

**STATE OF MINNESOTA  
ADVISORY COUNCIL ON GAMBLING**

---

---

**FINAL REPORT  
TO  
THE LEGISLATURE AND GOVERNOR**

February 1, 1996

The cost to prepare this report was approximately \$50,000.

CONTENTS **R E C E I V E D**

FEB 08 1996

<b>INTRODUCTION</b> .....	LEGISLATIVE REFERENCE LIBRARY.....	3
Creation of Advisory Council.....	STATE OFFICE BUILDING.....	3
Members of the Advisory Council.....	ST. PAUL, MN 55155.....	4
Summary of Proceedings.....		5
<b>FINDINGS AND RECOMMENDATIONS</b> .....		7
<b>GAMBLING IN MINNESOTA: What is the extent of it?</b> .....		9
Gambling Activity.....		9
Survey Results.....		10
Illegal Gambling.....		15
Attitudes Towards Gambling.....		16
<b>FORMS OF GAMBLING: What should be the state's policy?</b> .....		18
Causes for Concern.....		18
Why Change is Difficult.....		19
Living with the Status Quo.....		20
Considerations in Evaluating New Forms of Gambling.....		20
Reiterating the 1995 Recommendation on Video Lottery.....		21
Other Gambling Forms.....		22
<b>GOVERNANCE OF GAMBLING: What should be the state's policy?</b> .....		23
Minnesota's History on Governing Gambling.....		23
Governance in Other States.....		25
Discussion.....		26
<b>PROBLEM GAMBLING: What should be the state's policy?</b> .....		27
Problems with Gambling.....		27
Industry and Community Responses.....		28
State Responses.....		28
<b>REGULATION OF GAMBLING: What should be the state's policy?</b> .....		30
State Interests in the Regulation of Gambling.....		30
<b>GAMBLING ON TRIBAL LAND: What should be the state's policy?</b> .....		31
Background.....		31
Effects of Tribal Gambling.....		32
Future Discussions.....		32
<b>WHAT QUESTIONS NEED FURTHER EXPLORATION?</b> .....		33
Socio-Economic Model.....		33
Additional Research Questions.....		34
Process.....		35

# INTRODUCTION

## CREATION OF THE ADVISORY COUNCIL

---

The Advisory Council on Gambling (Advisory Council) was created as part of the 1994 legislature's omnibus gambling bill (Laws 1994, chapter 633, article 8, section 5).

### Charge and Duties

Its general charge is to "study the conduct of all forms of gambling in Minnesota and advise the governor and legislature on all aspects of state policy on gambling." Its duties include making reports to the governor and legislature on these general topics:

- the extent of all forms of gambling in the state
- the "purpose, intent, application, integration, and relationship" of Minnesota laws relating to gambling
- the governance of gambling by state agencies
- the nature and extent of gambling that is not subject to state regulation
- the financial and social impact of the growth of gambling in the last decade
- the appropriate level of regulation for charitable gambling

### Specific Issues

The Advisory Council was also charged with studying three specific issues in gambling policies:

- the likely results of authorization of use of video lottery machines in the state
- proposals for changes in taxes on pull-tabs and tipboards to reflect unsold tickets
- expenditures of net profits from lawful (charitable) gambling for real estate taxes on premises used for lawful (charitable) gambling

### Required Reports

The Advisory Council was required to submit an initial report by February 1, 1995, and a final report by February 1, 1996.

## MEMBERS OF THE ADVISORY COUNCIL

The Advisory Council was created with a total of 14 members. Nine members were to be appointed by the governor, one to serve as chair and the other eight to represent the state's eight congressional districts. One member was appointed by the attorney general. The remaining members were to be two members each of the state Senate and House, including the chairs of the policy committee in each body that deals with gambling issues.

### **Current Membership**

The current members and their appointing authority are:

Governor Appointees:            Harry Baltzer, Chair  
   Dan Mjolsness, First District  
   John Farrell, Second District  
   John Breon, Third District  
   Roger Svendsen, Fourth District  
   Robin Johnson, Fifth District  
   Natalie Haas Steffen, Sixth District  
   George Wells, Seventh District  
   Betty George, Eighth District

Attorney General Appointee:    Alan Gilbert

Legislative Appointees:        Sen. Charles Berg, Chair, Gaming Regulation Committee  
   Sen. Arlene Lesewski  
   Rep. Phyllis Kahn, Chair, Government Operations and  
              Gambling Committee  
   Rep. Jim Knoblach  
   Rep. John Dorn, alternate

### **Replacement and Alternate**

Rep. Knoblach replaced Rep. Jerry Knickerbocker in 1995. In addition, a change in the law during the 1995 legislative session allowed Rep. John Dorn, Chair of the Gambling Division of the House Government Operations and Gambling Committee, to serve as an alternate member with Rep. Kahn.

## SUMMARY OF PROCEEDINGS

---

### First Year - 1994

Orientation and Background: In its first year of operations the Advisory Council met on almost a weekly basis from mid-October to mid-December. The first meetings were devoted to orientation and presentation of background reports from staff of the legislature and the Minnesota Lottery. The Advisory Council heard extensive testimony and conducted discussions on the overall issue of compulsive gambling and public and private responses to it.

The Advisory Council also discussed video lottery systems, taxation of lawful (charitable) gambling, and use of net profits from lawful (charitable) gambling. These issues, although not necessarily the most critical facing either the Advisory Council or the legislature, were among the items that were not addressed in the 1994 gambling bill in the expectation that the Advisory Council would study and make recommendations on them. In addition, the Advisory Council solicited suggestions from interested parties regarding the creation of a socio-economic model for gambling.

Recommendations: The Advisory Council submitted its first report to the legislature on February 1, 1995. Its main recommendations were:

- Problem Gambling:** The legislature should give priority to a comprehensive study that tests the costs and effectiveness of various treatment approaches. The program budget should be reorganized if the legislature does not increase funding to the program. The legislature should consider adopting new goals for the program when consensus is reached concerning treatment approaches.
- Video Lottery:** The legislature should not enact video lottery legislation in the 1995 session.
- Pull-Tab Tax:** No recommendation was made concerning changing the method of taxing pull-tabs to remove the tax on unsold tickets. Only the legislature can determine if the state's financial condition allows for significant tax relief for lawful (charitable) gambling.
- Property Taxes:** The legislature should allow lawful (charitable) gambling organizations to use gambling net profits to pay property taxes for building construction, acquisition, or expansion undertaken before August 1, 1990.

Legislative Action: In its 1995 session the legislature's actions in the area of gambling were all consistent with these recommendations, except in the area of property taxes. Instead of adopting the Advisory Council's recommendation, the legislature increased the annual amount of property taxes that could be paid from net gambling profits from \$15,000 to \$35,000.

## Second Year - 1995

The Advisory Council resumed meeting within a few weeks of the end of the legislative session. In July it considered problems of illegal gambling from the perspective of the Attorney General's Office, the Department of Public Safety, and local law enforcement. The Advisory Council heard extensive presentations on lawful (charitable) gambling and the pari-mutuel racing industry. It also received a report on the 1995 gambling behavior and attitudes survey conducted by the Minnesota Lottery.

