

Consolidated Fiscal Note – 2011-12 Session

Bill #: H1485-1E **Complete Date:** 05/04/11

Chief Author: KRIESEL, JOHN

Title: GMBLING TAX RATE MOD ;BINGO& PULLTAB

Fiscal Impact	Yes	No
State	X	
Local		X
Fee/Departmental Earnings	X	
Tax Revenue	X	

Agencies: Lawful Gambling (05/04/11)

Revenue Dept (05/04/11)

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY11	FY12	FY13	FY14	FY15
Net Expenditures					
General Fund	0	198	174	174	174
Revenue Dept	0	198	174	174	174
Misc Special Revenue Fund	0	444	880	880	880
Lawful Gambling	0	444	880	880	880
Revenues					
General Fund	0	(800)	2,300	2,300	2,300
Revenue Dept	0	(800)	2,300	2,300	2,300
Misc Special Revenue Fund	0	1,438	2,663	2,663	2,663
Lawful Gambling	0	1,438	2,663	2,663	2,663
Net Cost <Savings>					
General Fund	0	998	(2,126)	(2,126)	(2,126)
Revenue Dept	0	998	(2,126)	(2,126)	(2,126)
Misc Special Revenue Fund	0	(994)	(1,783)	(1,783)	(1,783)
Lawful Gambling	0	(994)	(1,783)	(1,783)	(1,783)
Total Cost <Savings> to the State	0	4	(3,909)	(3,909)	(3,909)

	FY11	FY12	FY13	FY14	FY15
Full Time Equivalents					
General Fund	0.00	3.00	3.00	3.00	3.00
Revenue Dept	0.00	3.00	3.00	3.00	3.00
Misc Special Revenue Fund	0.00	9.00	9.00	9.00	9.00
Lawful Gambling	0.00	9.00	9.00	9.00	9.00
Total FTE	0.00	12.00	12.00	12.00	12.00

Consolidated EBO Comments

The assumptions in each agency’s note on the rate of uptake of the new electronic forms of gambling and the decrease of the older paper forms of gambling differ. There is relatively little data from other states for which to compare how these changes to forms of gambling will affect charitable gambling in Minnesota. However, it is very likely that new revenue will come in from the new electronic forms of gambling and some amount of revenue will be lost due to the lower tax rates on the paper forms of gambling as well as the reduction in gambling associated with the paper forms.

EBO Signature: LISA BARNIDGE
Date: 05/04/11 Phone: 651-201-8032

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Title: GMBLING TAX RATE MOD ;BINGO& PULLTAB

Fiscal Impact	Yes	No
State	X	
Local		X
Fee/Departmental Earnings	X	
Tax Revenue	X	

Agency Name: Lawful Gambling

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY11	FY12	FY13	FY14	FY15
Expenditures					
Misc Special Revenue Fund	0	444	880	880	880
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
Misc Special Revenue Fund	0	444	880	880	880
Revenues					
Misc Special Revenue Fund	0	1,438	2,663	2,663	2,663
Net Cost <Savings>					
Misc Special Revenue Fund	0	(994)	(1,783)	(1,783)	(1,783)
Total Cost <Savings> to the State	0	(994)	(1,783)	(1,783)	(1,783)

	FY11	FY12	FY13	FY14	FY15
Full Time Equivalents					
Misc Special Revenue Fund	0.00	9.00	9.00	9.00	9.00
Total FTE	0.00	9.00	9.00	9.00	9.00

Bill Description

HF 1485-1E is proposed by the charitable gambling industry which consists primarily of 1,300 non-profit organizations such as American Legion and VFW Posts, youth hockey organizations, fire relief associations and other civic groups. This bill includes reductions in the charitable gambling taxes; modifies the frequency of conducting linked bingo games, allows for electronic pull-tab games with a finite number of chances, and clarifies the allocation of gross profits from the conduct of linked bingo games.

A number of provisions in this bill are based on study conducted by the Gambling Control Board as directed by the 2008 legislature (Chapter 260, Section 24) and presented during the 86th legislative session. Specifically the allowance for electronic game formats. The proposed game changes would maintain the existing laws and rules for prize payouts and game structure but allow for an electronic format as opposed to paper format.

Assumptions

Based on the provisions in this bill, the Gambling Control Board expects to see an increase (or a return) in the number of sites and charities conducting lawful gambling. (Note: During the last 5 years, the charitable gaming industry has realized a significant drop in activity: A decrease of over \$400 million in gross receipts; a loss of 250 sites and nearly 150 non-profit organizations terminated their gambling license. We expect to see a number of the sites and charities will re-establish their gambling permit.) Additionally, the electronic format for games is expected to draw a wider interest in charitable gambling games and therefore we assume that we will see an increase in gross receipts as well.

