

# Background

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## SUMMARY

*Minnesotans and visitors wager billions of dollars a year on the state's various forms of legal gambling. These include pull-tabs, bingo, and other forms of charitable gambling; horseracing and card games at Canterbury Park; lottery games; and slot machines and blackjack at Indian casinos. Four state agencies regulate gambling: the Gambling Control Board, Minnesota Racing Commission, Minnesota State Lottery, and Alcohol and Gambling Enforcement Division in the Department of Public Safety. Although their responsibilities and authority vary, each agency seeks to ensure the integrity of gambling by preventing cheating and theft and to ensure that gambling proceeds are distributed according to state law. The agencies use similar regulatory techniques to oversee the different types of gambling, including licensing, education, compliance checks, and investigations.*

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**G**ambling is a multi-billion dollar industry in Minnesota. It includes various forms of gambling allowed for nonprofit fund-raising purposes, such as pull-tabs and bingo; horse racing and card games; a state operated lottery; and casino slot machines and blackjack. As in other states, gambling is a regulated industry in Minnesota, controlled by laws, rules, and regulatory agencies. State regulation of gambling is divided primarily among four agencies, but other federal, tribal, state, and local authorities also play a role.

The purpose of our evaluation was to assess how effectively the state's gambling regulatory agencies implement their respective roles in ensuring gambling integrity and whether the current multi-agency approach allows the state to regulate gambling in the most effective and efficient ways possible. As background, this chapter addresses the following questions:

- **What types of gambling are legal in Minnesota, and how profitable is each?**
- **How does Minnesota regulate legalized gambling?**

To answer these questions, we reviewed state laws, legislative reports, and various documents that discuss the history and current structure of gambling regulation in Minnesota. In addition, we analyzed available data on gambling profits and regulatory agency staffing and budgets. Finally, we interviewed state and federal regulators about the laws, rules, and procedures that define the state's regulatory approach and the relationship between state, federal, tribal, and local authority.

## TYPES OF LEGAL GAMBLING

**Legal gambling is a multi-billion dollar industry in Minnesota.**

People in Minnesota can gamble in several different venues and for a variety of purposes. State law allows for unregulated social gambling, such as poker games held in private homes. In addition, the state allows and regulates various types of commercial gambling, which for the purposes of our evaluation, we grouped into four categories:

- Pull-tabs, bingo, raffles, paddlewheels, and tipboards operated by nonprofit organizations for the purpose of fundraising (called charitable or lawful gambling);
- Horse racing and racetrack card clubs, currently limited to Canterbury Park;
- A state lottery; and
- Slot machines and blackjack at Indian casinos.

After paying out gamblers' winnings, the gambling industry generates over \$1 billion a year in gross profit for the various organizations that run gambling operations in the state. As shown in Table 1.1, casino gambling and nonprofit fundraising through charitable gambling are the largest money-makers, followed by lottery and horse racing and card club activities.

**Table 1.1: Estimated Annual Gross Profits, After Prizes, From Legal Gambling in Minnesota**

	Estimated Gross Profit After Prizes Paid to Winners (in Millions)
Casino Slot Machines and Blackjack	\$900 – 1,400 <sup>a</sup>
Charitable Gambling	257 <sup>b</sup>
Lottery	161
Horse Racing and Card Club	39
Total	\$1,357 – 1,857

<sup>a</sup>Indian tribes are not obligated to make information on casino revenues public. The range shown is from published casino industry estimates.

<sup>b</sup>Amount reflects charitable gambling activity of licensed nonprofit organizations only.

SOURCES: Jason A. Ader and Marc J. Falcone, *Bear Stearns North American Gaming Almanac, 2001-2002* (Las Vegas, NV: Huntington Press, 2001), 321; Alan Meister, *Indian Gaming Industry Report* (Newton, MA: Casino City Press and Analysis Group, Inc., 2004), 9; Office of the Legislative Auditor analysis of Department of Revenue charitable gambling tax data; Minnesota State Lottery, *2004 Annual Report* (Roseville, MN, 2004); Minnesota Racing Commission, *Minnesota Racing Commission 2003 Annual Report* (Shakopee, MN, 2004); and Canterbury Park Holding Corporation, *2003 Annual Report* (Shakopee, MN, 2004).

