

# Gambling in Minnesota: An Overview



September 24, 2004

Prepared for the Honorable  
Governor Tim Pawlenty

by the  
Minnesota State Lottery



*Proceeds Benefit Our Natural  
and Economic Environments.*

September 24, 2004

The Honorable Tim Pawlenty  
130 State Capitol  
75 Rev Dr. Martin Luther King Jr. Boulevard  
St. Paul, MN 55155

Dear Governor Pawlenty:

At your request we have prepared a report providing an overview of gambling in Minnesota and revenue estimates for the gambling venues discussed in the report.

If you have any questions or need additional information, please contact us.

Sincerely,

Michael Vekich  
Acting Director



## GAMBLING IN MINNESOTA: AN OVERVIEW

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This report summarizes the various proposals involving gambling in Minnesota with a particular emphasis on Indian gaming both here and nationally. The report first describes the national context for Indian gaming, the status of Indian gaming in Minnesota, and the other forms of gambling available in the state. The report also discusses a number of the proposals that have been made to provide other gaming alternatives or competition to tribal gaming.

### Executive Summary

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- Gambling is a popular activity in Minnesota. More than 80 percent of adults gamble in a given year, and total annual wagering exceeds \$10 billion.
- Minnesota has one of the nation's largest tribal casino industries. A recently published report estimated that the state trails only California and Connecticut in tribal gaming revenues.<sup>1</sup>
- The State of Minnesota received \$157 million from gambling taxes and proceeds in FY04 from the Lottery, charitable gambling (eg. pulltabs), and horse racing. Of that amount, \$112.7 million went to the General Fund. The Minnesota State Lottery makes the largest direct contribution to the State—\$100 million in FY04.
- Tribal-state compacts exist in 22 states. Several, but not all, incorporate payments by the tribes to the states. About half have termination dates.
- The content of tribal-state compacts is governed and restricted by the federal Indian Gaming Regulatory Act.
- Numerous proposals have been made for additional forms of gambling in Minnesota. These proposals range from cooperative ventures with Indian tribes to new state-operated forms of gambling to private sector operations. Revenue estimates suggest these proposals could yield between \$27 million and \$400 million a year in new state revenue.

Gaming in Minnesota is a popular activity provided in several forms. Based on current gaming in Minnesota as well as changes in gaming nationally, it is apparent that gaming and its contributions to Minnesota state revenue could increase significantly.

**Table I. FY04 State Revenues from Gambling**

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	General fund	Other funds	Total	Total wagered
Minnesota State Lottery	\$55,812,591	\$44,897,462	\$100,710,053	\$387,000,000
Lawful gambling	\$56,620,560		\$56,620,560	\$1,400,000,000
Pari-mutuel racing	\$268,649		\$268,649	\$80,500,000
Tribal casinos	\$0		\$0	\$10 billion or more
Card club	\$0		\$0	unknown

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<sup>1</sup> Indian Gaming Industry Report, 2004-2005 Edition. Meister, Alan, Casino City Press, 2004

**Table II. Estimated Revenue from Potential Alternative Forms of Gambling**

	Estimated Annual Revenue to State
Additional tribal casino gaming	\$0 <sup>2</sup>
State-tribal cooperative casino	\$97 million
Canterbury Park racino	\$50 million
State-owned casino	\$115 million <sup>3</sup>
Airport casino	\$27 million
Commercial casino	\$300 million <sup>4</sup>
Additional pari-mutuel facilities	unknown
Keno	\$39 million
Video lottery terminals	\$400 million

### **I. Indian gaming nationwide**

The federal Indian Gaming Regulatory Act (IGRA) of 1988 paved the way for the development of Native American gaming in the United States. Today it exists in 30 states, where the most recent statistics show 222 tribes operating 356 gaming facilities. (Most states without Indian gaming have no federally recognized tribes.) Forty-three of these operations reported annual revenues in excess of \$100 million, accounting for 65 percent of revenue nationwide. At the other extreme, 73 facilities reported revenues of \$3 million or less. Growth has been explosive in recent years, with total revenues growing from \$5.5 billion in 1995 to \$16.7 billion in 2003. From 2002 to 2003 alone, revenues grew by 12 percent. Growth in revenue at Indian facilities was eight times the growth at commercial casinos in the past year.<sup>5</sup>

