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WHERE'S THE 'CHARITY' IN CHARITABLE GAMBLING?



Three pennies of your
charitable gambling dollar
actually go to charity.

Not much of the money flowing into this billion-dollar state industry gets to its targets.

By JEAN HOPFENSBERGER • hopfen@startribune.com

The Hopkins Jaycees oversaw \$4.4 million in charitable gambling last fiscal year — but donated just \$14,000 to charity. The Minneapolis Riverview Lions Club took in \$1.4 million and donated just \$4,400. The Edinburgh USA Pro Am Foundation in Brooklyn Park oversaw \$3.5 million, but didn't report a penny in donations to the Minnesota Gambling Control Board.

What's happening to the "charity" in Minnesota's \$1 billion charitable gambling industry?

This year marks the 25th anniversary of state-regulated charitable gambling in Minnesota, the charitable gambling capital of the nation. Gambling employs more than 12,000 Minnesotans, funnels money to hundreds of charities, and provides entertainment at nearly 3,000 bars, fraternal halls and restaurants in every corner of the state.

But donations to charities have plunged to their lowest levels since 1986. About \$32 million, or 3 percent of gross gambling revenues, went to charities in fiscal year 2010, according to a Gambling Control Board analysis this month.

That means hundreds of Minnesota groups, such as Boy Scouts, softball teams and food shelves, are receiving smaller or no donations from gambling proceeds.

Concerned about the decline, the state this month issued its first ratings system of community groups that run charitable gambling. Groups that give more of their proceeds to community needs and spend less on their operations get better ratings.

The situation confounds Tom Nelson, the former state lawmaker who wrote the measure that legalized pulltab gambling — which now accounts for 91

Gambling continues on A12 ►



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Pulltab games, such as those at the Chanhassen American Legion, account for 91 percent of gambling revenues.

percent of gambling revenues. The original idea, he said, was to have state oversight over pulltab fundraisers for summer softball leagues and other community activities.

"There was never an intent to fund buildings or staff," said Nelson, now superintendent of Stillwater Area Public Schools. "It looks like it became a big business."

King Wilson, executive director of Allied Charities of Minnesota, the trade group for nearly 1,300 nonprofits running charitable gambling, concedes that point.

"I don't think anyone would have anticipated at the time that charitable gambling would become a \$1 billion business so quickly," he said. "I don't think anyone realized that Minnesotans liked to gamble so much."

But King contends that the dramatic decreases in charitable gambling revenues — about \$400 million in the past five years — are to blame for the low charity donations. Gambling groups can't give away money they don't have, he said.

Many Minnesotans are under the illusion that charitable gambling benefits far more community needs. Sharon Valley of White Bear Lake was among a group of folks enjoying an afternoon of bingo recently at the Roseville Bingo Hall, which raises money for Roseville youth hockey and Midway Speedskating.

About 60 people sat at rows of tables in the bingo hall, stamping their cards and watching numbers flash on huge flat-paneled TV screens on the walls. During breaks, many made a beeline to a colorful pulltab booth to increase their odds of a win.

"The joke is, if you lose money, at least it goes to charity," Valley said. "I thought a lot more money went to charity. That really bothers me. I think of all the kids who need things that the money could buy."

Success set a trap

Bob Matson recalls the earliest years of charitable gambling wistfully. A Roseville hotel operator back in 1985, he offered to sell pulltabs at his hotel to purchase new equipment for the Roseville youth football program. To his amazement, the \$30,000 needed was raised in three months.

Invigorated, Matson helped start the North Suburban Youth Foundation to support more youth activities. Playground

equipment for Falcon Heights Elementary School. Computers for Roseville Area High School. Fencing for a Roseville public athletic field. Student scholarships and much more.

Matson, now the foundation's CEO and a gambling consultant, said that as the industry swelled, volunteer gambling managers across the state were replaced with paid managers. Taxes increased. Expenses jumped. Said Matson: "When things were flush, it was easy to get into a trap of buying things you didn't absolutely need."

Then, about four years ago, gambling took a nosedive. The economy tanked. The under-30 crowd yawned at pulltabs. The statewide smoking ban took effect. State gambling revenues plunged. So did profits.

