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*Proudly Serving Charitable Gambling Organizations Throughout
Minnesota*

2016 Legislative Session Review

07/11/2016

Members, Associates and all Licensed Gaming Organizations,

Prior to getting into our Session Review, I would like to highlight our action item this summer. Because this is an election year, we are asking licensed gaming charities to contact everyone running for state legislative office this November and ask if the candidate agrees to support our efforts for tax relief. We will then be publishing the list so everyone can see who supports relief for us and who does not. More on this to come in the next couple of months.

Please sit back and for the next few minutes read my review of the 2016 Legislative session. It will be my unvarnished assessment of what happened for us and to us, and what I think that we need to do in preparation for future sessions. We were waiting to see if there would be a special session that might include a tax bill, but the possibility of that is diminishing by the day.

In the 2016 legislative session over 1400 bills were introduced and less than 115 made it to the Governor's desk for a signature, which is less than an 8% success rate. Our policy bill that did not get a vote in the Senate in 2015 passed this year. Our House author was Representative Chris Swedzinski and passed the House on a 126 – 0 vote. Our Senate author was Senator Dan Sparks and passed the Senate on a 51 – 0 vote. If either Representative Swedzinski or Senator Sparks is one of your legislators, please remember to thank them. The Governor signed the bill and we thank him for that. The bill allows for a charity that conducts large scale raffles to use a random number generator if they so choose and cuts the waiting period in half (90 days instead of 180) for a person to belong to an organization before becoming the GM of the organization. It raises the bingo game dollar limits, removes the bingo session dollar limit as well as allowing the hot ball bingo prize to be player or organization funded. Cities that take ten percent of the net must now acknowledge where the money came from. Prospective employees must fill out the Federal I-9 form (or equivalent) for employment verification. The lesson to be learned here is that our items that do not cost the state money or are mostly non-controversial will usually pass.

Our tax efforts did not fare as well. In 2015 there was no tax bill passed by the Legislature, but there was this year. We were in the House conference committee version of the tax bill, but not the Senate conference committee version. In the end we did not make the final bill. I did think that 2016 offered us a good chance at relief as all of the legislators are up for election this year, citizens have a renewed interest in politics and there was a surplus of \$900 million dollars. The tax bill was ultimately pocket vetoed by the Governor, so the net result was that there was no tax bill signed into law this year either.

Our reality is that the governor confirmed that he is against any tax relief for us, stating in a letter to the Legislature that relief for us would mean a deficit in the stadium fund. We have offered to pay for the stadium bonds in full, but we cannot continue to contribute to the general fund and the stadium fund.

Capping our total annual state tax contribution at \$35 to \$40 million or being able to deduct our donations from our tax liability are two solutions that we have offered up.

ACM had input on two other bills. We testified in regards to a Daily Fantasy Sports (DFS) bill that would have made it legal to participate in DFS on the Internet in Minnesota. Our point to the committee was that for profit companies that compete for the same dollars that we do need to be regulated and taxed at more than just the corporate tax rate (where their expenses are deductible). The bill stayed in committee.

We testified against a Minnesota Racing Commission (MRC) bill that was looking to make Internet gambling on horse races legal in Minnesota. Our point to the committee was that just because the technology was available it did not mean that it needed to be used. Gambling to us is a site based activity. Being able to gamble 24/7/365 in your basement is not necessarily a good idea for the citizens of Minnesota. The bill had passed the House, but was stalled in committee in the Senate. On the last day of session it was put up for a vote in the Senate by special orders and passed on a 35 – 29 vote. The Governor signed the bill. Everyone in Minnesota now has legal gambling equipment within arm's length as any device capable of accessing the Internet is now legal gambling equipment. In one fell swoop we went from having legal gambling in roughly 6000 sites (bars, casinos, gas stations, grocery and convenience stores) to roughly 10 million plus sites overnight.

Because of how the Governor backed the MN Lottery in their attempt at on-line gambling in 2015, it was clear to me that he wanted on-line gambling made legal in Minnesota and he got his wish with the MRC bill. You can be sure that the MN Lottery will be back in 2017 with an Internet gambling bill and it will be difficult for the Legislature to say no to them when they said yes to the MRC.

To varying degrees all of our competitors and the current administration seem to believe that the Internet is the answer for them. We continue to believe that site based gaming is how gaming in the state be conducted. You need to make more of an effort to gamble than picking up your phone or logging on to your computer. But, if all of our competitors get the right to conduct Internet gambling in Minnesota the competitive pressures will almost certainly force charitable gaming to seek the ability to conduct it in some form as well.

ACM supported legislation that would have updated the manual tri-wheel to an electronic tri-wheel. The Minnesota Indian Gaming Association (MIGA) testified against the bill and the bill stayed in committee. I have the utmost respect for the mission of the tribes that conduct gaming, but I think that they overreached on this occasion. We were looking to update 30 year old technology, not expand gaming or go outside the box of our current site based gaming. Electronic tri-wheels were passed into law in 2012; this particular bill would have clarified details of an electronic table to match the electronic tri-wheel. I cannot recall seeing any 30 year old technology in a tribal casino that the casino did not want to still use. Tribal gaming need not have interfered on this occasion.

