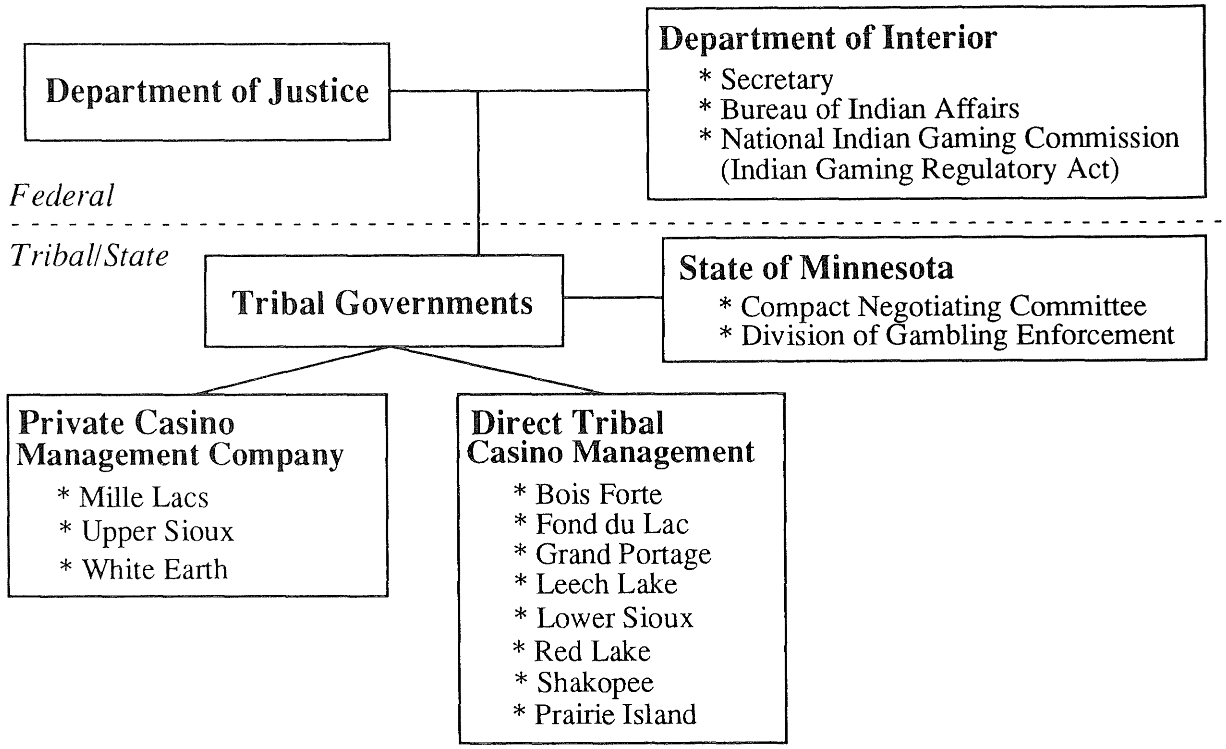
▪ State Sales & Excise Taxes[2]	- paid on reservations through agreement with State of Minnesota[3] - rebated to tribe on per tribal member basis
▪ Federal Excise Taxes	- paid on goods (e.g. liquor, fuel) sold on reservations

Taxes on Property:

▪ Local Property	- paid on all privately held land on reservation[4] - not paid on trust lands where federal government holds title

Notes:
[1]Tribes pay assessments to National Indian Gaming Commission and State of Minnesota to help cover regulatory costs.
[2]Purchases by Indians on reservations are not subject to state tax.
[3]Cigarette taxes not collected at Shakopee; no taxes collected at Red Lake.
[4]Except for Red Lake and Bois Forte, the majority of reservation Indians live on privately held lands.

Indian Gaming Regulatory and Management Structure



The Indian Gaming Regulatory Act recognizes the sovereignty of tribal governments within reservation boundaries. Tribal governments have primary regulatory and management responsibility, with federal oversight and state cooperative agreements for casino-type gaming. Most Minnesota tribes manage their casinos themselves.