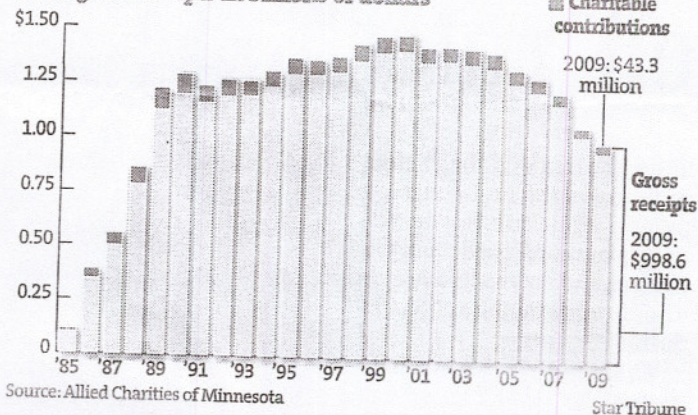
The North Suburban Youth Foundation lost tens of thousands of dollars after it closed a bingo hall operation, Matson said, and had to leave a bar that generated most of its pulltab sales. Expenses drained 91 percent of foundation gambling profits in the 2009 fiscal year, state reports show.

Finances have improved to the point that 74 percent of profits now go to expenses. Matson is hoping to return to the 53 percent level of a few years ago. "We expect to improve with new management, new games and developing new sales," he said. "And we're betting on an improved economy."

CHARITIES RECEIVE RECORD-LOW DONATIONS FROM GAMBLING

The portion of charitable gambling money helping charities has dropped from 13.5 percent in 1985 to 7 percent in 1990 to 4 percent over the past decade. Gambling groups donated roughly \$43 million to charity in 2009, when gross gambling receipts were nearly \$1 billion.

Total gross receipts in billions of dollars



Expenses soar

Many gambling managers complain about the cost of complying with state rules and annual audits. But many of those rules resulted from pulltab abuses revealed in newspaper articles and state investigations. In 1990, for example, the Office of Legislative Auditor uncovered "inappropriate deductions for gambling expenses." Again in 2005, the auditor's office reported that 43 percent of gambling groups were spending more on expenses than the limit of 55 percent of gross profit.

Instead of tightening the reins on expenses, however, the Legislature relaxed them.

Starting in July, gambling organizations can claim up to 70 percent of their net profits as "allowable expenses."

Veterans and fraternal groups that own their own buildings can go beyond that. They can pay for property taxes and some building repairs with gambling revenue above and beyond the 70 percent.

The Star Tribune asked the Minnesota Gambling Control Board to provide data on the charity donations and expenses of each of the more than 1,200 licensed gambling organizations. The full list, which covers fiscal year 2010, is available at www.startribune.com/gambling.

The report shows a wide range of giving and spending, with expenses and taxes often swallowing the bulk of profits. Expenses, for example, consumed 5 percent of some gam-

bling groups' net profits and more than 100 percent of others. The average was 56 percent. Charitable donations ranged from 0 to the rare 100 percent. Five gambling groups didn't donate a penny to charity. That is permitted under state law.

It's difficult to determine "average" charity donation because that number is not calculated in gambling reports. John Peterson, a former member of the Hibbing Gambling Commission, argues that the "confusing" way charity donations are presented to the Legislature hides the scarcity of cash flowing to softball teams, fire departments and other community needs.

Charities get little

The vast majority of gambling revenues, 82 percent, is awarded to players as prizes, according to state reports.

More than half of what's left pays for expenses, such as gambling manager wages and rent.

The figures from the Minnesota Gambling Control Board, covering July 1, 2009, to June 30, 2010, show the lopsided spending patterns. The groups with the smallest portion of revenues going to charity blame a combination of declining gambling revenues, high taxes and the high cost of running a gambling organization. They include:

- The Hopkins Jaycees reported \$4.4 million in gross gambling receipts, \$574,000 in net profit, \$359,000 in "allowable expenses," and \$233,000 for taxes and fees. Just \$14,460 went to charity.

- The Minneapolis Riverview Lions Club reported \$1.4 million in gambling revenue, \$326,000 in net profit, \$242,000 in allowable expenses, \$78,000 in taxes and fees, and \$4,384 for charities.

- The American Legion in Savage reported \$880,000 in gross revenue, \$203,000 in net profit, \$174,000 in various expenses and \$113 for charity.

- The Edinburgh USA Pro Am Foundation reported \$3.5 million in gross revenues, \$498,000 in net profit, \$268,000 in expenses, \$212,000 in taxes and no donations to charity.

But the Edinburgh Foundation's gambling manager, Bob Klick, said the foundation gave several thousand dollars to the Champlin Parks Department and the city confirmed it received \$7,500.

Klick, like other gambling managers, says his donations are tiny now because of plummeting gambling revenues.