## STATE REGULATORY AGENCIES

As shown in Table 1.2, state government oversight of legal gambling is divided primarily among four organizations: the Gambling Control Board, the Minnesota Racing Commission, the Minnesota State Lottery, and the Alcohol and Gambling Enforcement Division of the Minnesota Department of Public Safety. The agencies' responsibilities and authority vary, but they perform similar regulatory activities, including licensing, rulemaking, training, compliance reviews, and enforcement.

**Table 1.2: Minnesota Gambling Regulatory Agencies**

**In Minnesota, state government oversight of gambling is divided among four agencies.**

Gambling Control Board	<ul style="list-style-type: none"> <li>• Regulates charitable gambling.<sup>a</sup></li> <li>• A citizen board of 7 members and a regulatory office with an executive director and a staff of about 30.</li> </ul>
Minnesota Racing Commission	<ul style="list-style-type: none"> <li>• Regulates horse racing and racetrack card clubs.</li> <li>• A citizen board of 9 members and a regulatory office with an executive director and a staff of about 6.</li> </ul>
Minnesota State Lottery	<ul style="list-style-type: none"> <li>• An independent agency responsible for the production, promotion, and integrity of lottery games.</li> <li>• The Lottery's security department, with a staff of about 7, has primary responsibility for game integrity. However, security provisions are embedded throughout the Lottery's operations.</li> </ul>
Alcohol and Gambling Enforcement Division	<ul style="list-style-type: none"> <li>• Oversees slot machine and blackjack gambling at Indian casinos.</li> <li>• A division within the Minnesota Department of Public Safety that, in addition to overseeing certain aspects of casino gambling, conducts gambling-related background and criminal investigations. It has a director and a gambling enforcement staff of about 12.</li> </ul>

<sup>a</sup>Charitable gambling includes pull-tab, bingo, raffle, paddlewheel, and tipboard games operated by nonprofit organizations for the purpose of charitable fundraising.

SOURCE: Office of the Legislative Auditor.

Other entities are involved to various degrees in gambling oversight and regulation. For example, cities and counties can levy gambling-related taxes, require charitable gambling permits for some unlicensed organizations, and issue regulations more stringent than state law. The Minnesota Department of Revenue administers state taxes on gambling. Local law enforcement may be involved in gambling investigations and enforcement. Tribal governments are primary regulators of casino gambling, and several federal agencies are involved in casino oversight as well.

## Gambling Control Board

The Gambling Control Board regulates charitable gambling (also called “lawful gambling”). The board’s purposes include taking all necessary steps to ensure the integrity of and public confidence in charitable gambling and ensuring compliance with all applicable laws and rules.<sup>1</sup> The board’s many regulatory activities directed to achieving these purposes include: (1) licensing nonprofit organizations and their gambling managers, issuing permits to licensed organizations for each gambling site they operate, and registering licensed organizations’ paid gambling employees; (2) licensing gambling equipment manufacturers, distributors, distributor salespeople, and bingo hall operators; (3) issuing permits to unlicensed organizations that conduct small and infrequent charitable gambling activities; (4) providing education and mentoring; (5) conducting compliance reviews, site inspections, and investigations; (6) reviewing and testing gambling equipment; and (7) issuing penalties to noncompliant licensees. The Gambling Control Board’s fiscal year 2004 budget, which is provided by dedicated funds generated by fees charged to licensees, was about \$2.5 million.

Veterans, fraternal, religious, and other nonprofit organizations may conduct charitable gambling. These nonprofit organizations may choose to offer various types of games, as shown in Table 1.3, but in Minnesota, pull-tabs are by far the

**Table 1.3: Types of Charitable Gambling**

		FY 2004 Gross Profit <sup>a</sup>
Pull-tab	A folded or banded ticket with perforated break-open tabs, the face of which is initially covered to conceal one or more numbers or symbols, where one or more of each set of tickets or cards has been designated in advance as a winner.	\$233,527,000
Bingo	A game in which a caller selects balls printed with combinations of letters and numbers corresponding to combinations on bingo cards or sheets. Players purchase bingo cards or sheets and mark off the called combinations if they are on their bingo cards. The winner is the player whose marked off squares complete the winning pattern for the game.	15,690,000
Paddlewheel	A wheel marked off into sections containing one or more numbers, and which, after being turned or spun, uses a pointer or marker to indicate winning chances. The winner is the player whose ticket corresponds to the number on which the pointer lands after the paddlewheel is spun.	3,939,000
Raffle	A game in which a participant buys a ticket for a chance at a prize with the winner determined by a random drawing to take place at a location and date printed upon the ticket.	2,798,000
Tipboard	A board, placard, or other device containing a seal that conceals a winning number or symbol for the game. Players buy a ticket, the face of which is initially covered or otherwise hidden from view. The winner is the player whose ticket corresponds to the winning number or symbol for the game, which is revealed when the seal is removed.	1,326,000

<sup>a</sup>Gross profit (sometimes called net receipts) is the amount wagered less prizes.