IGRA defines three classes of Indian gaming. Class I gaming encompasses traditional tribal games played for minimal prizes. These games are not subject to any non-tribal regulation. Class II games include bingo, bingo-like games (including pull-tabs), and “non-banked” card games (games where players compete against each other and not against the house) such as poker. Class II games are subject to tribal regulation under agreements with the National Indian Gaming Commission. States have no authority over these games. Class III games encompass everything else, including most traditional casino games and pari-mutuel racing. These games are subject to negotiated compacts between tribal and state governments. IGRA required states to negotiate in good faith upon the request of tribal governments. It did, however, limit negotiations to forms of gaming permitted in the state for any purpose. Compacts must be approved by the Secretary of the Interior, and tribes must adopt gaming ordinances that are approved by the National Indian Gaming Commission. Failure to agree on compacts leads first to the appointment of a mediator and ultimately to terms being prescribed by the Secretary of the Interior “in consultation with the Indian tribe.” Of the 30 states with Indian gaming, 22 have compacts governing Class III gaming, six have only Class II gaming, and two have only charitable/nonprofit gaming. There is currently some dispute about whether certain new types of gaming machines are Class II or Class III games—an attorney for the National Indian Gaming Commission recently stated that “the lines between what constitutes Class II and Class III games are being blurred by technological advances that Congress could not have foreseen.”

<sup>2</sup> Assuming terms of existing compacts. Revenue would be subject to compact negotiations.

<sup>3</sup> Estimate prepared for 1998 proposal

<sup>4</sup> Estimate prepared by potential casino developer and not independently verified

<sup>5</sup> Indian Gaming Industry Report, op.cit.

Gambling revenues from individual tribes are not generally available. However, compacts in some states provide for the release of aggregate data, and independent observers have made estimates in other states. These data make it clear that a relatively small number of states account for the bulk of Indian gaming activity. California and Connecticut alone, in fact, account for 38 percent of total U.S. Indian gaming revenue. The next three states (Minnesota, Arizona, and Wisconsin) contribute an estimated 23 percent, and the second five (Michigan, Washington, Florida, New Mexico, and New York) account for another 22 percent.<sup>6</sup>

IGRA limits the subjects for compact negotiations to seven categories. These include:

- The application of criminal and civil laws directly relating to the regulation of gambling
- Civil and criminal jurisdiction for the enforcement of these laws
- Assessments by the state to defray the costs of regulation
- Taxation of gaming activity by the Indian tribe
- Remedies for breach of contract
- Standards for operation of gambling
- Other subjects directly related to the operation of gambling

Two items frequently mentioned in conjunction with Minnesota compacts are termination dates and payments to the state. Of the 22 states with compacts, 12 have termination dates and 10 do not, including Minnesota. Data on revenue sharing is more difficult to come by, but it appears that the sharing of significant revenues is not universal. At least \$759 million was shared with state and local governments in 2003.<sup>7</sup>

Some examples of revenue sharing include:

- Arizona tribes contribute between 1 and 8 percent of net revenue to the state.
- California tribes share between 0 to 25 percent of revenues with the state, depending on the size of the operation. Compacts with California tribes are still being negotiated, though recent tentative agreements between five large tribes and the state could lead to the state taking up to \$400 million annually from tribal casino revenues.<sup>8</sup>
- Connecticut receives 25 percent of revenue from gaming machines as long as the state does not authorize gaming machines at non-tribal facilities.
- Idaho tribes contribute 5 percent of gaming revenue to local schools and education programs.
- Louisiana tribes share revenue with the local governments in which they are located.
- Michigan tribes share some revenue with local governments. However, revenue sharing with the state for many tribes ended with the authorization of commercial casinos in the Detroit area.
- New Mexico tribes contribute between 3 and 8 percent of gaming machine revenue to the state.
- Oregon tribes contribute between 5 and 6 percent of revenue after expenses to a community benefit fund.
- Washington tribes share 2 percent of the revenue from table games with local governments.

