

HB 1524
House Tax & Finance Committee
Submitted by Don Santer for NDAD
February 1, 2023

Chairman Headland and Committee members, thank you for the opportunity to provide information regarding the charitable gaming industry of North Dakota. I am submitting testimony in opposition of House Bill 1524.

My name is Don Santer, I represent North Dakota Association for the Disabled (NDAD). NDAD is a North Dakota charity that for over 47 years has been dedicated to improving the quality of life for persons with disabilities. NDAD is a statewide organization and uses the charitable gaming funds it generates to provide services to every corner of North Dakota. (see attachment)

House Bill 1524 will have the effect of obstructing and ultimately damage NDAD's charitable gaming operations in ND.

This bill adds two new restrictions to century code 53-06.1-08.2. Electronic pull tab device requirements:

The device may not employ a progressive jackpot feature. A deal may not pay out more than eighty - two percent of gross proceeds.

First sentence, NDAD has no objections to the restriction of progressive jackpots. This restriction has been in regulation since the inception of etabs. This is a regulatory issue, not a century code issue.

Second sentence, the restriction of an 82% payout per deal:

- There is no need to mandate payout percentages because free market/competition is already providing these choices for gaming organizations.
- Restrictions on percent of hold are not in place for any other game type.
- The purpose of this percentage limit is intended to destroy consumer interest in the game type.
- Statistically play falls off when you lower the percentage, and the charities have worked with the office of AG and regulators to come up with the 90%. This is a regulatory issue, not a century code issue.

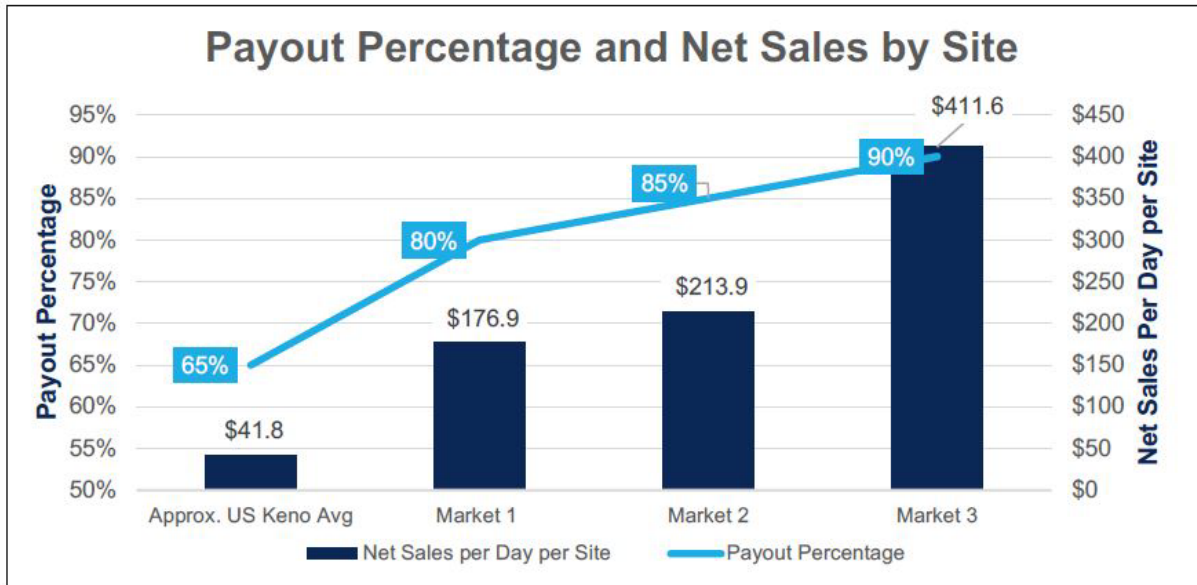
Each charity should be allowed to evaluate what percentage works well for their clientele and adjust. This is very similar to how paper pull tabs are evaluated. It is also important to note, paper pull tabs have no rules setting maximum or minimum payout percentage. This allows each charity to select a range of games and pay out percentages that work best for their organization and the attractiveness to their players.