SOURCES: *Minn. Stat.* (2004), §349.12 and Office of the Legislative Auditor analysis of Department of Revenue charitable gambling tax data.

<sup>1</sup> *Minn. Stat.* (2004), §349.151, subd. 4(a)(4) and (17).

**The Gambling Control Board regulates charitable gambling operated by nonprofit organizations.**

most popular. Pull-tab gambling generated a fiscal year 2004 gross profit of \$234 million after prizes were paid.

The extent of state regulation of charitable gambling generally depends on the form of gambling, the frequency, and the amount of money involved, as shown in Table 1.4. In fiscal year 2004, unlicensed organizations conducted over 4,400 exempt or excluded gambling activities, with exempt activities generating \$27.6 million in gross receipts.<sup>2</sup> However, the majority of charitable gambling was conducted by the over 1,450 nonprofit organizations licensed to conduct charitable gambling. As Table 1.5 shows, people wagered over \$1.4 billion on charitable gambling conducted by licensed organizations in fiscal year 2004, of which about \$1.2 billion was returned to bettors as prizes. Gross profits (after prizes were awarded) totaled \$257 million, with gross profits generated by individual licensed organizations ranging from under \$5,000 to over \$4 million. After business expenses, state taxes, and the board’s regulatory fee, licensed organizations generated and donated an estimated \$73 million for lawful purposes

**Table 1.4: Categories of Charitable Gambling Activity**

Excluded	<p>Small and infrequent bingo events or raffles are “excluded” charitable gambling. For example, bingo is an excluded activity if the nonprofit organization conducts four or fewer bingo occasions a calendar year. Raffles are excluded if the total value of raffle prizes awarded by the organization does not exceed \$1,500 a calendar year.</p> <p>Nonprofit organizations must obtain a permit for each excluded event. There is no permit fee.</p>
Exempt	<p>Charitable gambling activities are “exempt” if a nonprofit organization conducts the activities on five or fewer days in a calendar year and does not award more than \$50,000 in prizes for the year.</p> <p>Nonprofit organizations must obtain a permit for each exempt event. The permit fee is \$50. Organizations must file reports of gross receipts and expenditures for each event with the Gambling Control Board.</p>
Licensed	<p>Nonprofit organizations that conduct charitable gambling events more often or with higher prizes than excluded or exempt activity must get a license.</p> <p>The license period is two years and the fee is \$350 per year. Licensed organizations must file monthly charitable gambling tax returns with the Department of Revenue and reports of charitable contributions with the Gambling Control Board.</p>
Other	<p>Other legal charitable gambling includes high school raffles and small bingo events conducted in nursing homes or senior citizen housing, or by a senior citizen organization. These may be conducted without a permit or license.</p>

SOURCES: *Minn. Stat.* (2004), §§349.166, subds. 1 and 2 and 609.861, subd. 5; and Office of the Legislative Auditor.

<sup>2</sup> The Gambling Control Board does not collect data on money generated by excluded activities.

**Table 1.5: Allocation of Licensed Nonprofit Organizations' Charitable Gambling Proceeds, FY 2004**

	Amount (in Millions)
Gross Receipts	\$1,418
Prizes	1,161
Gross Profit (Gross receipts less prizes)	257
Business Expenses	126
State Taxes and State Regulatory Fee <sup>a</sup>	58
Money Available for Other "Lawful Purpose" (or Charitable) Contributions <sup>a</sup> (Gross profit less business expenses, state taxes, and state regulatory fee)	73

<sup>a</sup>State taxes are an estimate based on fiscal year 2004 taxes adjusted by a calendar year 2003 tax credit of \$6.9 million. Thus, money available for other lawful purpose contributions is also an estimate.

SOURCE: Office of the Legislative Auditor analysis of Department of Revenue charitable gambling tax data.

in fiscal year 2004.<sup>3</sup> In the end, about \$.05 of each dollar gambled—about 28 percent of gross profits—was donated to lawful purposes other than state taxes and the board's regulatory fee.