Said Klick: "It's really debatable if it's worth staying in."

"But if we quit, we have 30 people unemployed," he said. Plus the bar bingo and pulltabs draw business to the American Legion and two Kelly's restaurants where they oversee gambling, he said.

Peterson, however, argued that the mission of charitable gambling is not to give jobs to people. "If the amount of money spent on employees is more than the money given to charity," he said, "something is wrong."

Changes ahead

Gambling leaders are taking steps to reverse the decline in giving — as well as the decline in gambling in general.

"We want to bring the focus back to what charitable gambling is supposed to be about," said Tom Barrett, executive director of the Minnesota Gambling Control Board.

This month the Control Board released its first list of gambling organizations rated under a new "star system." The stars rate groups based on how much money they spend on "lawful purposes expenditures," which is charity, state taxes and building-related expenses for veterans and fraternal groups. Groups face sanctions if they fail to meet rating guidelines.

The hope is spending will shift away from expenses and into this category, said Barrett.

But if the state is serious about helping more charities, it should focus on charitable spending alone, said Peterson. Lumping different spending categories together just hides the problem, he said.

The Amvets organization in Hibbing, for example, this month was fined \$800 by the state for submitting illegal expenses for rent and utilities and ordered to pay back \$36,000 to its gambling account. But it has a four-star rating.

"It's crazy," he said.

Gambling leaders such as Wilson still believe the best way to crank up charity donations is to increase gambling revenues. Their hope for the future was evident at a recent annual meeting of Allied Charities of Minnesota. In the vendor room, gambling managers tested new electronic pulltab machines played on video screens.

Legalizing electronic pulltabs is a legislative priority next year, said Wilson. He hopes they will attract younger and bigger audiences, rejuvenating the industry and charity donations.

Gamblers such as Valley at the Roseville Bingo Hall hope those charity donations climb soon. "Knowing the money is going to help people, that's a big draw for me," said Valley. "If it's not, it's just gambling."

WHERE THE MONEY GOES

Charitable gambling is a nearly \$1 billion industry in Minnesota, yet just a fraction ends up with charities.

Prizes for players
82%



Expenses for gambling operators
11%

Charity
3%

Taxes
4%

Source: Fiscal Year 2010, (July 1, 2009, to June 30, 2010) Minnesota Gambling Control Board



The Roseville Bingo Hall raises money for Roseville youth hockey and Midway Speedskating. About four years ago, gambling took a nosedive with the economy, and so did profits.

WHERE'S THE
'CHARITY'?

charitable gambling

THE TRADE-OFF

- Hundreds of VFWs, American Legions and other groups have come to rely on their charitable gambling revenues to keep their doors open.

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The Morristown American Legion is a social hub of the community, hosting senior card games, bingo night, Boy Scouts, Christmas parties and more. Its charitable gambling operation is the piggy bank for many local youth and veterans programs — and for the Legion itself.

Gene Lindahl, the Legion's charitable gambling manager, says the Legion would have to shut down if it weren't for pulltabs, bingo and paddlewheel games. Not only do they attract folks to the Legion's bar and special events,

they also allowed the Legion to use more than \$40,000 in gambling profits last fiscal year to pay for property taxes, utility bills, Lindahl's wages, overhead and more.

These expense claims have inadvertently become the economic lifeline for hundreds of cash-strapped VFWs, American Legions, Eagles clubs and other fraternal groups across Minnesota. They're a big reason the state has approved ever-growing expense limits for gambling groups.

"I'd say all the clubs like ours are using the [gambling] money to keep their doors open," said Lindahl.

Such is the Catch-22 fac-

ing legislators and gambling leaders who want more charity from charitable gambling. Nearly half of Minnesota's more than 1,200 charitable gambling operations are run by fraternal groups. Many are anchors of their communities, yet struggling financially because of aging membership, a dive in the bar and gambling business, and big, old halls that are often expensive to heat and maintain.

But John Peterson, a former member of the Hibbing Gambling Commission, says it's not the role of gambling policy to support struggling fraternal groups. If legislators want to help them, they could

cut their taxes, leaving more money for charities, he said.

"Yes, they do good service," said Peterson. "But there are all sorts of clubs that run without gambling money. It's a disincentive to run a good business."

"There's a balancing act that is part of charitable gambling policy," said Sen. Ann Rest, DFL-New Hope, who has headed the Senate committee overseeing gambling issues. "We don't want to see VFWs across the state — in every one of our [legislative] districts — fold up. They are valuable assets to our communities."

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