National Experts: The Advisory Council assembled a panel of nationally recognized experts on the gambling industry. Panelists William Eadington, William Thompson, and Joan Zielinski<sup>1</sup> gave the Advisory Council several extremely useful insights into both the recent history of gambling and its likely future, based on their experience with analyzing trends.

Final Report: This final report represents the consensus of the Advisory Council's members over how state government should approach gambling in the future. It is presented to the legislature and the governor with the hope that it will be a useful contribution to developing a positive and forward-looking state policy on this difficult and contentious subject.

---

<sup>1</sup> William R. Eadington, Ph.D., Director, Institute for Study of Gambling and Commercial Gaming,  
University of Nevada - Reno  
William Thompson, Ph.D., Department of Public Administration, University of Nevada - Las Vegas  
Joan Zielinski, Ph.D., President, Joan Zielinski & Associates, Inc., Glen Ellyn, Illinois.

## FINDINGS AND RECOMMENDATIONS

### EXTENT OF GAMBLING IN MINNESOTA

Pages 9-17

Gambling exists in many forms in Minnesota, legal and illegal, regulated and unregulated. It is practiced at least occasionally by most Minnesotans.

At least \$4 billion is wagered annually on legal, regulated forms of gambling in Minnesota, including pari-mutuel racing (\$66.5 million), the state lottery (\$332 million), lawful (charitable) gambling (\$1.3 billion), and Native American casinos (\$2.5 billion, estimated<sup>2</sup>). An additional \$1 billion is estimated to be wagered illegally, and an unknown amount is wagered on unregulated social bets.

### FORMS OF GAMBLING ALLOWED

Pages 18-22

The Advisory Council recommends that the legislature not authorize any new forms of gambling at this time.

The Advisory Council recommends that no steps be taken at this time to eliminate any of the present forms of legal gambling. Existing practices that tend to limit the volume of gambling, such as minimum age laws and restrictions on lottery advertising, should be retained.

### GOVERNANCE OF GAMBLING

Pages 23-26

The Advisory Council does not recommend any changes in the present governance structure for gambling in Minnesota. It does, however, believe that there is a need for some kind of framework for developing overall state gambling policy that is not under the control of any single-purpose agency.

### PROBLEM GAMBLING

Pages 27-29

The Advisory Council recommends that the state, in collaboration with the gambling industry, commit to developing a system to provide a continuum of services for people troubled by gambling problems. A prevention strategy must be implemented to help provide the information and skills needed for people of all backgrounds to make informed choices about whether, when, and how much to gamble.

<sup>2</sup> Disclosure of financial information about individual Native American casinos is limited by federal data privacy laws.

The Advisory Council believes that present laws and other provisions that give state agencies the responsibility to ensure the integrity of gambling operations are appropriate, given the history of legalized gambling. Further, the agencies charged with carrying out these responsibilities are doing so effectively, within the limits of their legislative appropriations. The Advisory Council therefore recommends that no major changes be made in state policy with respect to the level of gambling regulation.

The Advisory Council recommends that a commission of key state elected officials including the governor conduct discussions with tribal governments over issues of mutual concern. These discussions should be completed by January 1, 1997.

Many critical questions about the effects of gambling on Minnesota's people and economy remain unanswered. These questions must be addressed in order to formulate a reasonable and informed public policy. The Advisory Council recommends that the governor and the legislature appropriate additional funds for research on the social and economic effects of gambling in Minnesota while taking steps to ensure that this research is conducted in conformance with high professional standards.

The Advisory Council was charged to examine "a proposal to create and maintain a socio-economic model that will allow executive agencies and the legislature to estimate the social, economic, and public revenue effects of the different forms of gambling and changes in Minnesota gambling laws." The Advisory Council finds that the creation of such a predictive model is not possible at this time. However, the Advisory Council recommends that the state place a higher priority on research on the effects of gambling on Minnesota's economy and social well-being in order to help policy-makers make better informed decisions about the regulation and potential expansion of gambling.

## GAMBLING IN MINNESOTA: What is the extent of it?

### **FINDINGS:**

**Gambling exists in many forms in Minnesota, legal and illegal, regulated and unregulated. It is practiced at least occasionally by most Minnesotans.**

**At least \$4 billion is wagered annually on legal, regulated forms of gambling in Minnesota, including pari-mutuel racing (\$66.5 million), the state lottery (\$332 million), lawful (charitable) gambling (\$1.3 billion), and Native American casinos (\$2.5 billion, estimated<sup>3</sup>). An additional \$1 billion is estimated to be wagered illegally, and an unknown amount is wagered on unregulated social bets.**

### **GAMBLING ACTIVITY**

---

Gambling in Minnesota takes on many forms. While most attention is focused on casinos, the Minnesota lottery, and lawful (charitable) gambling, a wide range of other activity, both legal and illegal, exists.

#### **Legal**

Regulated: Minnesota law specifically permits gambling to take place in legal, regulated settings, including the lottery, pari-mutuel horse racing, and lawful (charitable) gambling. Seventeen tribal casinos exist within Minnesota's boundaries and are subject to limited state regulation. State authority over these casinos is limited by federal law, court decisions, and tribal-state compacts.

Unregulated: Provisions of the law exempt unorganized and non-commercial "social betting" (i.e., common card games, such as cribbage, poker, euchre, etc.) from both regulation and criminal sanction.

#### **Illegal**

Illegal betting is also widespread in the state, particularly organized sports betting. Other illegal activities include various private lotteries and betting over computer networks. Many Minnesotans may easily and legally bet on other forms of gambling simply by crossing nearby state lines. North Dakota permits charities to offer blackjack, South Dakota allows video lottery, Iowa offers riverboat gambling, and Wisconsin dog racing.

Minnesotans may also legally place bets on horse races in some eastern states over the phone, and the state is well-known for the number of visits its residents make to Las Vegas. Other activities, such as speculative financial investments (for example, futures trading), are not usually considered gambling but often take on the same characteristics, including serving as an outlet for compulsive behavior.

---

<sup>3</sup> Disclosure of financial information about individual Native American casinos is limited by federal data privacy laws.

## **SURVEY RESULTS**

---

Much of what we know about the gambling behavior of Minnesotans comes from surveys done by St. Cloud State University for the Minnesota State Lottery in 1993, 1994, and 1995. Each of these surveys asked 2,400 randomly selected Minnesota adults about their gambling behavior and attitudes.<sup>4</sup> The 1995 survey found that 88 percent of adults in the state had bet on at least one of 11 activities<sup>5</sup> in their lifetime, and that 76 percent had placed a bet in the previous 12 months. These numbers had changed very little from 1993.

### Regional Differences

Both the 1993 and 1995 surveys found few regional differences in the likelihood of gambling.

- At the high end, 79 percent of the residents of the Twin Cities area had gambled in the past twelve months.
- At the low end, 70 percent of the residents of southwestern Minnesota had gambled during this period.
- Men and women are almost equally likely to bet, though their choice of activities differs.

### Generational Differences

There are, however, significant differences in generational behavior.