Current number of licensed gambling sites in Minnesota: 2,800 Projected: 3,500

Current number of licensed charitable organizations in Minnesota: 1,300 Projected: 1,500

The projected (average) number of pull-tab and bingo devices at each site: 8
(The size/capacity at each site determines the maximum allowance of devices. 6 minimum/12 maximum.)

Based on an estimated prize payout of 85%, the following estimates show:

- Projected average daily gross receipts per device: \$250
- Projected average daily net receipts (after prizes paid) per device \$37.50
- Projected average daily gross receipts per site: \$2,000
- Projected average daily net receipts per site \$300.00

With the allowance of electronic game formats there is some debate regarding the continuance of existing (paper) games but industry representatives expect to see this type of play to continue but at a decreasing rate. For purposes of estimating we are projecting a 10% annual decrease in receipts for current game formats.

Allocation of proceeds

Based on a projected increase in gross receipts and proposed rates of allocation for the net receipts, the following estimates are provided for informational purposes:

- Projected annual increase in net receipts: \$383,000,000
- Projected annual increase in lawful purpose expenditures: \$120,000,000
- Projected annual increase in compensation to retail sites: \$65,000,000

(The Gambling Control Board is not including any fiscal impact related to the proposed lawful gambling taxes but for purposes of discussion including some background data for consideration.)

Current average charitable gambling tax paid to the state based on gross receipts is 4% of gross receipts. The proposed average charitable gambling tax would be 1.5%. The proposed decrease in tax rates includes a significant provision to modify the combined receipts tax and change from a "per organization" rate to a "per site" rate.

Expenditure and/or Revenue Formula

REVENUE

Projected additional gross receipts:

3,500 sites X \$2,000 daily receipts per site X 364 days – \$98,000,000 (10% existing games) = \$2,450,000,000

License fees paid to the state:

700 new/renewed premise permits X \$150 = \$105,000
200 new/renewed licenses for charitable organizations X \$350 = 70,000
200 new/renewed gambling manager licenses X \$100 = \$20,000
2 new licensed manufacturers (estimated) X \$9,000 = \$18,000

Regulatory fee based on gross receipts: \$2,450,000,000 X .001 (.1%) = \$2,450,000

Total new annual fees collected by the Gambling Control Board: \$2,663,000

EXPENDITURE

Based on the projected activity, the Gambling Control Board is estimating the 9 FTE increase in regulatory staffing:

1 Licensing Specialist; 3 compliance/auditors; 2 information technology specialists; 2 investigators; and 1 administrative specialist.

Annual salaries and benefits: \$740,000

Operating and travel expenses: \$140,000

Rulemaking expenses for FY 2012 \$4,000

Total projected annual increase in operating expenses for the Gambling Control Board: \$880,000

Long-Term Fiscal Considerations

None at this time

Local Government Costs

Local units of government may see a slight increase in expenses related to local permit requests but also see an increase in local funding from licensed charitable organizations making contributions to the local government (fire safety, parks/recreation, civic celebrations).

References/Sources

2009 Lawful Gambling Study (Issues Facing the Industry)
2005 Gambling Control Board Annual Report
2010 Gambling Control Board Annual Report

FN Coord Signature: DEBRA HELLENBERG

Date: 04/29/11 Phone: 651-639-4083

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: LISA BARNIDGE

Date: 05/04/11 Phone: 651-201-8032

Fiscal Note – 2011-12 Session

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Agency Name: Revenue Dept

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	FY11	FY12	FY13	FY14	FY15
Full Time Equivalents					
General Fund	0.00	3.00	3.00	3.00	3.00
Total FTE	0.00	3.00	3.00	3.00	3.00

Bill Description

HF1485-1E

Current Law: The current bingo, raffle, and paddlewheel tax rate is 8.5% of gross receipts less prizes paid. The current pull-tab and tipboard tax rate is 1.7% of the ideal gross of each pull-tab or tipboard deal sold by a distributor. The taxes are due on the 20th of the following month. The combined receipts tax has four brackets based on fiscal year gross receipts of the organization:

<u>Fiscal Year Receipts by Organization</u>	<u>Tax Rate</u>
First \$500,000	0%
\$500,001 - \$700,000	1.7%
\$700,001 - \$900,000	3.4%
Over \$900,000	5.1%

Proposed Law: The bill would reduce the bingo, raffle and paddlewheel tax rate to 5.0% of gross receipts less prizes paid. The pull-tab and tipboard tax rate would be reduced to 1.0% of the ideal gross of each pull-tab or tipboard deal sold by a distributor. The bill would change how the combined receipts tax is administered. It appears that the intent is to impose the tax on a site-by-site basis, instead of on the organizations total for all sites. The combined receipts tax brackets and rates would now be based on the following brackets and rates:

