

Members and Associates,

Attached is the 2016/2017 budget request for the Gambling Control Board. The Governor is recommending an increase of our monthly regulatory fee from .001 of sales to .0015% of sales. This is the result of a requested increase from the Gambling Control Board to .002% of sales to cover a budget shortfall for the GCB.

You may recall that at the December 2014 GCB meeting ACM addressed the board in the Public Comment section of the agenda asking the board to not approve the doubling of the regulatory fee from .001% of sales to .002% of sales. The board did vote for the increase.

We are pleased that after review the Governor did reduce the request, but we do not believe that a 50% increase is affordable or sustainable by charities.

While this looks like a minor percentage increase, it is a 50% increase in the dollar amount. I have long argued that sales, while important, give a false impression as we pay out in prizes 83.7% of what we take in.

We cannot spend what we are not able to put in the bank. My American Legion, if future sales are equal to the previous fiscal year, would pay an additional \$1400 in monthly regulatory fees and our total regulatory bill will increase from \$2800 to \$4200 annually. That is \$1400 less that we will have to spend on our missions. Based on our current sales, the proposed increase will mean that all charities combined will have \$600,000 less to spend on missions.

It is true that the GCB has not had a regulatory fee increase for 11 years. They project that if they do not get this fee increase that they will have a deficit in fiscal year 2016. They are also projecting that they will not be adding any staff, which I applaud as we have fewer charities than before to regulate (we lost six in December of 2014). Most of the increased fees will go to pay for staff salary increases.

I am also being told that if we object to the increase and the increase is not adopted by the legislature, the GCB will cease to exist as we currently know it and that we will be put under another government agency such as the MN Lottery or the MN Department of Public Safety. While we agree that moving to another form of management and regulation, such as the Department of Commerce, may provide cost savings we would prefer that the GCB remain an independent board.

Our assumption is that whatever the final result, the legislative branch will do its job and make sure the GCB has the funding needed for the policies and regulatory expectations of their oversight committees.

We cannot raise our prices to cover any increase in costs, it comes out of missions. Some will argue that we can manage our profit to cover the increase and while there is some truth to that, there are limitations. If an organization plays all

85% games, they will have a tremendous amount of sales, but precious little profit given our current cost and tax structure. If an organization plays all 75% games, they will have a lot more percentage profit to work with, but far less sales. We are forced to contemplate and implement cost saving measures on a regular basis. We would hope and expect that from our regulators as well.

Our belts have no more notches, we are tapped out. When my Legion is in the 36% combined receipt tax bracket (six months most years) we must sell \$1000 in pull-tabs to get \$20 to the bottom line for missions. Needing to pay another \$100 a month in regulatory fees will only reduce that already paltry amount. I know that if any increase is approved, some charities will say that they have had enough and turn in their license. The reward is quickly becoming greater than the work or risk.

We do have legislation that will reduce expenses (eliminates the annual outside audit for the majority of charities) and provide substantial tax relief (50% reduction over current rates) that would certainly make a regulatory fee increase more manageable, but those are not at all certain. We send the state's general fund \$37 million annually and several more millions went into the stadium account in FY 2014. Is there not the opportunity to take a few hundred thousand dollars from what we already send to the state general fund to help eliminate the fee increase that the Gambling Control Board says that they need to do their job?

I am not shutting the door to a discussion on an increase in our fees, but I believe that more needs to be done by the state to lighten the burden on charities.

I would welcome your input. In the final analysis it will be your elected representatives of the Allied Charities board that will make the decision as how best to respond to the fee increase proposal. Please let me know your thoughts and I will share them with the board.

Regards,

**Al Lund
Executive Director
Allied Charities of Minnesota**