- Gambling activity is highest among people between the ages of 25 to 34, 88 percent of whom have wagered in the past 12 months.
- This figure drops to 74 percent for 45 to 54 year olds, and 78 percent for 55 to 64 year olds.
- After age 64, however, gambling drops considerably. Only 54 percent of Minnesotans 65 or older had bet in the previous year.<sup>6</sup>

### **State Lottery**

The Minnesota State Lottery is the most popular form of gambling in the state when measured by participation. Sixty-three (63) percent of Minnesotans have bet on the lottery, with 58 percent having bet in the twelve months prior to the survey. However, in dollars wagered the lottery falls far below several other forms of gambling. During the fiscal year ending June 30, 1995, \$332 million was wagered on the lottery, compared to \$1.3 billion on lawful (charitable) gambling and an estimated \$2.5 billion or higher at casinos on tribal land.

---

<sup>4</sup> Detailed methodology for these surveys may be obtained by contacting the Minnesota State Lottery Research and Planning Department. Results from the 1993 survey are available from the lottery. A report of the 1995 survey will be available in early 1996.

<sup>5</sup> The 11 activities are the Minnesota State Lottery, Indian casino, pull-tabs, cards, social bet, bingo, other lottery, other casino, dice, horse racing, dog racing, as identified in the survey done by St. Cloud State University for the Minnesota State Lottery, 1995.

<sup>6</sup> Significant differences may exist in the frequency of gambling or the amount of money wagered by demographic segment which are not reflected in the survey. While the surveys did seek information on the frequency of more common forms of gambling, they could not collect reliable information on the amount of money wagered.

The "typical" lottery player:

- is between the ages of 25 and 64,
- has at least some post-secondary education,
- has an annual household income over \$20,000, and
- is equally likely to live anywhere in the state.

The number of Minnesotans playing the lottery has remained nearly unchanged from 1993 to 1995, reflected in the relatively constant dollar amount wagered from year to year. Lottery tickets are sold at almost 4,000 retail outlets statewide.

### **Lawful (Charitable) Gambling**

Lawful (charitable) gambling includes pull-tabs, bingo, raffles, paddlewheels, and tipboards.

Pull-tabs: Pull-tabs are by far the most common activity, accounting for about \$1.2 billion of the \$1.3 billion wagered each year.<sup>7</sup> Forty-seven (47) percent of adults claim to have purchased a pull-tab at some time, but only 34 percent say they have done so in the past year.

The "typical" pull-tab player

- is male,
- is between the ages of 25 and 34,
- has a high school education,
- has an annual household income between \$15,000 and \$75,000, and
- does not live in southwestern Minnesota.

Pull-tabs are sold at approximately 3,100 establishments statewide, almost all of which are on-sale liquor establishments. As a result, the demographics of pull-tab play closely resemble those of bar attendance. People tend to spend less time in bars as they settle down and raise families, which may well explain the decline in pull-tab play after the late 20s and early 30s.

Bingo: Forty (40) percent of Minnesotans have wagered on bingo at some time. In addition to bingo being played through regulated lawful (charitable) gambling, bingo can be played at tribal casinos and in informal social settings.

Other Lawful (Charitable) Gambling: The survey did not include raffles, paddlewheels, or tipboards, each of which accounts for a very small portion of the wagering dollars.

---

<sup>7</sup> During calendar year 1994, pull-tabs accounted for 92 percent of the lawful (charitable) gambling gross receipts, bingo for six percent, paddlewheels one percent, and tipboards and raffles each less than one-half of one percent.

## Indian Casinos

Initial Rapid Growth: Indian casinos have been the most rapidly growing segment of Minnesota's gambling industry, evolving from "big bucks bingo" operations in the late 1980s to, in some cases, destination resorts by the mid 1990s.

- Minnesota's 11 Native American tribes currently operate 17 casinos scattered throughout the state.
- Estimates of the amount wagered each year range from \$2.5 billion to over \$5 billion.<sup>8</sup>

Visits Leveling Off: The number of Minnesotans visiting casinos grew rapidly from 36 percent in 1993 to 46 percent in 1994. From 1994 to 1995, however, the number visiting casinos leveled off. Forty-five (45) percent of adults surveyed in July 1995 said they had visited an Indian casino at some point, statistically unchanged from the 46 percent reporting a visit in the July 1994 survey.

Number of Visitors Unchanged: In addition, the number reporting a visit in the previous 12 months remained virtually unchanged:

- 38 percent visited in 1995
- 36 percent visited in 1994

(These figures may not reflect either the number of visits made by an individual or the amount of money wagered.)

Most who do go to casinos visit infrequently. Of those who had visited in the preceding 12 months:

- one-third only went once,
- 46 percent went between 2 and 5 times, and
- only 11 percent of casino visitors went more than 10 times.

Casinos Visited Unequally: Not all of the 17 casinos are visited equally. When casino-goers were asked which casino they visited most often:

- 65 percent mentioned only four casinos: Mystic Lake (25 percent), Grand Casino Hinckley (19 percent), Treasure Island (11 percent) and Grand Casino Mille Lacs (10 percent).
- Ten of the state's 17 casinos were mentioned by less than one percent.

The "typical" casino player:

- is between the ages of 21 and 34 or 55 and 64,
- is male,
- has an annual household income between \$30,000 and \$75,000, and
- does not live in southeastern Minnesota.

While people over the age of 65 are the least likely to visit casinos (33 percent report never having visited a casino), those who do tend to go fairly frequently, trailing only people between 55 and 64 in the number of annual visits.

---

<sup>8</sup> Disclosure of financial information about individual Native American casinos is limited by federal data privacy laws. In a 1993 Minnesota State Planning report, tribal gaming was estimated at \$2.5 billion. Unsubstantiated estimates range up to \$5 billion.

## Pari-mutuel Racing

Wagering on horse racing now accounts for less than two percent of the gambling industry in Minnesota. From 1986 to 1992 (the last year of live racing before 1995), the total handle for all pari-mutuel racing, including simulcasting, dropped by 57 percent, from \$134 million to \$57 million. During the same period the total gambling handle (even excluding tribal casinos) nearly tripled, from \$429 million to approximately \$1.6 billion. Pari-mutuel racing was the only segment of the gambling industry that experienced decreased gambling revenues as the overall gambling volume increased in Minnesota.<sup>9</sup>

Horse racing is an agricultural based industry that relies heavily on the race track for its existence. A report issued by the Governor's Commission on Canterbury Downs (September 15, 1992) stated that "...as much as \$100 million of the state's annual economy is attributable to the horse race industry."

Pari-mutuel racing is an infrequent activity among most Minnesotans.

- Thirty-one (31) percent have gone to a horse race at some time in their lives
- Only three percent reported attending in the twelve months prior to the July 1995 survey.<sup>10</sup>

Dog racing (available in Wisconsin and several more distant states) has attracted a small Minnesota audience.

- Only 16 percent of Minnesota adults have ever bet on a dog race.

In calendar year 1995, horse racing accounted for approximately 1.6 percent (or \$66.5 million) of the total gross gambling dollars in Minnesota. Keeping with its image as "the sport of kings," horse race bettors have the highest incomes of any form of gambling, perhaps reflecting the large number of bettors who have been to races outside of Minnesota. Three out of four Minnesotans betting on horse races have done so in some other state.