Payout percentage is a key attribute in creating the play style of various game types. A higher payout percentage counterintuitively yields higher overall net revenue. Payout percentage is also critical to success in social establishments to create a "stay and play" experience. Unlike traditional lottery games, where purchases from a single customer are hours or even days apart, social establishment games are predicated on

entertaining extended play sessions. Particularly true of social establishment gaming products, a higher payout percentage counterintuitively yields higher overall net revenue.

There is strong evidence that higher payout% games lead to higher net profits. In a study conducted by Diamond Games (see figure 1), of their 10 charitable gaming and lottery markets, one market operates at a payout percentage of 80%, one at 85%, and the remaining eight operate at 90% or higher. The markets with payouts at or above 90% generate upwards of 200% higher net sales than sites utilizing the 80% product.

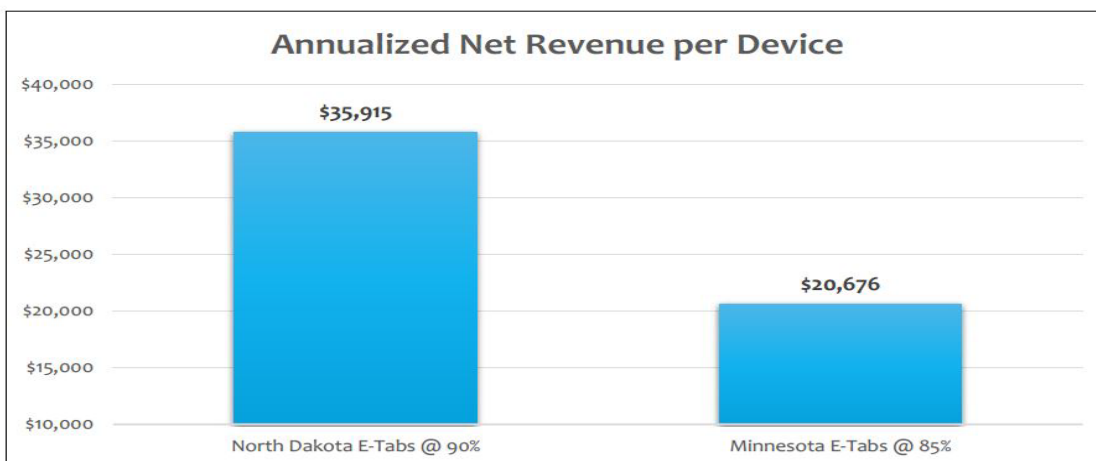
(Figure 1)



A lower percentage of payout, means fewer winning tickets, this decreases player interest, less interest - less play - lower income for the charity.

A good comparison can be seen by evaluating the Minnesota Charitable E-Tab market. Minnesota is currently regulated to payout 85% -- compared to North Dakota E-Tabs which allows for a payout up to 90%. The overall revenue per device for North Dakota E-Tabs is significantly higher than Minnesota E-Tabs. (see figure 2)

(Figure #2)



Note: annualized figures above utilize Q2 2019 reporting data provided by the state, extrapolated across a 365 day period.

This anti-business bill designed hinder or outright eliminate charitable gaming in North Dakota. The obvious message this bill is meant to convey is charities are not real businesses and don't understand how to efficiently operate their gaming activities. The state of North Dakota will penalize and restrict organizations within the charitable gaming industry that threaten that perception. If one looks at the records you will find this tactic to destroy etab play has been attempted through multiple bills in two prior legislative sessions and failed in all cases.

ND charitable gaming raised over **\$43 million** in taxes for the state of ND this past biennium most of which goes to the general fund. The drastic reduction in gaming net proceeds this bill will cause will have a massive negative fiscal impact to tax revenue.

ND charitable gaming raised **\$73 million** this past fiscal year to be distributed in communities across the state. Reducing the income generated by etab machines will have a colossal negative impact on charities' ability to provide important services in your own districts.

ND charitable gaming has methodically and responsibly grown over the past 40 years into a reputable industry benefitting nearly every city and county across this great state. North Dakota has developed a responsible and highly regulated system for charitable gaming to benefit charitable missions that serve your local communities. At best this bill will serve to severely hinder charitable gaming fundraising efforts and attempt to redirect the lost proceeds to tribal gaming facilities. That is why NDAD is asking you to consider a **Do Not Pass** recommendation on **HB 1524**.

Thank you, Chairman Headland and members of the committee for your time and thoughtful consideration.

Respectfully,

Don Santer, NDAD