Although the Gambling Control Board issues permits to unlicensed nonprofit organizations to conduct charitable gambling activities, most of the board's resources are focused on licensed organizations. As described in Chapter 2, the regulatory challenge for the Gambling Control Board is ensuring the integrity of games conducted at over 3,000 sites operated by licensed organizations throughout the state and ensuring that the roughly 1,450 licensed gambling organizations use their net gambling profits only for lawful purposes defined in statute.

## Minnesota Racing Commission

The Racing Commission's regulatory authority is currently focused on one venue, Canterbury Park, which conducts horse races and operates a card club. Canterbury Park offers live racing for approximately 17 weeks during the summer and simulcast racing (the televised display, for wagering purposes, of horse races conducted at other locations) year-round. In addition, the Canterbury Park card club is open 24 hours a day, year-round.

The Minnesota Racing Commission is responsible for ensuring the integrity of horse racing in the state. To fulfill this responsibility, the commission is expected to: (1) license all personnel working at or for the racetrack, (2) help protect the health of the horses, (3) ensure that races are conducted fairly, and (4) ensure that

<sup>3</sup> The Legislature has defined 19 categories of lawful purposes. In addition to more traditional charitable causes, lawful purposes include federal, state, and local gambling taxes; regulatory fees; and audit fees; among other things. In Table 1.5 we present state taxes and the board's regulatory fee separately from other lawful purposes.

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**The Racing Commission oversees horse racing and the card club at Canterbury Park.**

proceeds are properly allocated. The Racing Commission also has regulatory authority over the card club that is located at the racetrack and is responsible for ensuring that card club activities adhere to all relevant rules and procedures.

As illustrated in Table 1.6, money wagered on horse racing and card club activities is allocated to several different purposes, including prizes to bettors, purses for horse races, the state's pari-mutuel tax, and the breeders' fund, among others.<sup>4</sup> Notably, the racetrack must pay the state pari-mutuel tax on live and simulcast racing once the takeout (total amount wagered less prizes to bettors) exceeds \$12 million, but is not required to pay a gambling tax on any card club revenue. About half of the Racing Commission's budget is provided by dedicated funds generated by fees charged to licensees. In fiscal year 2004, the Racing Commission received almost \$435,000 in licensing fees, of which the Legislature authorized the commission to spend \$421,000. In addition, the commission received approximately \$483,000 in fiscal year 2004 as reimbursement from the racetrack for costs associated with overseeing live racing and regulating the card club, among other things.

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**Table 1.6: Allocation of Horse Racing and Card Club Proceeds, 2003**

	<u>Amount</u>
Racing	
Amount Wagered on Live and Simulcast Horse Racing (Handle)	\$80,520,000
Bettor Return (Prizes)	63,380,000
Takeout (Handle less prizes) <sup>a</sup>	16,170,000
Distribution of Takeout to State and Racing Purposes	
Allocation to Purses	\$4,680,000
Allocation to Breeders' Fund	870,000
Pari-Mutuel Tax to State	250,000
Card Club	
Amount Paid to Play (Rake) <sup>b</sup>	\$22,170,000
Distribution of Rake to State and Racing Purposes	
Allocation to Purses	\$2,790,000
Allocation to Breeders' Fund	310,000
Gambling Tax to State	0

<sup>a</sup>This calculation is not precise due to breakage—the cents not paid to winning bettors due to rounding down to the nearest 10 cents. In 2003, the breakage was about \$970,000.

<sup>b</sup>Due to the nature of card club games, the amount returned to bettors with winning hands is unknown.

SOURCES: Minnesota Racing Commission, *Minnesota Racing Commission 2003 Annual Report* (Shakopee, MN, 2004) and Canterbury Park Holding Corporation, *2003 Annual Report* (Shakopee, MN, 2004).

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<sup>4</sup> The breeders' fund benefits the horse racing industry in Minnesota and encourages Minnesotans to participate in the racing and breeding industry by providing additional financial awards to Minnesota owners, trainers, and breeders.

## Minnesota State Lottery

Minnesota is currently one of 42 states that authorize a lottery.<sup>5</sup> Like most of these states, Minnesota has “scratch” (also called “instant”) and “online” games. Scratch games are games in which players purchase a ticket and scratch off a play area to reveal whether or not they have won a prize. Online games are games in which players purchase a ticket with a series of numbers, and the winning numbers are subsequently chosen in a daily or weekly drawing. Examples of online games are Gopher 5 and Powerball.