Pari-mutuel racing is different from the other forms of gambling in that there is only one Class A licensed site in Minnesota -- Canterbury Park.<sup>11</sup> Because the track may not survive with only one marketing site, the industry seeks to improve the position of horse racing in Minnesota.

**Proposed Card Rooms:** The horse racing industry has very recently indicated that it will seek authority to host card playing activities at Canterbury Park to help offset the high expenses involved in live horse racing. This proposed card room activity would require legislation and would be dependent on the continuation of live horse racing.

---

<sup>9</sup> Minnesota Planning: High Stakes: Gambling in Minnesota, March 1992, page 57.

<sup>10</sup> This low number likely reflects the lack of live racing in the state during 1994. Canterbury Park had only been reopened for a few weeks at the time the 1995 survey was taken.

<sup>11</sup> Pari-mutuel racing is allowed at county fairs with a Class D license issued by the Minnesota Racing Commission.

Effect on Gross Wagers: Canterbury Park officials have indicated that hosting card rooms at the race track would have a negligible effect on wagering in Minnesota. It is estimated that this proposal would generate about \$2 million to \$6 million per year. This represents \$20 million to \$50 million in gross wagering, which is less than one percent of the total gross (\$4 billion) wagered annually on legal gambling in Minnesota.

Effect on Tribal Gaming: Enacting legislation to authorize card playing activities at Canterbury Park would appear to have the following potential impact on tribal gaming:

- Class II - If legislation is passed enabling the card room activity, the tribes could conduct card playing as a Class II activity, in conformance with that state law.
- Class III - The tribes could ask the state to negotiate a compact for this new form of gambling, without conformance with the restrictions otherwise imposed by the state law. The state would have to negotiate in good faith within specific timeframes set out in the Indian Gaming Regulatory Act (IGRA). However, a tribal request to compact on this new card playing activity would be specific to this form of gambling and would not affect the present video games of chance and blackjack compacts.

The Advisory Council has not had adequate time to evaluate this card-playing proposal. In light of the facts that the effect of this proposal is not clear and that the horse racing industry is in need of assistance, we leave it for the Legislature to more fully evaluate the proposal.

### **Sports Betting and Non-Casino Card Games**

Sports betting and non-casino card games are the two most popular forms of non-regulated gambling in the state. Either activity may be legal, if done as a "social bet," or illegal, if done as part of an organized or commercial activity.

- In 1993, 37 percent of the state's adults reported placing a wager on a sports event.<sup>12</sup>
- In 1995, 45 percent reported betting on a card game outside of a casino.
- Participation in both activities is heavily male.
- Both activities are among the most popular activities for young adults between the ages of 18 and 24.

---

<sup>12</sup> Sports betting was not included in the 1994 or 1995 surveys.

### Out-of-State Gambling

A significant number of Minnesotans leave the state to do at least some of their gambling.

- One in three adults (34 percent) report having visited an out-of-state, non-Indian casino. Given the time and money needed to go to Las Vegas, Atlantic City, a cruise ship, or some other similar venue, it is not surprising that these gamblers tend to be older and have higher incomes than the average Minnesotan.
- About 5 percent of those visiting Indian casinos list a non-Minnesota casino as the one they most frequently visit, with the casinos at Turtle Lake, Wisconsin and Flandreau, South Dakota being most frequently mentioned. Twenty-eight (28) percent of Minnesotans have purchased a lottery ticket outside Minnesota, while three out of four of those attending horse races have done so out of state.

### Other Forms of Gambling

Among other forms of gambling, 40 percent of Minnesota adults report having made a social bet with a friend or relative sometime in the past (25 percent in the previous year) while 14 percent have bet on dice games<sup>13</sup>, primarily played in bars. Several forms of gambling were not covered in the surveys, including raffles (considered by many to be charitable contributions rather than a wager), paddlewheels, tipboards, and casino games not currently allowed in Minnesota such as roulette.

## ILLEGAL GAMBLING

---

The only wagers permitted under state law are the state lottery, lawful (or charitable) gambling, pari-mutuel, Indian gaming, and a "private social bet not part of or incidental to organized, commercialized, or systemic gambling."<sup>14</sup> All other forms are illegal. Most illegal bets are misdemeanors; maintaining a "gambling place," and selling "gambling devices" are among a few gambling-related crimes considered gross misdemeanors; and engaging in sports bookmaking is a felony.

### Sports Bookmaking

The most widespread illegal activity is sports bookmaking. The Department of Public Safety estimates that over \$1 billion a year is illegally wagered on sports events, with \$500 million bet each year on football in the Twin Cities alone.

### Illegal Lotteries

Illegal lotteries, though not as common as sports bookmaking, are making their presence felt in certain communities. The "Thai lottery," in which a syndicate takes wagers on lottery numbers drawn in Thailand, is increasingly found in some of Minnesota's Asian communities.<sup>15</sup> Illegal schemes also exist for wagering on Canadian and Australian lotteries, often sold by mail through Canada.

---

<sup>13</sup> Depending on the specific facts, dice games may be considered illegal gambling activity. (*No retail establishment licensed to sell alcoholic beverages may keep, possess, or operate, or permit the keeping, possession, or operation on the licensed premises of dice or any gambling device as defined in section 349.30, or permit gambling therein except as provided in this subdivision. (Minnesota Statutes, section 340A.410, subdivision 5.)*)

<sup>14</sup> Minnesota Statutes, section 109.75 subdivision 3 (1994).

<sup>15</sup> The "Thai lottery" seen in Minnesota has no direct connection to the actual Thai government lottery. It merely uses numbers selected in the real Thai lottery as a basis for determining payout.

### **Internet Gambling**

In the last year, much attention has been given to the availability of gambling over computer networks. Opportunities to participate in "casino games," lotteries, and other forms of gambling have come and gone or are pending on the Internet.

While these games have yet to capture the public imagination, the ability of government to regulate Internet gambling is at best untested. Many of these games are located outside of the borders of the United States, making regulation even more difficult. In an early test of regulatory capabilities, the Minnesota Attorney General filed suit in July 1995 against a company planning to offer illegal sports bookmaking services via the Internet to Minnesota residents. Litigation is pending.

### **Other Illegal Gambling**

Other forms of illegal gambling include:

- the Irish Sweepstakes (not as large as in years past),
- and gambling over the telephone (often using 800 numbers).

Illegal slot machines or video gambling devices and illegal sportsboards are still found from time to time despite changes in state law designed to make ownership of these machines/devices more difficult.

### **Play on Credit**

The danger of illegal gambling goes well beyond any threat to public morality. Many of these forms of gambling allow play on credit, exposing the player to considerable financial risk. Compulsive gamblers are particularly susceptible to games allowing play on credit. Sports betting, in particular, is frequently cited as the preferred form of wagering by those seeking treatment for a gambling addiction. Failure or inability to pay back this credit is commonly associated with terroristic threats, loan sharking, and associated crimes.

## **ATTITUDES TOWARDS GAMBLING**

---

### **Ambivalence**

The attitude of Minnesotans towards gambling may best be described as ambivalent.