Department of the Interior:
- regulates Indian Gaming
- approves additions to trust lands
- approves Tribal-State Compacts for casino-type gaming
- approves plans for allocation of gaming revenues

Department of Justice:
- enforces criminal violations of gambling laws

State of Minnesota:
- negotiates compacts with tribes for casino-type gaming
- enforces provisions of compacts, including background checks of employees and management company personnel

Tribal Governments:
- manage tribal gaming operations
- adopt ordinances and issues licenses for gaming operations and employees
- negotiate compacts with state for casino-type gaming

Minnesota's Gambling

Tribal-State Compact Negotiating Committee

- 5 members appointed by the Governor
- Attorney General is committee legal counsel for negotiations
- Negotiates compacts for Class III (casino-type) gaming between the state and Indian tribes pursuant to Federal Indian Gaming Regulatory Act

Gambling Operations and Control Board

Gambling Control Board

- 7 members: 5 appointed by the Governor, one by Commissioner of Public Safety, one by Attorney General
- Chair selected by Board
- Director appointed by the Governor
- Regulate charitable gambling; Director advises Board

State Lottery Board

- 7 members, appointed by the Governor
- Chair selected by Board
- Director appointed by the Governor
- Advises Director on conduct and rules for lottery; Director conducts lottery, including issuing retailer contracts

Racing Commission

- 9 members, appointed by the Governor
- Chair designated by the Governor
- Director appointed by Commission
- Regulates horseracing, including issuing licenses and enforcing laws and rules

Regulatory Structure

Governor

Governor's Advisory Committee on Gambling
- 8 members; Governor's designees from Gambling Control Board, Lottery Board, Racing Commission and Indian Gaming; Attorney General, Commissioners of Public Safety and Revenue; Designee of the U.S. Attorney
- Chaired by Executive Director of Gambling Control Board
- Advises Governor on comprehensive policy development and recommends improved structure for regulation and control

Support Activities in Existing Agencies

Attorney General's Office
- Gambling Unit
- Investigates and prosecutes criminal gambling violations; advises on compacts

Department of Revenue
- Criminal Division
- Special Tax Division: collects taxes on charitable gambling, conducts audits

Department of Public Safety
Division of Gambling Enforcement
- Conducts investigation and annual audits for lottery
- Conducts background checks of license applicants and investigates activities of licenses
- Issues licenses for manufacture and sale of gaming devices
- Conducts background checks of management officials and employees of tribal casinos, as provided in Tribal-State Compacts

Department of Human Services
Compulsive Gambling Treatment Program
- Established by Commissioner of Human Services
- Covers rules for conducting compulsive gambling assessments of offenders and programs including education, assistance, hotline and training

Appendix C: State-by-State Summaries

Wisconsin Gambling

AUTHORIZED

1. Charitable Gambling: bingo, casino nights, amusement games, raffles, non-profit lottery
2. Lottery: instant games, pull tabs, lotto
3. Pari-mutuel betting: dog racing
4. Indian Gaming: 7 compacts concluded, permitting video slots, blackjack and pull tabs

SIGNIFICANT ACTIVITIES

Indian Gaming

- Sokaogon Chippewa Community and Lac du Flambeau tribe sued the state over type of gaming devices that could be allowed. Court ruled in favor of the tribes saying that the state lottery and parimutuel betting were Class III games and ordered the state to negotiate compacts permitting video slots, blackjack and pull tabs.
- The Lac du Flambeau are currently in federal mediation with the state arguing that additional Class III games of craps, keno, roulette, red dog and poker should be permitted. A decision is expected by early summer. Minnesota is one of 17 amicus states in the suit with Wisconsin.

Compacts have been concluded with:

Lac Courte Oreilles - Hayward	Sakaogon - Crandon
Onieda - Onieda (near Green Bay)	Red Cliff - Bayfield
Bad River - Odanah	St. Croix - Crandon
Stockbridge - Munsee	

Compacts have not been concluded with:

Lac du Flambeau	Winnebago
Potawatomi	Menominee

- All 11 tribes currently offer bingo, blackjack and some video slots. Most operations are quite small, with the exception of the Onieda, who have 16 blackjack tables and about 400 video slot machines and the Menominee, who have 16 blackjack tables, six poker tables, roulette, craps and about 500 video slot machines.
- The Lac Courte Oreilles signed an option-to-buy agreement for the Telemark ski resort near Cable, Wisconsin, hoping to establish a casino at the site.
- The Oneida are using cable tv to offer bingo games to Minnesota residents. Some Minnesota state and Indian officials believe this is illegal since it is not addressed in compacts signed with the state.