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**The Minnesota State Lottery is both the regulator and promoter of its games.**

The Minnesota State Lottery is both the regulator and promoter of lottery games in the state. It is responsible for ensuring the integrity of lottery games, as well as producing, distributing, and marketing lottery games. As the regulator of lottery games, the Lottery should: (1) review criminal history records for employees and retailers, (2) ensure that scratch game tickets are tamper-resistant and online games are secure, and (3) ensure that only valid winning tickets are redeemed.<sup>6</sup>

In fiscal year 2004, the Lottery sold almost \$387 million in scratch and online tickets, resulting in \$226 million in prizes and a contribution of \$101 million to the State of Minnesota.<sup>7</sup> As shown in Table 1.7, Lottery proceeds are divided among prizes, operating costs, retailers, and allocations to the state. In fiscal year 2004, 58 percent of the Lottery’s revenues went to player prizes, although this ranged from 50 percent of Powerball revenues to approximately 70 percent of revenues for some scratch games. In fiscal year 2004, retailers received approximately 6 percent of Lottery revenues in the form of commissions and

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**Table 1.7: Allocation of Lottery Proceeds, FY 2004**

	Amount (in Millions)
Revenue	
Sales	\$387
Expenses	
Prizes	226
Operating Expenses <sup>a</sup>	38
Retailer Commissions and Incentives	23
Lottery Proceeds Allocated to the State <sup>b</sup>	101

NOTE: Total expenses exceed revenue due to rounding.

<sup>a</sup>Operating expenses include salaries, benefits, and advertising costs as well as direct costs such as ticket costs.

<sup>b</sup>Lottery proceeds allocated to the state include in-lieu-of-sales tax, net proceeds from the current year, contributions to the state’s compulsive gambling fund, and unclaimed prizes from previous years.

SOURCE: Minnesota State Lottery, *Minnesota State Lottery Annual Report 2004* (Roseville, MN, 2004).

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<sup>5</sup> This includes the District of Columbia.

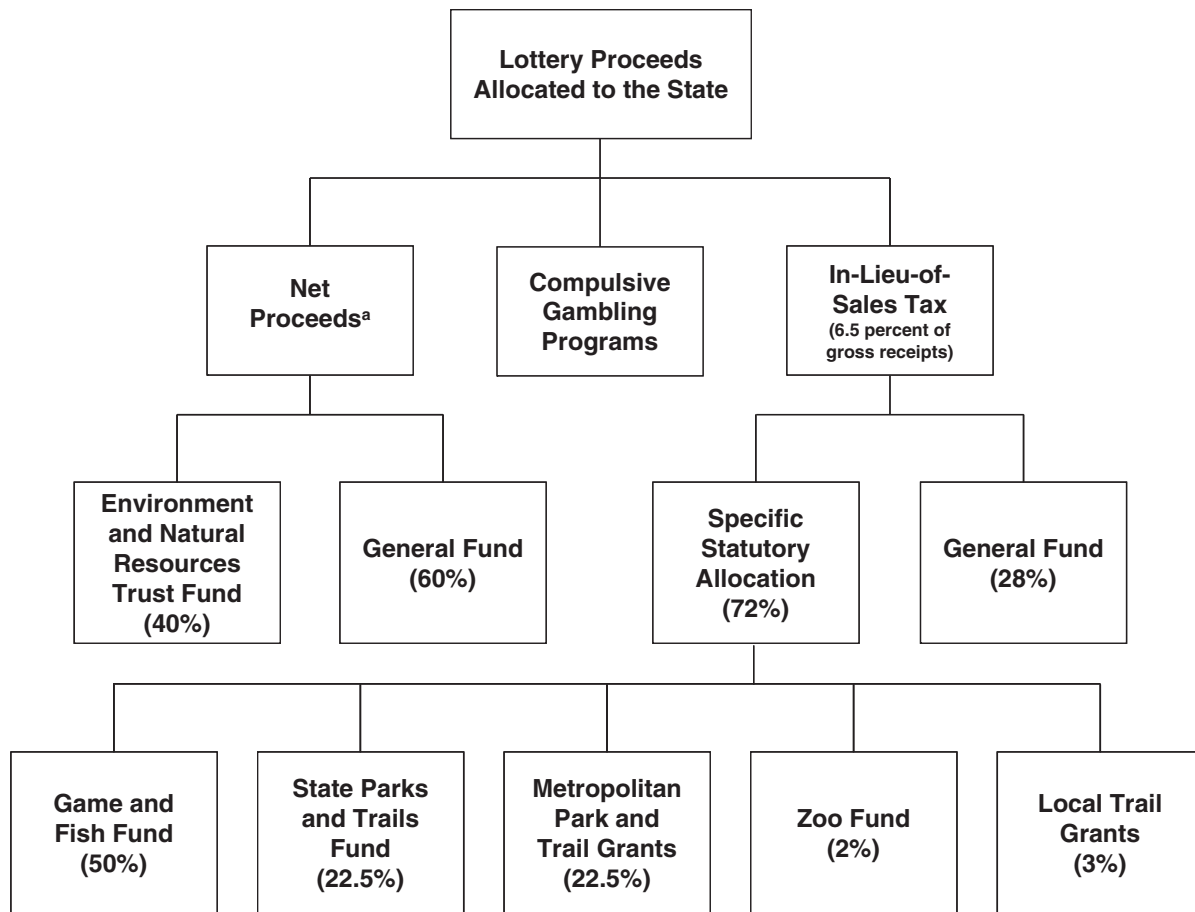
<sup>6</sup> The law requires that individuals and vendors meet certain criteria in order to conduct business with the Lottery, including not having been convicted of a felony or a crime involving fraud in the last five years. Unlike the other gambling regulatory agencies in the state however, the Lottery does not license its employees or vendors.