- On one hand, almost nine out of ten have gambled, and in the 1994 survey only 19 percent agreed with the statement "I am personally opposed to gambling for moral or religious reasons." (More than 60 percent of those agreeing with the statement report having gambled, including 40 percent in the previous year.)
- On the other hand, 52 percent of those surveyed in 1995 agreed strongly or somewhat that "there is too much gambling available in Minnesota," while only 27 percent agreed strongly or somewhat that "I like having a wide range of gambling options available to me."

The apparent resolution of these statements lies with the fact that many Minnesotans gamble on only a limited number of the options available to them. They approve of these forms (and in fact may not even view them as gambling) but disapprove of others. The difficulty for policy makers is that there is little consensus as to which forms of gambling are acceptable and which are not.

### **Little Support for Abolition**

In any case, there is little support for the complete abolition of gambling. Only 15 percent strongly agreed with the statement "all gambling in Minnesota should be outlawed," with an additional 11 percent agreeing somewhat, while 86 percent agreed that "people will continue to gamble whether it is legal or not."

### **Philanthropic Contributions**

Minnesotans are more favorably disposed towards gambling opportunities which double as philanthropic contributions. Almost 73 percent agree with the statement "when I gamble, it is important to me that profits go to a good cause." There is also considerable uncertainty over gambling's economic benefit, with 43 percent agreeing with the statement "overall, gambling has been good for the state's economy," 35 percent disagreeing, and 23 percent saying they don't know.

### **Generational Differences**

There are very significant generational differences in the attitudes of Minnesotans towards gambling.

- Almost 40 percent of those 65 or older strongly agreed that they were morally opposed to gambling compared to only 16 percent of those under 65.
- Those 65 or older were also more than twice as likely to strongly agree that all gambling should be outlawed than those under 65 (30 percent to 12 percent).
- Those under 65 are much more likely to see benefits to the state's economy. These results are very consistent with the results on gambling behavior reported earlier.

It remains to be seen if these differences are due to generational experience or age. Will the attitudes of younger Minnesotans towards gambling change as they age? Or will our current behavior and opinion persist throughout our lifetimes? Many social scientists believe that our attitudes, values, and behavior are largely based on our unique generational experience and are thus unlikely to significantly change as we age.<sup>16</sup> It remains to be seen if this is true for gambling as well.

---

<sup>16</sup> See, for example, "The Master Trend" by Cheryl Russell (1993, Plenum Press, New York, NY)

## **FORMS OF GAMBLING: What should be the state's policy?**

### **FINDINGS:**

The Advisory Council recommends that the legislature not authorize any new forms of gambling at this time.

The Advisory Council recommends that no steps be taken at this time to eliminate any of the present forms of legal gambling. Existing practices that tend to limit the volume of gambling, such as minimum age laws and restrictions on lottery advertising, should be retained.

### **CAUSES FOR CONCERN**

---

The preceding section makes it clear that gambling in Minnesota has become both big business and a mainstream activity. This volume of gambling has some troubling results.

#### **Compulsive or Problem Gambling**

Chief among these results is the potential growth in compulsive or problem gambling. We discuss this problem in more detail elsewhere in this report, but we note here that it is a significant factor in our recommendation.

#### **Revenues Versus Costs**

Gambling may generate extensive revenues for state government, but it has also resulted in increased public costs at both the state and local levels. These costs include not only compulsive gambling treatment, research, and public information, but also the costs of crime associated with compulsive gambling. Such costs are a drain on many areas of the court systems and law enforcement agencies.

#### **Something-for-Nothing**

More broadly, many people also believe that gambling has helped to foster a something-for-nothing attitude. This attitude is particularly worrisome among young people who are the first generation of Minnesotans to grow up in a society where gambling is broadly accepted and even encouraged. The belief that success is the result of blind luck rather than work and initiative has destructive potential for our future.

## WHY CHANGE IS DIFFICULT

Despite these problems, there are several practical reasons for concluding that eliminating some or all gambling forms in Minnesota would be difficult.

### Wide Acceptance

As we noted above, gambling is now an activity with wide public acceptance and participation. While the 1995 gambling survey indicated some widespread uneasiness about the current volume of gambling, it did not demonstrate a groundswell of support for abolishing all gambling.

### Tribal Economic Self-sufficiency

Gambling has been the single biggest boon to tribal economic self-sufficiency in recent memory.

### Revenues for Charitable Activities

Gambling has also become an important source of revenue for charitable activities, raising some \$78 million per year for these purposes.<sup>17</sup>

### Revenues for State Government

Gambling also generates approximately \$145 million in revenue for state government annually. While this is a very small percentage (less than two percent) of total state revenue, its disappearance would create an immediate budget problem for the legislature.<sup>18</sup>

There are other major obstacles in the way of eliminating any existing gambling forms.

### Limited State Authority

Federal law sharply limits the authority of state governments to regulate Indian tribal casinos or prevent their establishment.

### Availability in Other States

The widespread availability of gambling options in all states and provinces adjoining Minnesota means that the elimination of a form of gambling here may simply drive gambling money to another jurisdiction.

---

<sup>17</sup> Charitable activities (lawful purposes) include statutorily defined charitable purposes. Local real estate taxes and local regulatory taxes are also considered charitable purpose.

<sup>18</sup> Of the \$145 million, approximately \$80 million is derived from the state lottery and approximately \$65 million from lawful gambling.

## **LIVING WITH THE STATUS QUO**

---

On balance the Advisory Council feels that the best approach would be to continue present efforts to regulate the volume of gambling but not to go so far as to eliminate any existing form. Within this framework the total volume of gambling should be ultimately determined by market forces.

These recommendations are not based on a judgment as to whether gambling overall is good or bad. Rather, it derives from a belief that government efforts to abolish existing gambling forms would likely be unproductive and would use up energy and resources best expended elsewhere.

In the future the state may want to reevaluate the recommendations in this section, particularly in light of the additional research and information gathering we recommend in a later section of this report entitled "What Questions Need Further Exploration?"

## **CONSIDERATIONS IN EVALUATING NEW FORMS OF GAMBLING**

---

### **Public Opinion**

Public opinion is generally against any serious expansion of gambling in Minnesota. The defeat of the off-track betting amendment in the 1994 election was probably not a vote against horse racing per se, but was rather an expression of sentiment against an expansion of gambling. In the lottery's 1995 behavior and attitudes survey, 52 percent of respondents indicated that they believed there is "too much gambling in Minnesota."

### **State Revenue**

Since the 1994 election most of the debate over new forms of gambling has centered around proposals to establish a network of video lottery terminals in licensed liquor establishments, either statewide or in one area of the state as a demonstration project.

This could represent a significant expansion of gambling in the state, increasing the number of locations for video gambling from the current 17 at tribal casinos to a possible 3,000 or more at liquor establishments. The net state revenue from such a program if operated statewide, after offsetting reductions in charitable gambling taxes and lottery sales, has been estimated at over \$300 million.