<u>Fiscal Year Receipts by Site</u>	<u>Tax Rate</u>
First \$600,000	0%
\$600,001 - \$800,000	1.0%
\$800,001 - \$1,000,000	2.0%
Over \$1,000,000	3.0%

Note: The language in Section 3 should be clarified regarding the imposition of the graduated combined receipts tax on each site

The bill would allow for two new types of electronic charitable gambling in Minnesota: electronic linked bingo games and electronic pull-tabs. The bill would expand the availability of electronic linked bingo compared to bingo under current law.

The bill also makes several changes to charitable gambling regulations.

Revenue Analysis

	Fund Impact			
	F.Y. 2012	F.Y. 2013	F.Y. 2014	F.Y. 2015
		(000's)		
General Fund1	(\$800)	\$2,300	\$2,300	\$2,300

1 According to the Gambling Control Board, the new forms of gambling authorized in the bill are expected to increase charitable gambling activity, and the estimates reflect this increased activity. However, if activity stayed at current levels, **the reduced tax rates would result in a loss of about \$20 million per year.**

Effective August 1, 2011.

Revenue Analysis Detail

- The February 2011 forecast is the base for these estimates.
- This estimate assumes that the combined receipts tax would be collected on a site-by-site basis.
- The Gambling Control Board estimates that the new electronic games would be available at 3,500 sites. This estimate assumes that there will be 2,600 sites in FY 2012, 3,200 sites in FY 2013, and 3,500 sites starting in FY 2014.
- The Gambling Control Board estimates there would be an average of 8 machines per site and each machine would

average \$250 in gross receipts per day for 364 days per year. The \$250 is based on industry data from Florida. The Gambling Control Board estimates that 50% of the increase in gross receipts would be from bingo and 50% would be pull tabs.

- Department of Revenue data on gross receipts by site for fiscal year 2010 was scaled to match the projected gross receipts under this bill and then the tax was calculated based on the new brackets and rates.
- This work produced an effective tax rate of 0.789% on gross receipts.
- This estimate assumes that 50% of paper pull-tabs and tip boards would be eliminated in FY 2012, 75% in FY 2013, and by FY 2014 95% of paper pull-tabs and tip boards would be eliminated. This estimate assumes no reduction in the current level of bingo, raffles, and paddleboard activity.
- Gambling refunds are assumed to maintain their historical ratio of 21% of the pull-tab and tipboard tax paid.
- Fiscal year 2012 receipts are reduced to reflect ten months of collections.

Number of Taxpayers: Approximately 720 organizations pay the bingo, raffle, and paddleboard tax, 12 distributors remit the pull-tab and tipboard tax, and 580 organizations pay the combined receipts tax

Fiscal Assumptions

This proposal will reduce the rates of the two lawful gambling taxes and the distributor tax. It will move the combined receipts tax from the organization level to the site level. The bill will also allow for electronic spinning of a paddlewheel, create a facsimile paper pull-tab, allow for the electronic play of a pull-tabs and the electronic play of linked bingo in bars & bingo halls.

The Special Taxes Division will require a change to our compliance & audit activities of licensed organizations conducting lawful gambling. Department processes & procedures will be updated to account for the conduct of both electronic pull-tabs & bingo. The bill may require some form changes and instruction book changes.

Based on electronic pulltabs & bingo, the Gambling Control Board is projecting gross receipts to increase by \$2.5 billion dollars per year. This significant increase in gross receipts will substantially increase or tax compliance and audit activity. This additional work will require three Revenue Tax Specialists in the Special Taxes Division.

System development costs will not be significant as lawful gambling is part of Gentax R4 and making the any necessary changes will be part of the conversion (unless the implementation is delayed past September 2011).

Administrative Costs

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
	(Actual dollars)			
Salaries	\$174,264	\$174,264	\$174,264	\$174,264
Workstations	\$15,525	\$0	\$0	\$0
Computer Equipment	\$4,563	\$0	\$0	\$0
Miscellaneous	\$3,426	\$0	\$0	\$0
Total Costs	\$197,778	\$174,264	\$174,264	\$174,264

Salaries	Three Revenue Tax Specialists
Workstations	Modular workstations
Computer Equipment	Dell Laptop workstation
Miscellaneous	Office supplies

Long-Term Fiscal Considerations

Local Government Costs

Agency Contact Name: Ron Empting 651-556-4042
FN Coord Signature: RON EMPTING
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EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: BRYAN DAHL
Date: 05/04/11 Phone: 651-201-8031