<sup>7</sup> Minnesota State Lottery, *2004 Annual Report* (Roseville, MN, 2004).

other incentives, and about 26 percent, through the in-lieu-of-sales tax, net proceeds, and other contributions, was allocated to the state.<sup>8</sup> As shown in Figure 1.1, the Lottery’s financial contribution to the state is divided among several different funds—the state’s General Fund; Environment and Natural Resources Trust Fund; Game and Fish Fund; and a variety of natural resources funds for parks, zoos, and trails.

The Lottery relies on several private vendors to help protect and operate the Lottery. The Lottery uses ticket manufacturers to produce and review the scratch game tickets, and an independent auditor ensures that the proper number of winning tickets are included in each game. The Lottery also uses an independent laboratory to test the scratch game tickets and ensure that they are tamper-resistant. The Lottery relies even more heavily on GTECH, its online games vendor, for recording, reporting, and verifying online game transactions.

**Figure 1.1: Allocation of Lottery Proceeds to State Funds**



<sup>a</sup>Net proceeds is the amount of revenue remaining after prizes, operating costs, retailer commissions, and in-lieu-of-sales tax are paid.

SOURCES: *Minn. Stat.* (2004), §§349A.10, 297A.65, and 297A.94(e); and *Laws of Minnesota* (1sp 2003), ch. 14, art. 13c, sec. 2, subd. 1.

<sup>8</sup> Instead of a sales tax on consumers when tickets are purchased, the state collects a 6.5 percent in-lieu-of-sales tax on ticket sales directly from the Lottery.

**The Alcohol and Gambling Enforcement Division has several gambling oversight roles, including casino oversight and law enforcement.**

## Alcohol and Gambling Enforcement Division

The Department of Public Safety's Alcohol and Gambling Enforcement Division (AGED) plays several distinct roles regarding gambling in Minnesota.<sup>9</sup> The Department of Public Safety is the only state agency with oversight authority over Minnesota's Indian casinos, and it also licenses manufacturers and distributors of casino gambling devices, such as slot machines. In addition, the department (1) conducts background investigations on certain manufacturers, distributors, contractors, and individuals working in Minnesota's gambling industries and (2) investigates criminal allegations related to legal and illegal gambling.<sup>10</sup> The division receives \$150,000 from the state's Indian tribes each year, is reimbursed by license applicants for the costs of some background investigations, and is otherwise funded from the state's general fund. The division's gambling enforcement budget in fiscal year 2004 totaled about \$1.8 million.