## **REITERATING THE 1995 RECOMMENDATION ON VIDEO LOTTERY**

---

Our 1995 report contained an extensive discussion of the video lottery issue. Among our findings were:

- Many people feel that video lottery is uniquely addictive among gambling forms.
- Video lottery would have some negative effects on charitable gambling revenues, and it is unclear how much it would help liquor establishments improve their bottom line.
- Video lottery could raise substantial sums in state revenue.

Our recommendation was that the legislature in its 1995 session not enact statewide video lottery legislation. We wrote then:

*The Advisory Council feels that there are too many unanswered questions and unresolved concerns about video lottery to justify passing enabling legislation in 1995. These questions and issues include the effects of video lottery on problem gambling, the current gambling industry, and the need for the state to develop a comprehensive state policy, including a decision on how much the state wants to become dependent on gambling-generated revenues.*

We reiterate those concerns today, and for that reason we continue to recommend that the legislature not enact video lottery legislation at this time.

## OTHER GAMBLING FORMS

---

### Proposed Gambling Forms

At one time or another there have been various proposals for new gambling forms in Minnesota other than video lottery. These include:

- a land-based casino in northeast Minnesota,
- riverboat casinos on the Mississippi River and elsewhere, and
- the expansion of the state lottery's product line to include home wagering or rapid-action keno games.

### Off-Track Betting

The one new form of gambling that has attracted significant support is off-track betting (OTB) on horseracing, and there is debate over whether this even constitutes a "new form" or is simply an extension of an existing one.

FOR: In support of this proposal is the argument that OTB would help restore the racing and breeding industry in the state to allow it to again make substantial contributions to the Minnesota economy.

AGAINST: Against the proposal, in addition to arguments about an "expansion of gambling," has been the argument that excessive televised racing at OTB facilities will eventually drive live racing out of the state.

A constitutional amendment that would have permitted the legislature to legalize OTB was narrowly defeated in the 1994 election. We see insufficient reason to include an OTB constitutional amendment on the 1996 ballot.

## GOVERNANCE OF GAMBLING: What should be the state's policy?

### FINDINGS:

The Advisory Council does not recommend any changes in the present governance structure for gambling in Minnesota. It does, however, believe that there is a need for some kind of framework for developing overall state gambling policy that is not under the control of any single-purpose agency.

### MINNESOTA'S HISTORY ON GOVERNING GAMBLING

Minnesota's history of governing gambling shows elements of both the merging and separation of agencies:

<u>YEAR</u>	<u>ACTION</u>
1983	Minnesota Racing Commission created in pari-mutuel law
1984	Gambling Control Board created
1988	Gambling Control Board merged into Department of Revenue by executive order
1989	Department of Gaming established, with divisions including: <ul style="list-style-type: none"><li>• Minnesota State Lottery (created)</li><li>• Minnesota Racing Commission (merged)</li><li>• Gambling Control Board (transferred from Department of Revenue)</li></ul> Division of Gambling Enforcement established in Department of Public Safety
1991	Department of Gaming abolished, and <ul style="list-style-type: none"><li>• Minnesota Racing Commission resumed previous independent status</li><li>• Gambling Control Board resumed previous independent status</li><li>• Minnesota State Lottery became independent state agency</li></ul>
1992	Advisory Committee on Gambling created by Governor Arne Carlson
1994	Advisory Council on Gambling created in omnibus gambling bill

## **Department of Gaming**

Despite its name, the Department of Gaming exercised no direct supervision over any of its three divisions, and the divisions functioned as essentially autonomous agencies. The only power of the department was that its commissioner sat as a voting member of the Racing Commission, Gambling Control Board, and citizens' advisory board for the Lottery.

The Department of Gaming was abolished by the legislature in 1991 after only two years of life when its commissioner told the legislature that the agency's powers did not justify its continued existence. In reality the actual operations of the Minnesota Racing Commission, Gambling Control Board, and Minnesota State Lottery changed little with the abolition of the Department of Gaming.

## **Advisory Committee on Gambling**

In 1992 Governor Arne Carlson created an Advisory Committee on Gambling consisting of representatives of state agencies involved with gambling, the U.S. Attorney's Office, and Tribal gaming. Among the committee's charges was to recommend an improved structure for gambling regulation and control.

Recommendation: The committee's final 1992 report recommended against consolidation of existing agencies or other significant restructuring of these functions, but endorsed the creation of a permanent advisory committee of agency representatives to develop further inter-agency cooperation and coordination.

## **Recent Legislative Debate**

Gambling's governing structure has been a subject of considerable debate in the legislature in recent years.

- In 1994 the House passed legislation to merge the racing commission into the Department of Commerce and turn the gambling board into an autonomous division within the state lottery. This proposal was eventually dropped by a House-Senate conference committee.
- In 1995 the House Government Operations Committee heard a proposal to create a Department of Gambling with control over horse racing, charitable gambling, and gambling enforcement, but the bill did not reach the House floor. This effort did eventually result in the abolition of the lottery's advisory board.

## **GOVERNANCE IN OTHER STATES**

---

Most states have adopted systems similar to the present Minnesota structure, where separate agencies regulate or operate the various gambling forms. In states other than Minnesota, these agencies are more likely to be located within larger state agencies such as departments of revenue, law enforcement, or administration.

### **Separate Agencies**

Separate arrangements have been the norm in other states for several reasons.

- These agencies were mostly created at different times rather than as part of a single decision-making effort.
- These agencies dealt with different gambling industries that have historically had highly competitive and in many cases antagonistic relationships with each other.
- These agencies tended to oppose “umbrella” agencies that some feared would be dominated by their competitors or adversaries. As each agency developed, it tended to develop a constituency that resisted mergers when new governmental activities in gambling were established.

The reasons for this history of separate agencies stemmed not only from politics but from policy. Many states reasoned that the state’s relationship with each gambling form was fundamentally different:

- Racing commissions usually regulated a sport more than a betting activity.
- Charitable gambling agencies mostly regulated amateur operators, while casino agencies regulated for-profit gambling companies.
- Lottery agencies were gambling operators rather than gambling regulators.

These differing roles also played a part in persuading states to maintain different agencies.

## DISCUSSION

---

### **Advantages and Disadvantages**

Both the present system and its alternatives have advantages and disadvantages. Separate regulatory agencies develop a high level of expertise that cannot always be readily transferred from one gambling form to another. However, they run the risk of being too narrowly focused and developing an overly deferential attitude toward the industry they regulate. An umbrella agency might be in a better position to make and implement broader gambling policy, but it might find it difficult to maintain an even-handed approach to all gambling industries and to avoid "institutionalizing" conflicts among them.

### **Continuing Need**

Our recommendation against restructuring of state government's gambling function is not a recommendation against the development of a coordinated state policy toward gambling. Like the previous advisory committee, we believe there is a need for the governor to create a new entity to aid the governor and legislature to develop this policy.

This Advisory Council by law expires on February 1, 1996, and we are not recommending that it be extended. We are suggesting that a broad-based advisory entity, including representatives of tribal gaming, meet on an ongoing basis to help fill a gap in our present regulatory structure. There is a continuing need for development of a gambling policy that will utilize the new information and research called for in a later section of this report entitled "What Questions Need Further Exploration?"