In many respects we are a victim of our own success. Most people unfamiliar with charitable gaming believe that big sales equal big profits. I am asked regularly why we complain so much about our tax rates when our sales are off the chart. We are on pace to exceed our all-time high of \$1.5 billion in sales

in fiscal year 2016. Only those that understand how our structure works know that there is not a direct correlation between sales and profits for us. Our sales were up 9% in fiscal year 2015 and we paid 13% more in state taxes. Our sales in fiscal year 2016 appear that they will be up 13% and we will probably pay upwards of 18% more in taxes. We are selling more (thank you to our patrons), but we are getting less as a percentage to the bottom line for our missions. We are now sending the state in excess of \$1 million per week. All we do is feed, clothe, protect and serve yet we are penalized for our efforts. We are very close to crossing a line where we will pay the state more in taxes than we have for our missions. My prediction is that our average income available for donations will drop from 5 cents per dollar touched (sales – payout – taxes – expenses) to 4.6 cents per dollar touched, which is an eight percent erosion in our ability to contribute to our missions and our communities.

When I think about it, our success is really something to be admired, appreciated and celebrated. Our oversight (the State of MN) is at the same time our largest competitor (MN Lottery). The MN Lottery that spends millions of the dollars that they take to the bank on advertising and marketing (instead of investing in Minnesota) is now hiring celebrities to advertise their scratch off games and they do not come close to our growth. Minnesota horse racing pays no special gambling taxes on their card parlors or horse races on income of less than \$12 million per year (6% after that), yet they are having mixed results with attendance and wagers placed. For profit Daily Fantasy Sports companies pay a corporate tax rate that we would be happy to pay. Professional sports teams/leagues have been a legal stumbling block to our having the use of sports boards to raise money for our missions, yet they invest in DFS companies by the millions of dollars. Tribal gaming is not our concern, but they have a great deal of influence with legislators in regards to what we can or cannot get approved. Three of our competitors are either for profit or government. I regularly tell my tribal counterparts that if charitable gaming is ever out of the picture that they will then stand alone against the government and for profit competitors.

Other states wish that they could figure out what we in charitable gaming are doing in Minnesota so that they could replicate it. If I had to place a bet on who would be successful among the five of us (charitable, tribal, horse racing/card rooms, lottery and daily fantasy), it would be hard to put money on us when you consider who our competition is and the tax structure that we currently operate under. That we are as successful as we have been is a testament to you, your organization and to the people that know and support our missions. I believe that our supporters understand that when they do not win at our games, the money that they spend is being put to good use in their local communities. That we are an enigma to our competition gives me a degree of pleasure.

ACM serves other purposes besides lobbying for legislation. We are on the front line for gaming charities every day of the year. We work with the Gambling Control Board, Minnesota Department of Revenue and the Minnesota Department of Public Safety on many issues that come up throughout the year. We advocate for our missions with the public. There is no one else who does what ACM does for charitable gaming in Minnesota. We run a very tight fiscal ship. Members and Associates are welcome at the monthly board meetings and everyone who wants to speak gets heard. Our members set the agenda for what we work to accomplish. ACM does not go along to get along with anyone. Our only mission is to keep non-profit licensed gaming charities doing the great work that you do long into the

future.

For 2017 we need to come together and decide what is important for us to achieve in the next legislative session. The ACM Policy committee (consisting of charities, distributors, manufacturers and other associate members) will be very much involved with this, but we need your help. Between now and the next session you need to work with your legislators to help them understand what is really going on with your mission work and what needs to change. Invite them to your monthly meetings where they can see and hear about the great work that you are doing for your local communities. See the enclosed sheet in regards to increasing legislative effectiveness. Tax relief for all charities will continue to be a central focus for ACM.

As the buck stops at my desk, I am ultimately responsible for the success or lack thereof of the agenda that members set for ACM at the legislature and I take that responsibility very seriously. We did not achieve what we set out to this legislative session and I deeply regret that. I will tell you though that I never had one legislator tell me to call off the charities, that they were getting too many calls on our issues. We will never be able to compete with the money spent influencing legislation at the Capitol, but the money will never be able to compete with our votes. If we as a group decide to be a factor at the Capitol we will be unstoppable in seeking fairness for our missions.

As always, e-mail (alliedcharitiesmn@gmail.com) or call me (651-224-4533). I personally answer the e-mails and I answer the phone, nobody else. Send me your ideas as to what you think that we need to be working on and they will be shared with the board. I hope to see you in Rochester for the 26th ACM Convention & Expo, November 17 – 19. You know you will have a good time and you know that it is never dull when we all get together.

You don't hear it enough, but thank you for all of the work that you do for your chosen missions and communities. YOU ALL ROCK!

Regards,

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Al Lund

Executive Director, Allied Charities of Minnesota