### Indian Casino Oversight

The State of Minnesota has a limited role in overseeing Indian casinos. Under the terms of the federal Indian Gaming Regulatory Act of 1988 (IGRA), federal, state, and tribal governments share authority for regulating and overseeing tribal gaming.<sup>11</sup> As shown in Table 1.8, IGRA established three classes of tribal gaming, and regulatory roles and responsibilities vary by class. States are most involved in overseeing class III gaming. To operate a casino, IGRA requires tribes to enact tribal gaming ordinances or resolutions and to negotiate with states compacts that govern the conduct of class III casino gambling.<sup>12</sup>

By 1992, the State of Minnesota had negotiated compacts with each of the states' 11 tribes. These compacts allow two types of class III gaming: video games of chance (slot machines) and blackjack.<sup>13</sup> As shown in Figure 1.2, tribes currently

<sup>9</sup> The division is divided into two units—gambling enforcement and alcohol enforcement. Our work focused exclusively on the gambling enforcement function. Among other things, the alcohol enforcement unit monitors alcohol manufacturing, distribution, and sale to the public; issues licenses; provides technical and field assistance to businesses and local units of government; and initiates enforcement actions.

<sup>10</sup> *Minn. Stat.* (2004), §§299L.02, 299L.03, and 299L.06.

<sup>11</sup> 25 *U.S. Code*, secs. 2701-21 (2000). The primary federal regulator is the National Indian Gaming Commission. The commission is responsible for ensuring compliance with IGRA and commission regulations. The commission approves tribal gaming ordinances and casino management contracts and has some oversight authority over tribes' use of gaming revenue. Other federal agencies are involved in casino oversight as well. For example, the Department of the Interior determines "federally recognized tribes" that are subject to IGRA, the Federal Bureau of Investigation is involved in certain criminal matters related to gambling, and the Department of the Treasury and Internal Revenue Service impose regulatory requirements.

<sup>12</sup> Compacts are legal, written agreements between a state and a single tribe. Compacts establish state and tribal oversight roles and specify the games allowed. Compacts may also establish standards for the operation of games, specify state laws that will apply to class III gambling, or establish financial payments to the state.

<sup>13</sup> The state has entered into a total of 22 compacts—separate video game of chance and blackjack compacts with each of the 11 tribes. The terms of the original compacts are virtually identical among tribes. See *Tribal-State Compact for Control of Class III Video Games of Chance*; <http://www.dps.state.mn.us/alcgamb/gamslcmp.html>; accessed August 24, 2004 and *Tribal-State Compact for Control of Class III Blackjack*; <http://www.dps.state.mn.us/alcgamb/gambjcom.html>; accessed August 24, 2004.

**The state's authority to oversee Indian casino gambling is defined in "compacts" between the state and each tribe.**

**Table 1.8: Indian Gaming Classifications and Regulatory Roles as Defined in the Federal Indian Gaming Regulatory Act of 1988**

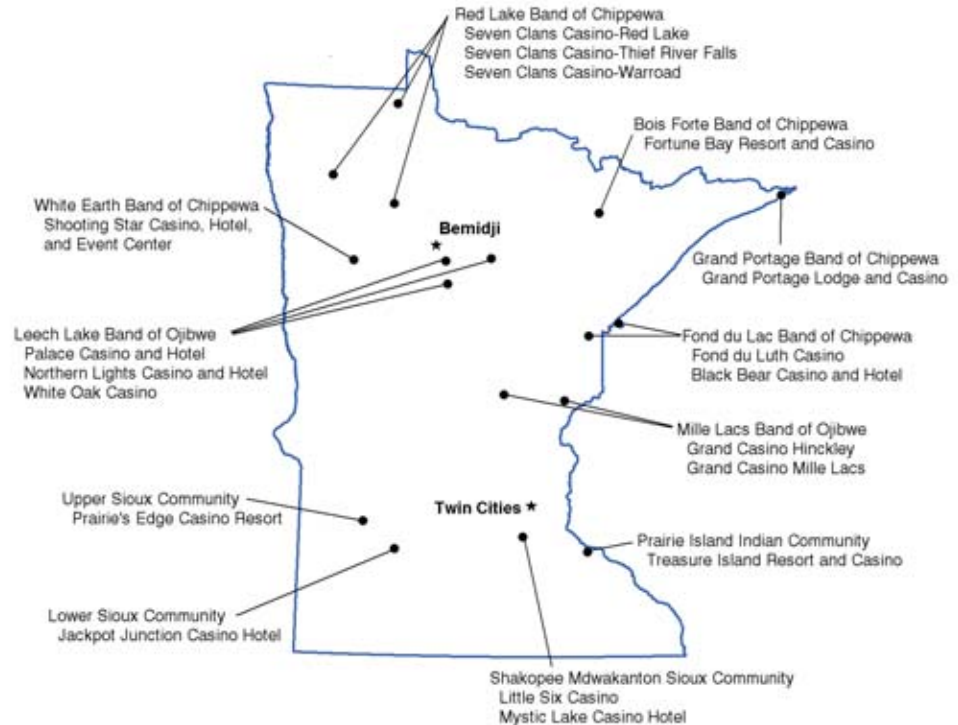
Gaming Classification	Regulatory Authority
<p><b>Class I</b></p> <ul style="list-style-type: none"> <li>• Social games played solely for prizes of minimal value</li> <li>• Traditional forms of gaming connected with tribal ceremonies or celebrations</li> </ul>	Indian tribes are the sole regulators
<p><b>Class II</b></p> <ul style="list-style-type: none"> <li>• Bingo or lotto played for prizes (including electronic or computerized versions of the games)</li> <li>• Pull-tabs, tip jars, punch boards, instant bingo, and other games similar to bingo</li> <li>• Nonbanking card games, such as poker, that state law authorizes or does not prohibit and that are played legally anywhere in the state</li> </ul>	Indian tribes are the primary regulators, with secondary regulation by the federal government (National Indian Gaming Commission)
<p><b>Class III</b></p> <p>All other forms of gaming that are not class I or II including:</p> <ul style="list-style-type: none"> <li>• Any house banking games, such as blackjack</li> <li>• Slot machines and electronic or electro-mechanical facsimiles of any game of chance, such as video poker</li> <li>• Casino games such as craps and roulette</li> <li>• Sports betting and pari-mutuel wagering</li> <li>• Lotteries</li> </ul>	Indian tribes are the primary regulators, with secondary regulation by states, according to the regulatory terms of tribal-state compacts