## **PROBLEM GAMBLING: What should be the state's policy?**

### **FINDINGS:**

The Advisory Council recommends that the state, in collaboration with the gambling industry, commit to developing a system to provide a continuum of services for people troubled by gambling problems. A prevention strategy must be implemented to help provide the information and skills needed for people of all backgrounds to make informed choices about whether, when, and how much to gamble.

### **PROBLEMS WITH GAMBLING**

---

The Advisory Council heard extensive testimony about the problems that gambling has caused some Minnesota residents. Problem gambling exists in Minnesota. Minnesotans have lost money to gambling. But more than money, Minnesotans have seen family life destroyed, marriages ended, homes lost, lifestyles short circuited, and lives lost to suicide. For many adults the availability of gambling is not benign.

A prevalence study conducted in 1994 reported that 1.2 percent of persons in Minnesota are "probable pathological gamblers," statistically the same as found in a 1990 Minnesota study. Although concerns were expressed about the validity of prevalence studies, and about the scale used to measure problem gambling, the studies were reviewed by the Advisory Council in order to attempt to measure the scope of the problem. Attempts are underway to validate the research instruments used in these studies.

#### **Social Dimensions**

The social dimensions of the gambling problem in Minnesota are difficult to accurately measure. Surveys and studies have identified a portion of adults and children who face gambling troubles. There is convincing research evidence that the problems gambling causes are of a wide range and intensity.

#### **Access**

Access to gambling is a part of the problem. It is possible for most Minnesotans to reach one of the 17 existing gambling casinos within a drive of 90 minutes. During that 90 minutes, the Minnesotan will have passed several pull-tab outlets and lottery retailers. Gambling in Minnesota is not entirely or exclusively a tourist-based industry. Access for Minnesotans too often translates to problems experienced by Minnesotans.

#### **Availability**

Access may not in itself cause problem gambling, but the wide availability of gambling makes it easy for persons with troubles in their lives to turn to gambling and to experience problems. The wide availability of gambling in Minnesota has laid a foundation for problem gambling to occur.

## **INDUSTRY AND COMMUNITY RESPONSES**

---

Helping problem gamblers is not just a task for the state. The gambling industry itself must address this issue, as must the communities where gambling occurs. A problem with so many facets calls for solutions from many different resources.

### **Review and Commitment**

Each form of gambling must review its understanding of gambling problems. An internal commitment must be made by each form of gambling, on their own initiative, to post signs, to train gambling personnel, and to raise the awareness within the particular industry of the ways that gamblers from all cultural backgrounds interact with that form of gambling.

### **Existing Resources**

Most of the existing community, counseling, and mental health resources are aware of the nature of problem gambling, and many of these organizations are providing assistance to problem gamblers. Others need to be encouraged to learn about this problem, and to take a more active role in addressing existing needs.

### **Public Awareness**

Efforts should be continued to enhance public awareness of the nature of gambling problems, especially among Minnesota's youth, and among persons of all cultural backgrounds. Educational efforts must include teaching of the numerical and statistical realities of gambling.

## **STATE RESPONSES**

---

### **Department of Human Services**

Some members of the Advisory Council expressed concerns regarding the oversight exercised by the Department of Human Services (DHS) in running the state's programs for problem gamblers. If the legislature is not satisfied in the near term with program improvements, the 1997 legislature should consider moving this program and restructuring the state's responses.

As noted earlier, the legislature should give priority to a comprehensive study that tests the costs and effectiveness of various treatment approaches. The program budget should be reorganized if the legislature does not increase funding to the program. The legislature should consider adopting new goals for the program when consensus is reached concerning treatment approaches.

### **Treatment Outcomes Study**

The treatment outcomes study requested in the 1995 report of the Advisory Council is now being organized by DHS. This study is crucial in constructing effective responses that will serve all geographic areas of the state. The best strategy for the next year is to question, study, discuss, and seek better ways of defining, thinking about, and handling the problem gambling issue.

### **Prevention**

The state should explore ways of preventing gambling problems from occurring, including but not limited to taking actions to limit financial access for persons on public programs, and reducing the ease of credit and check cashing availability on the premises of gambling establishments.

### **Agency Priority**

At some point the state agency responsible for the prevention and treatment of problem gambling must make the issue a priority within that agency, and must be an equal player with the existing gambling regulatory agencies.

### **Cost of Doing Business**

Funds for addressing problem gambling must be seen by gambling concerns as a cost of doing business. Mandating that insurers cover treatment may be premature at this time. It is not clear whether health carriers are required to provide treatment for problem gamblers. For treatment of problem gamblers to be paid for by the insurance industry, the medical profession will have to identify problem gambling as a serious mental health condition and identify efficient treatment methods as well. The Minnesota Health Care Access Commission should on an ongoing basis consider whether gambling treatment is ready to be included in standard benefit sets, and when appropriate make a recommendation on this issue to the legislature.

## **GAMBLING REGULATION: What should be the state's policy?**

### **FINDINGS:**

The Advisory Council believes that present laws and other provisions that give state agencies the responsibility to ensure the integrity of gambling operations are appropriate, given the history of legalized gambling. Further, the agencies charged with carrying out these responsibilities are doing so effectively, within the limits of their legislative appropriations. The Advisory Council therefore recommends that no major changes be made in state policy with respect to the level of gambling regulation.

Regulation of gambling is in the public interest, but the extent and nature of the state's regulatory role is a policy matter. It is possible to design a regulatory structure that changes the focus of regulation away from protecting the interests of gamblers. This course of action was considered and rejected. Instead, the Advisory Council has decided to recommend no major changes in overall regulatory policy.

### **STATE INTERESTS IN THE REGULATION OF GAMBLING**

---

The current statutory directive for the lawful (charitable) gambling industry charges the Gambling Control Board with "insuring the integrity of operations." The Racing Commission is charged with "taking all necessary steps to insure the integrity of racing in Minnesota." Tribal compacts have provisions governing the play of blackjack and video machines. These provisions are among the numerous examples of statutes, policies, and rules designed to protect gamblers:

- posting provisions for pull-tab winners
- restrictions on pull-tab "inside trading"
- rules against tampering with horse races
- payout minimums for video machines
- state approval of type of video machines

It would be possible to drop this focus on protecting the gambler, and deregulate the gambling industry. From this point of view, protecting the gambler is not a function of the state. Gamblers should follow the precept "caveat emptor" ("player beware") and look out for their own interests.

This approach was rejected by the Advisory Council. Beyond such functions as collecting taxes, insuring that lawful gambling net profits go only to lawful purposes, and preventing mistreatment of race horses, the state has a valid role in protecting the integrity of gambling. Drawing back from this role would represent a departure from the historical mission of gambling regulators in Minnesota. If gambling is allowed the state must ensure that the games are played with integrity and that gamblers have a fair chance. State concern for the interests of the gambler translates into state concern for a clean gambling industry.

## GAMBLING ON TRIBAL LAND: What should be the state policy?

### **FINDINGS:**

The Advisory Council recommends that a commission of key state elected officials including the governor conduct discussions with tribal governments over issues of mutual concern. These discussions should be completed by January 1, 1997.