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<sup>6</sup> *Indian Gaming Industry Report*, op.cit., p.9

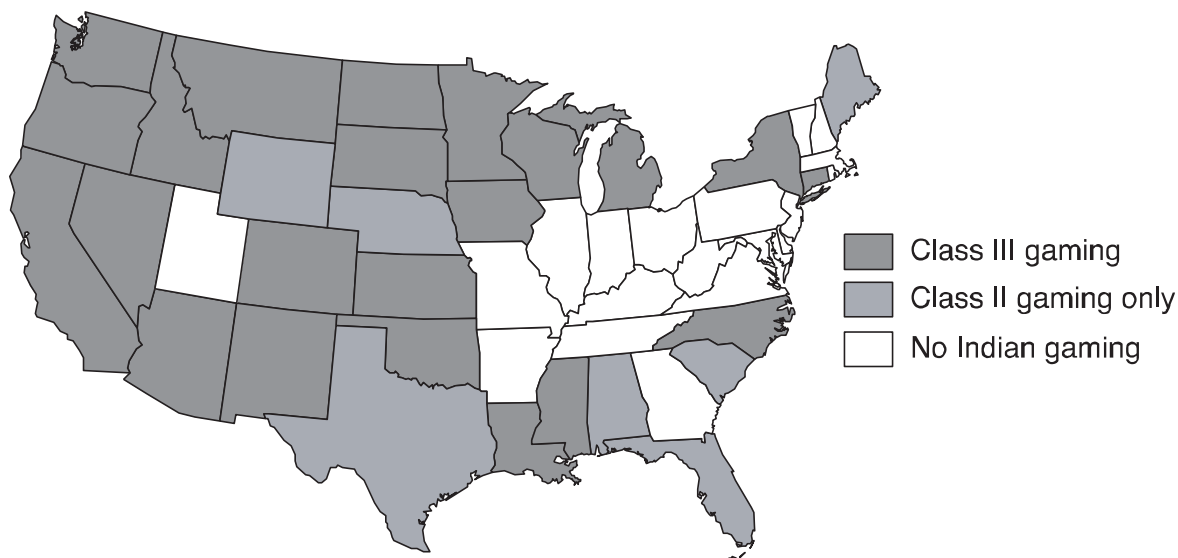
<sup>7</sup> *Indian Gaming Industry Report*, p.22

<sup>8</sup> "Governor Makes 5 Tribal Casino Deals," Steve Weigand, *Sacramento Bee*, August 20, 2004

- Through 2002, Wisconsin tribes made fixed payments to the state. Some tribes have renegotiated compacts to share a percentage of revenues rather than a fixed amount. The compacts require that the Governor make his “best effort” to spend this money on economic development initiatives to benefit Native Americans in Wisconsin and Wisconsin tourism.

In 2003 the largest payments to state and local governments were made in Connecticut—payments by the state’s two tribes totaled \$396 million. This was followed by California (\$132 million), New York (\$39 million), New Mexico (\$37 million), Michigan (\$32 million), and Wisconsin (\$32 million).<sup>9</sup>

In several states (but not including Minnesota) compacts also call for tribal contributions to programs for the treatment and prevention of problem gambling.



## II. Indian gaming in Minnesota

The first tribal bingo hall opened in Minnesota in 1982. By 1989 many tribes operated bingo halls that offered much higher prizes than those allowed by Minnesota charitable gambling operations. Several tribes began to place electronic gaming machines in their bingo halls in the mid-1980s. Legal doctrine at that time regarding gaming machines on reservations was unclear, and the U.S. Attorney was reluctant to act without judicial guidance. Federal court decisions, particularly those in the 8th Circuit, had generally favored the rights of tribal governments over states.