Pari-mutuel

- There are five dog tracks located in Wisconsin: Hudson, Wisconsin Dells, Chocheno, Lake Geneva and Kenosha, but none are meeting projections. The newly opened St. Croix Meadows track at Hudson, for example, was about 42 percent below original projections for revenue and attendance during 1991.

Source: Wisconsin Lottery Board, Wisconsin Office of the Attorney General, Report of the Task Force, January 1992, North American Gambling Abstract.

Iowa Gambling

AUTHORIZED

1. Charitable Gambling: bingo, pull tabs, casino nights amusement games, raffles non-profit lottery
2. Pari-mutuel betting: greyhound racing, horse racing
3. Lottery: instant games, pull tab games, Lotto America
4. Riverboats: six riverboats providing craps, roulette, video slots, poker and blackjack

   - $200 wager limit per river trip, maximum of four trips per day

   - $5 bet limit on table games

   - 30 percent of boat can be used for gambling, the rest must be devoted to restaurants, entertainment activities for children, etc.

5. Indian Gaming: compact concluded on December 31, 1991, with the Omaha; games permitted: poker, simulcast races, sports betting, blackjack, roulette, craps, slot machines

SIGNIFICANT ACTIVITIES

Riverboats - aimed at tourist market

Riverboats currently operating:

1. Casino Belle, near Dubuque, $12 million cost, 2,500 passengers
2. President, near Davenport, $10 million cost, 3,000 passengers, 680 slot machines, 34 gaming tables (world's largest floating casino)
3. Emerald Lady, Fort Madison, Burlington, Keokuk, 250 slot machines, 13 gaming tables
4. Mississippi Belle II, Clinton, 500 passengers, 250 slot machines, 13 gaming tables
5. Diamond Lady, Bettendorf, Muscatine, 250 slot machines, 13 gaming tables

Under negotiation:

1. Sioux City, Missouri River

Indian Gaming

- Omaha (Onawa) constructing a 30,000 square foot casino having about 700 slot machines; expected to open in spring 1992; bet limit of $5 and total loss limit of $200 (same as riverboats).

- Mesquakie (Tama) compact discussions underway with state; currently offer high stakes bingo.

- Winnebago (Sloan) state and tribe close to completing compact; expect to open casino in spring 1992.

Source: Chicago Sun Times, Omaha World Herald, Iowa Department of Inspections and Appeals.

Illinois Gambling

AUTHORIZED

1. Charitable gambling: bingo, pull tabs and Las Vegas nights
2. Pari-mutuel betting: horse racing, off-track betting
3. Lottery: instant games, lotto, three and four digit number games
4. Riverboats: blackjack, backgammon, poker, craps, video slot machines, roulette, keno, pull tabs, pin wheels

   - law authorizes 10 licenses; each for 2 boats and 1200 total gaming positions
   - licenses are granted for any navigable waterway except in Chicago or on Lake Michigan
   - no limits on bets or losses

SIGNIFICANT ACTIVITIES

Riverboats

Currently operating:

1. Alton Belle at Alton (Mississippi River)
2. Par-A-Dice at Peoria (Illinois River)

Riverboats not operating but engaged in licensing process (date when operations expected to begin):

1. Rock Island, on Mississippi River (March 1992)
2. Aurora, near Chicago, Fox River (August 1992)
3. Joliet outskirts, Illinois River (July 1992)
4. Joliet city center, near Chicago, Illinois River, 700 passengers, to be run by Harrahs of Reno (summer 1992)
5. Galena, NW Illinois
6. East St. Louis, southern Illinois
7. Sauget, southern Illinois
8. Metropolis, southern Illinois
9. Moline

Taxes

- $2 admission tax per patron; half goes to the state and half to the local government where the boat is docked. Also a wagering tax of 15 percent for the state and 5 percent for the local government where the boat is docked.

- Total revenue 1991: state $2,147,574; local government $887,082 (this is for two riverboats, one in operation for 14½ weeks and the other for four weeks).

Source: Illinois Gaming Board, Chicago Sun Times, Chicago Tribune.