### **BACKGROUND**

---

#### **Indian Gaming Regulatory Act (IGRA)**

Gaming on tribal land is governed by the federal Indian Gaming Regulatory Act of 1988.<sup>19</sup> Under federal law commercial gambling on tribal land falls into one of two classifications:

- Class II: Mostly bingo, pull-tabs, and non-banking card games
- Class III: All other gambling forms, such as casino games, blackjack, pari-mutuel wagering, and sports betting.<sup>20</sup>

#### **Compacts**

Class III games are governed by tribal-state compacts. Each federally-recognized tribe in Minnesota has signed two separate compacts with the state, one providing for blackjack and the other for video gambling devices.

The compacts contain quite detailed specifications for the play of blackjack and the operation of video devices, and allow the state Department of Public Safety to do background checks on casino employees and to test video devices. Nonetheless, the state's authority over Indian casinos is sharply limited by federal law. When tribes have a right under federal law to seek a compact for a form of gambling (that is, any form of gambling that the state allows for non-Indians), the state cannot refuse a tribal request to negotiate the compact.

The state is prohibited from taxing the profits of casinos, although the compacts commit the tribes to making a combined total payments to the state of about \$150,000 per year. In addition, the tribes reimburse the Department of Public Safety for the costs associated with background checks. State enforcement of the compact provisions is limited to the right to go to federal court to attempt to stop violations.

The compacts have no expiration date, but continue in effect until renegotiated by mutual agreement of the state and the signing tribe. However, many issues of potential agreement between the state and the tribes could be discussed and agreed upon outside the framework of the compacts.

---

<sup>19</sup> Public Law 100-497

<sup>20</sup> Under federal law, Class I gaming consists of ceremonial or traditional wagering among tribal members and is not regulated by state or federal law.

## **EFFECTS OF TRIBAL GAMBLING**

---

Tribal casino gaming has had a major effect on Minnesota, with the state becoming one of the major centers of tribal casinos in the country. Gaming revenue has had a major effect on economic development and self-sufficiency on Minnesota's tribal reservations.

At the same time tribal gaming has become a subject of frequent debate in the legislature, as the state seeks to address the conditions that arise with any successful gambling enterprise while at the same time coming to terms with the sharp restrictions of federal law.

## **FUTURE DISCUSSIONS**

---

Our recommendation for new discussions between the state and tribes is not made with a specific outcome in mind. Rather it is intended to identify potential sources of agreement that might be mutually beneficial to both the state and the participating tribes.

We specifically suggest that the agenda include but not necessarily be limited to the following issues:

- The appropriate level of regulation for casino gambling and how the cost of such regulation should be paid
- Minimum gambling ages for casinos and other forms of legal gambling
- Compulsive gambling issues, including possible contributions from casino revenues to programs that address problem gambling
- What information should be made available to the state on casino gambling, and what agency should collect and maintain this information
- The appropriate role of local government in casino regulation
- What agency or agencies should be the state's primary liaison with tribal governments
- Possible costs and benefits to local units of government
- Limited access to credit and check cashing availability

We recommend that these discussions be completed by January 1, 1997, in the belief that setting a specific time frame is the best way to advance a productive process.

## WHAT QUESTIONS NEED FURTHER EXPLORATION?

### **FINDINGS:**

Many critical questions about the effects of gambling on Minnesota's people and economy remain unanswered. These questions must be addressed in order to formulate a reasonable and informed public policy. The Advisory Council recommends that the governor and the legislature appropriate additional funds for research on the social and economic effects of gambling in Minnesota while taking steps to ensure that this research is conducted in conformance with high professional standards.

The Advisory Council was charged to examine "a proposal to create and maintain a socio-economic model that will allow executive agencies and the legislature to estimate the social, economic, and public revenue effects of the different forms of gambling and changes in Minnesota gambling laws." The Advisory Council finds that the creation of such a predictive model is not possible at this time. However, the Advisory Council recommends that the state place a higher priority on research on the effects of gambling on Minnesota's economy and social well-being in order to help policy-makers make better informed decisions about the regulation and potential expansion of gambling.

### **SOCIO-ECONOMIC MODEL**

---

A socio-economic model involves the prediction of social and economic changes that would result from changes in gambling availability, regulation, or policy. The predictive value of such a model is dependent on the quality of the data used in its construction and the assumptions made by the model builders about the nature and degree of cause and effect relationships between the proposed policy change and social and economic indicators.

#### **Comments Solicited**

The Advisory Council solicited comments on a socio-economic model from a variety of actuarial and economic consulting firms and academic resources. Few responses were received, and those that did respond were not optimistic about the feasibility of a predictive model. In addition, the Council heard testimony on the technical and scientific aspects of modeling from several experts in economics and social science. State Demographer Dr. R. Thomas Gillaspay summed up the opinions of these experts: "Some people have this vision of a grand model, where you plug in your data and it answers all of your questions. I don't think that social science is anywhere near that point."

Nevertheless, the Council believes that there are many critical questions that need to be answered if the legislature and executive branch are to make informed decisions about state gambling policy. The impossibility of a predictive model does not mean that these questions cannot be explored. Indeed, they can and must.

State-sponsored research to date has focused on assessment of problem gamblers (through the Department of Human Services) and overviews of gambling participation (through the State Lottery). These efforts should continue, but are not in themselves sufficient.

### **ADDITIONAL RESEARCH QUESTIONS**

A wide range of unanswered questions about the social and economic effects of gambling remain and can be addressed through an expanded state research effort. These include:

1. Economic Impact of Gambling on the State, Both Collectively and of Each Individual Form

Both statewide impact and impact on individual communities should be studied, as should an assessment of which jobs and industries benefit and which lose. Private consultants have attempted to answer some of these questions as they relate to tribal casinos; the results have been contradictory, and the studies suffer from the perception that the authors are beholden to the interest groups sponsoring the studies.

2. Assessment of How Different Demographic Segments are Contributing to the Amount Spent on Gambling

We know the extent to which different groups participate in each major form of gambling, but assessing spending patterns is much more problematic.

3. Assessment of the Relationship Between Gambling and Criminal Activity

4. Assessment, Based on the Experience in Other Jurisdictions, of the Impact of Different Types of Gambling Expansion on the Economy, Other Forms of Gambling, and on Problem Gambling

5. Impact of Problem Gambling on Crime and Other Social Indicators, Including Divorce Rates, Bankruptcy, and Public Assistance Enrollment

## **PROCESS**

---

### **Criteria for Future Research**

Gambling research conducted under state auspices has been uneven in quality. Contracts for research have been let and results published with little oversight and no expert review. As a general principle, all research not performed directly by state agencies should be awarded under competitive bid. Awards should be made not only on cost but on the demonstrated competence and proposed work plan of the researchers.

### **Expert Review**

In addition, both research proposals and results should be subject to expert review. This could be done by establishing a "gambling research committee." Members of this committee should be employees of the executive and/or legislative branch who have demonstrated competence in research methodology.

Members might come from the Office of Strategic and Long-Range Planning, the Department of Human Services, the Minnesota Lottery, the Departments of Trade and Economic Development or Economic Security, and the legislative research offices. The role of this group would be technical oversight, not policy making.