Minnesota was the first state to enter into negotiations with Native American governments following the passage of IGRA. The 1989 Legislature instructed Governor Perpich to appoint a three-member negotiating team (consisting of Senator Ron Dicklich, Representative Becky Kelso, and Department of Revenue attorney Dorothy McClung). This team focused on gaming machines in their negotiations. Gaming machines at that time were legal in Minnesota as long as they did not pay out prizes (this law has since been repealed) and were therefore a permissible subject for Class III gaming under IGRA. The state reached agreement with all 11 tribes permitting the placement of gaming machines and setting out a structure by which the state would inspect and regulate the machines. These agreements provided for payments to the Department of Public Safety to cover the costs of their inspections, but allowed for no other payments to the state and had no expiration date.

<sup>9</sup> *Indian Gaming Industry Report*, p.22

In 1991 Governor Carlson appointed another team to negotiate remaining issues. This team consisted of Tom Gilbertson, Senator Charlie Berg, Senator Patrick McGowan, Representative Gil Gutknecht, and lottery director George Andersen. The tribes requested the addition of other forms of gambling under the legal theory that social bets (such as basement card games) were legal in the state, and therefore could be conducted by tribal governments. The team and all 11 tribes reached an agreement under which the tribes could conduct blackjack. In return, the tribes agreed not to pursue additional forms of gambling under the social bet theory.

Minnesota's 11 Native American tribes operate 18 casinos in accordance with their compacts with the state. These compacts permit wagering on electronic gaming machines and blackjack. In addition, the tribes can offer bingo and certain card games that are not subject to tribal-state negotiations. Tribal casinos in Wisconsin and the Dakotas also attract a substantial Minnesota clientele, and in some cases can offer games that Minnesota casinos cannot (such as roulette and craps). Last year 41 percent of Minnesota adults reported visiting a tribal casino.<sup>10</sup> The amount wagered at these casinos is not publicly known, but recent reports have estimated net revenue (revenue after prizes but not after expenses) to be between \$1 billion and \$2 billion annually, which would place the total wager in excess of \$10 billion. Minnesota has one of the nation's largest tribal casino industries. One recent published report estimated that Minnesota had the third largest Indian gaming revenues in the country (behind California and Connecticut—Wisconsin was fifth).<sup>11</sup> In 2002, Minnesota casinos were home to 19,572 gaming machines and 341 table game locations.<sup>12</sup>

The tribes currently pay the Department of Public Safety \$150,000 a year to cover the costs of regulation and inspection of gaming machines. In addition, Minnesota tribes contributed \$16.1 million to local governments in 2003.<sup>13</sup>

### III. Other gambling in Minnesota

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Minnesotans have many opportunities to gamble. In addition to the 18 casinos, they can buy lottery tickets, play charitable games such as pull-tabs, go to the racetrack, play cards, bet on sporting events, and place wagers over the Internet. Not all of these activities are regulated, and some are not legal. Minnesotans can also leave the state to gamble at casino resorts in places like Nevada or Mississippi, play at riverboat casinos in Iowa or Illinois, visit a "racino" in Iowa, play gaming machines in bars and restaurants in South Dakota or Manitoba, or play charitable blackjack in North Dakota.

Participation in one or more of these opportunities has become a common feature of Minnesota life. An April 2004 survey taken for the Lottery by St. Cloud State University (SCSU) found that 83 percent of Minnesota adults had bet on at least one activity during the previous year. While the total amount wagered in the state is not known, it is a minimum of several billion dollars annually. In addition to tribal casinos, the principal forms of gambling in Minnesota include:

- **The Minnesota State Lottery:** Last year an estimated 2.2 million Minnesota adults (60 percent) purchased a Minnesota State Lottery ticket, more than participated in any other form of gambling. FY04 sales of \$387 million were substantial, but considerably less than several other forms of gambling. In FY04 the Lottery returned \$100.7 million to the state. The General Fund received \$55.8 million of this amount, the Environment and Natural Resources Trust Fund received \$26.7 million, the Game and Fish Fund and Natural Resources Fund each received \$9.1 million, and \$1.9 million was dedicated to the Department of Human Services Compulsive Gambling Program.