NOTE: Other federal agencies are involved in casino oversight, including the Treasury, Interior, and Justice departments.

SOURCES: *Indian Gaming Regulatory Act of 1988, 25 U.S. Code, secs. 2701-21 (2000)* and National Indian Gaming Commission documents.

operate 18 casinos around the state. The terms of Minnesota’s tribal-state compacts are discussed in more detail in Chapter 5, but in general, the compacts establish background check and licensing requirements for casino employees, technical standards for the operation of video slot machines and blackjack, and the right of the Minnesota Department of Public Safety to conduct inspections in order to verify compliance with compact provisions. The compacts allow the Commissioner of Public Safety and tribes to negotiate technical amendments to certain compact sections—the hardware and software requirements for video slot machines and regulatory standards for blackjack.<sup>14</sup> Other compact terms can only be renegotiated by mutual agreement of the state and the tribe.

<sup>14</sup> *Tribal-State Compact for Control of Class III Video Games of Chance*, sections 6.9 and 6.10; *Tribal-State Compact for Control of Class III Blackjack*, section 4.

**Figure 1.2: Minnesota Indian Casinos, 2004**

SOURCE: Office of the Legislative Auditor.

**The Alcohol and Gambling Enforcement Division has authority to conduct background and law enforcement investigations related to all gambling in Minnesota.**

### Background and Criminal Investigations

Background investigations conducted by the Alcohol and Gambling Enforcement Division provide gambling regulators with detailed information relevant to an applicant's suitability for licensure, including financial ownership, criminal history, regulatory history, and other conduct. Most of these comprehensive background investigations are of businesses involved in the gambling industry, and the division generally does six to eight of these investigations a year. In addition, casinos, the Racing Commission, the Lottery, and the Gambling Control Board routinely request arrest and conviction records (over 20,000 requests annually), which are considered when making hiring, licensing, and contracting decisions. The Alcohol and Gambling Enforcement Division acts as an intermediary for these criminal history checks, forwarding requests to the state's Bureau of Criminal Apprehension and, for national criminal history checks, to the Federal Bureau of Investigation.

AGED special agents are the state law enforcement officers who investigate illegal gambling, such as sports bookmaking and Internet gambling, and criminal allegations related to legal gambling, such as drugging of a horse or theft of charitable gambling receipts. The division generally receives over 200 criminal

complaints a year related to both legal and illegal gambling. (Other criminal complaints may go directly to local law enforcement offices.) Gambling-related criminal complaints are referred to the division by the other gambling regulatory agencies or come directly from organizations that conduct gambling, citizens, and other law enforcement offices.