South Dakota Gambling

AUTHORIZED

1. Pari-mutuel betting: dog racing, horse racing
2. Charitable gambling: bingo, pull tabs, but no state oversight
3. Casino gambling: constitutional amendment, Deadwood only, video slots, blackjack and poker, limited to 30 machines per building
4. Lottery: instant games, video lottery (allowed only where liquor is sold, limited to 10 devices per establishment, $2 per bet)
5. Indian Gaming: compacts permit poker, blackjack and video slots

SIGNIFICANT ACTIVITIES

Indian Gaming

- Compacts concluded with: Flandreau, Yankton and Sisseton-Wahpeton; Lower Brule compact expected March 1992;
- Total gambling devices permitted: Flandreau 250, Yankton 180, Sisseton-Wahpeton 180 and Lower Brule (180 expected); bets are limited to $5.

Lottery

- There are 4,800 licensed video terminals regulated by the state; net income to the state's general fund was $43 million in fiscal year 1991 up from $20 million in 1990.
- The instant games and lotto provided $4.0 million to the state's general fund in fiscal year 1991, down from $5.3 million in 1990.

Deadwood Casinos

- Opened in November 1989, currently 82 licensed gambling establishments with a total of 2,000 machines and tables.
- Deadwood shares half of the 8 percent tax on adjusted revenue with the state and receives most of the annual $2,000 license fee per gambling device. City revenues are dedicated to historic preservation.
- Total gaming action far exceeded projections: $250 million in fiscal year 1990 and $313 million in fiscal year 1991.

Source: South Dakota Gaming Commission, Omaha World Herald, Chicago Sun Times, Governing, 2-91, CUED Economic Developments.

North Dakota Gambling

AUTHORIZED

1. Charitable Gambling: bingo, pull tabs, blackjack, poker, calcutta, raffles, sports pool, punchboard
2. Pari-mutuel betting: horse racing
3. Indian Gaming: bingo parlors, not regulated by the state

SIGNIFICANT ACTIVITIES

Charitable gambling

- Activities can be conducted in bars, restaurants, charitable organizations, etc.; currently there are 570 sites where charitable gambling activities take place.
- The total handle in 1990 was approximately $225 million. A graduated gaming tax on adjusted gross sales and a 2 percent gross tax on pull tabs netted the state about $22.5 million. A 5 percent sales tax on gross bingo sales netted an additional $2.6 million. All revenue from taxes go to the general fund.

Indian Gaming

- Currently negotiating compacts with three Indian tribes; major obstacle to completing compacts is whether to permit tribes to have video gaming devices.
- There are two other tribes in the state with reservation land that extends across the border with South Dakota. These tribes have not entered negotiations on compacts since they can operate video gaming devices, blackjack and poker in South Dakota.

Pari-mutuel

- Horse racing takes place at two county fairs for a total of 10 racing days each year.

Source: North Dakota, Office of the Attorney General.

Michigan Gambling

AUTHORIZED

1. Charitable Gambling: bingo, raffles, Las Vegas nights and pull tabs
2. Lottery: lotto, zinger, instant numbers and daily three
3. Indian Gaming: no compacts; in 1988 a Grand Rapids federal judge ruling validated right of Michigan tribes to operate casinos

SIGNIFICANT ACTIVITIES

Charitable gambling

- Activities are conducted by non-profit and fraternal organizations and licensed by the state.
- Legislation currently being debated which could expand when and where pull-tabs could be sold; currently limited to licensed events.

Lottery

- Lottery sales declined during 1991; attributed to maturity and poor economy.
- Proposed legislation would permit video lottery devices similar to those in South Dakota. The Governor and Lottery Board are opposed.

Indian Gaming

- No compacts have been concluded. The state is in litigation with seven tribes to determine whether video games of chance are permissible under Michigan law. The state will be arguing the very serious addictive nature of video gaming devices. A decision is expected by mid-February.
- Seven tribes now conducting casino-type activities including video slots, slot machines, bingo, pull tabs and roulette:

Upper Peninsula:

Baraga-Ojibwa including hotel, casino, restaurant, bingo hall and bowling alley
Brimley
Potawatomi (Escanaba) casino, motel; employs 160, revenues $1.6 million. Future plans include RV park, golf course, industrial park
St. Ignace
Sault Ste Marie Chippewa (Sault Ste Marie) casino employing 198 people, planning a 52-room motel, convention and health centers, and elderly residence. Watersmeet casino, expansion planned.

Lower Peninsula:

Suttons Bay casino
Saginaw Chippewa (Mt. Pleasant) casino employing 200

Source: Michigan Office of the Attorney General, Bureau of State Lottery, North American Gambling Abstract.

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