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<sup>10</sup> Minnesota State Lottery annual survey of gambling behavior, April 2004

<sup>11</sup> Indian Gaming Report, Alan Meister, *International Gaming & Wagering Business*, Aug. 2004, 25:8 12-15

<sup>12</sup> *Indian Gaming Industry Report*, p.8

<sup>13</sup> *Indian Gaming Industry Report*, p.22

- **Charitable gambling:** Minnesotans wagered \$1.4 billion on the five forms of lawful (charitable) gambling allowed in the state during 2003. Of this amount, \$1.3 billion was spent on pull-tabs, \$71 million on bingo, and the remainder on paddlewheels, raffles, and tipboards. Despite the far greater amount spent on charitable gambling, fewer people participate in these games than in the Lottery. One Minnesotan in four purchased a pull-tab last year, 49 percent bought a raffle ticket, and 13 percent played bingo. Wagering on charitable gambling has declined slightly but steadily since a peak of \$1.5 billion in 2000. Minnesota's charitable gambling industry is the largest in the nation. In FY04 the State received \$56.6 million from taxes on lawful gambling. Regulation of the conduct of gambling by charities is done by the Gambling Control Board, with tax collection under the supervision of the Department of Revenue. The Gambling Control Board will assess licensed organizations \$2.5 million in FY05 to cover the costs of its operations.
- **Pari-mutuel racing:** Pari-mutuel racing in Minnesota is currently limited to horse racing at Canterbury Park. In the past, limited racing has been conducted at some county fairs, and a proposal for a harness racing track in Anoka County is currently proceeding through the licensing process. Only 6 percent of Minnesota adults reported attending a horse race during the past year. Total wagering in 2003 was \$80.5 million, of which \$17.7 million was bet on live races and \$62.8 million on races broadcast from other tracks. The General Fund received \$269,000 in FY04 from the operation of racing at Canterbury Park. Regulation is by the Minnesota Racing Commission, which receives an annual fee of \$421,000 from Canterbury Park to cover the cost of its operations.
- **Card games:** Minnesotans can legally bet on card games in one of three ways: at a tribal casino, at Canterbury Park's card club, and informal social games. More than one million Minnesota adults (26 percent) report playing a card game for money within the last year, with 13 percent reporting playing cards at a casino, 2 percent at the Canterbury Park Card Club, and 22 percent somewhere else (most likely a social game). The amount wagered at any of these venues is not known, though the "rake" (amount taken in by the track) at Canterbury Park was \$22.1 million in 2003, up 27 percent from the previous year. Portions of the revenue from the card club are dedicated to the Breeder's Fund and to increasing purses for horse racing. However, the State of Minnesota receives no direct revenue from operation of the card club. Regulation is by the Minnesota Racing Commission.
- **Sports wagering:** Wagering on sports events in Minnesota is either a social bet (where no third party profits) or illegal. Last year 30 percent of Minnesota adults reported betting on a sports event. The amount wagered is, of course, unknown, though some observers have placed the amount bet on illegal sports bookmaking to be in excess of \$1 billion annually. Federal law generally prohibits states from making sports betting available.
- **Internet gambling:** Placing bets over the Internet has frequently been described as "the next big thing" in gambling activity. However, there is little evidence that this behavior is widespread, with only one Minnesota adult in 50 reporting an Internet wager. Internet gambling is generally considered to be illegal under federal law. However, most Internet gambling sites are located overseas, making enforcement difficult.

As the high levels of participation would indicate, Minnesotans are largely, though not completely, comfortable with the presence of gambling in the community. In a 1995 Lottery/SCSU survey, 26 percent agreed that "all gambling should be outlawed." By 2004 this figure had declined to 15 percent. Likewise, the percentage agreeing that they were "opposed to gambling for moral or religious reasons" declined from 34 percent in 1995 to 21 percent in 2004. A greater share of the population agrees that "there is too much gambling in Minnesota," though this percentage has also declined from a high of 56 percent in 1998 to 39 percent in 2004.



## IV. Proposals for alternative forms of gambling

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Over the last several years, a number of proposals have surfaced for new or expanded gambling in Minnesota. Some would result in significant new revenue for the state, while in others the benefits would either be small or accrue to other organizations. The remainder of this memo discusses many of these options, including estimates of revenue to the state when they can be obtained.

It is important to remember that adopting multiple proposals may well lead to revenues less than the sum of the individual estimates. New gambling venues will likely compete both with each other and with existing forms of gambling. While competition with existing gambling has been taken into account where possible when deriving revenue estimates, the effect of simultaneously adopting new forms of gambling cannot be estimated with any certainty. Nor do the estimates take into account external social and economic costs, such as the effects of competition with existing businesses, the benefits of any employment increase, or the potential impact on problem gambling.

Revenue estimates reflect the most recent version of bills that were before the legislature in the 2004 session. Changing such details of a bill as tax rates, up-front fees (if any), revenue recipients, or limits on games or the number of gaming machines could significantly change the revenues the state would realize from a proposal.

- **Additional gambling opportunities at existing tribal casinos:** Current state-tribal compacts limit gambling at tribal casinos to video games of chance and blackjack. (Bingo and some card games are not subject to state regulation.) Additional casino games like keno, craps, roulette, and baccarat could be the subject of new negotiations, as could pari-mutuel racing and/or simulcasting. Minnesota currently limits prize payouts on gaming machines to 95 percent for games involving no skill and 98 percent for games involving player skill. Other states have higher limits; Wisconsin compacts, for example, allow for payouts up to 100 percent. This could also be discussed in future negotiations. Revenue to the state would be subject to negotiation; under the current compacts no additional revenue would be realized.

It would also be possible to discuss the opening of new facilities off of reservations. However, the land for such facilities would have to be taken in trust by the Secretary of the Interior through a complex process requiring “consultation” with state and local governments and other Indian tribes and a determination by the Secretary that gambling on this land is in the best interest of the tribe and the surrounding community. The failure of the proposal to open a tribal casino on the site of the (now closed) dog track in Hudson, Wisconsin illustrates the difficulties inherent in this process. However, it is not impossible, as illustrated by the recent opening of the Seneca casino in Niagara Falls, New York on newly acquired “trust” land.

- **State-tribal cooperative casino:** The 2004 Legislature considered a proposal under which the Lottery would partner with Native American governments to operate a casino in the Twin Cities area. The state would be the owner of the facility (thus bypassing the issues with off-reservation gambling outlined above) but would contract with a tribe or tribes for significant management responsibilities. Under the proposal considered in 2004 the Lottery would be responsible for operating the gaming machines at the facility, while the tribes would be responsible for construction and management of the facility and the conduct of card games. (The discussion of a racino below describes gaming machine operation in more detail.) This proposal was designed to benefit northern Minnesota bands that because of their remote location have received little benefit from existing casinos. A location in the northern Twin Cities suburbs was envisioned. Estimated state revenues from this proposal are \$97 million annually following a start-up period, though they would be highly dependent on the size and location of the facility. It would also, of course, be possible to establish more than one such facility. To the best of our knowledge, there is no precedent for this type of cooperative agreement.

- **Canterbury Park racino:** Under this proposal, the Lottery would install and operate video lottery terminals or slot machines at a horse racing facility. The machines would be linked to a central control system at Lottery headquarters where play would be recorded and the amount due to the state calculated. The racino operator would be responsible for the physical facility and routine day-to-day operation and would work with the Lottery on security. Racinos are operated by lotteries in Delaware, New York, Rhode Island, and West Virginia, and operated or regulated by other bodies in Iowa, Louisiana, and New Mexico. Estimates are that a racino would return \$50 million annually to the State, though the actual amount is very dependent on the revenue distribution formula of each particular proposal.
- **State owned and operated casino:** It is possible for the State to own and operate a casino through the Minnesota Lottery without entering into a partnership with another entity. There are no states in the U.S. where such an operation currently exists, but provincial lotteries in Quebec, Ontario, Manitoba, and British Columbia do operate casinos. Revenues would depend heavily on location and the types of games offered, but a revenue estimate prepared for a legislative proposal several years ago suggests potential state revenues of \$115 million annually.
- **Airport casino:** The 2004 Legislature gave consideration to a bill that would establish a casino at the Minneapolis-St. Paul International Airport. Unlike other casino proposals, patrons of this facility would be required to present a boarding pass to enter. Estimated revenue is \$27 million a year, though this would heavily depend on the amount of space available at the airport for the casino and its location within the airport.
- **Commercial casinos:** Commercial casinos exist in 11 states, six of which are in the Midwest (Illinois, Indiana, Iowa, Michigan, Missouri, and South Dakota). Most of the midwestern states require that the casinos be “riverboats,” though in most cases the boats are not required to actually sail. Taxes on these enterprises can be a significant source of revenue for governments— Illinois, for example, collected over \$700 million in state and local taxes in 2002. Finding the appropriate level of taxation has been a difficult political issue. In a controversial move, Illinois recently raised the top tax rate on casino income to 70 percent, causing several companies to delay or cancel plans to expand in Illinois.<sup>14</sup> Tax rates in other states range from 8 percent to 35 percent.<sup>15</sup> In addition to revenue generated by taxes on commercial casinos, the State should consider a licensing fee for such casinos. The fee would depend on several factors: the number of licenses, the terms of each license and the locations allowed under each license. During the 2004 legislative session, potential operators were willing to pay licensing fees for the privilege of operating a commercial casino. Canterbury Park suggested a \$100 million up front fee to operate a racino and Caesar’s was willing to pay \$400 - \$450 million as a licensing fee to operate a commercial casino. Licensing fees are a viable option to generate revenue.

<sup>14</sup> “It’s risky for Illinois politicians to bet on future growth in gaming revenue.” *Illinois Issues Online*, September 2003. <http://illinoisissues.uis.edu/politics/bet.html>

<sup>15</sup> <http://www.americangaming.org/Industry/state/statistics.cfm>

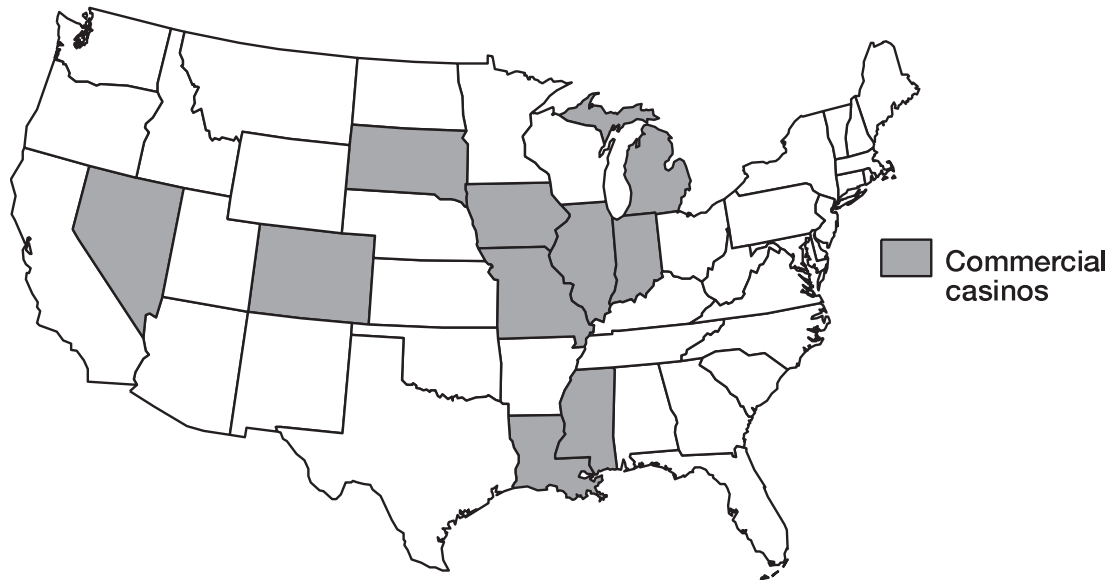
Following is a table of tax revenues received by other states from commercial casinos.

**Table III. 2003 State Gaming Tax Revenue**

Colorado	\$95.6 million
Illinois	\$719.9 million
Indiana	\$702.7 million
Iowa	\$209.7 million
Louisiana	\$448.9 million
Michigan	\$250.2 million
Mississippi	\$325.0 million
Missouri	\$369.0 million
Nevada	\$776.5 million (includes fees)
New Jersey	\$414.5 million
South Dakota	\$5.45 million

Source: American Gaming Association

One or more casinos could be established in Minnesota without direct government involvement, though this would necessitate both the passage of a constitutional amendment and the establishment of a sizeable regulatory structure. One such proposal brought to the 2004 Legislature envisioned a single casino in the Twin Cities area that would make an up-front payment of \$200 million to the State and thereafter pay a 25 percent tax on gross revenues that would be dedicated to scholarships. Other dedications or tax rates are, of course, possible. Proponents of this proposal have estimated annual gross revenues of about \$1.2 billion, which at a 25 percent tax rate would yield \$300 million in state revenue. This estimate has not been independently verified and, as with other proposals, depends greatly on the exact location of the facility, the forms of gambling allowed, and the facility's size. The need for a constitutional amendment would mean that a commercial casino could not open until late 2007 at the earliest.



- **Additional pari-mutuel facilities:** The Minnesota Racing Commission is considering a license application for a track to be located in Anoka County that would offer live and simulcast harness racing. Under current law, the owners of this facility would also be able to open a card room after 50 days of live racing. The track's developers in the past have also sought a racino, though that was not part of their 2004 legislative proposal. No revenue estimate is available for this proposal.
- **Keno:** Fast draw keno is most commonly a casino game, but in recent years it has been offered as a lottery product in several states. In these states, it is typically played in licensed beverage establishments, with drawings held every four or five minutes. Eleven states and the District of Columbia currently offer keno. Sales from these jurisdictions suggest that Minnesota sales could approach \$158 million a year, with resulting revenues to the State of \$39 million a year. The Lottery currently has the legal authority to introduce keno. It has, however, viewed keno as enough of a departure from existing lottery products that it would not proceed without explicit legislative or executive direction.
- **Video lottery terminals:** Lotteries in Oregon, South Dakota, West Virginia and several Canadian provinces have placed electronic gaming machines (video lottery terminals or VLTs) in licensed beverage establishments. VLTs are also placed in bars, restaurants, and other locations (such as truck stops) in Louisiana and Montana with lesser degrees of state supervision. These machines are very similar to the gaming machines found in casinos but are linked to a central control system that monitors cash taken in and prizes paid out. Legislation in other states has capped the number of machines per establishment at between five and 10. They have proven to be the most lucrative way to increase lottery revenues; in Oregon, they accounted for 58 percent of lottery sales in fiscal year 2003 and in South Dakota 95 percent of sales. Estimates for Minnesota exceed \$400 million a year in state revenues. However, the combination of easy access, rapid play, and electronic stimulation leads some researchers to believe this to be the most problematic form of gambling.

It is important to remember that any additional forms of gambling would come at a cost. Each of these proposals would require some expansion of the regulatory structure. Some, such as a new racetrack or casino, would incur costs for new infrastructure that might accrue to the state or to local governments. In addition, it is impossible to determine the impact of any proposal on problem gambling. While there is some evidence to suggest that the levels of problem gambling in an area are not closely related to changes in the types of gambling available, this evidence is far from definitive. Currently state programs for the treatment and prevention of problem gambling are entirely financed from the Lottery—\$3.9 million in the 04-05 biennium. However, both tribal communities and Canterbury Park have made some contributions to non-profit organizations working in this area. Legislative proposals for additional gambling have almost without exception called for additional funding for problem gambling programs as well.

## V. Conclusion

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Gaming in Minnesota is a popular activity that is provided in several forms. Based on current gaming in Minnesota and national trends, it is apparent that gaming and its contribution to Minnesota state revenues could increase significantly.