

SB 2309
Senate Finance & Taxation Committee
Submitted by Brook Lyter, FPN Gaming
February 1st, 2021

Chairman Bell and Committee members, thank you for the opportunity to provide insight regarding the charitable gaming industry of North Dakota. I am here in opposition of Senate Bill 2309, or any other bills for that matter, that restrict choice or limit options for charitable gaming organizations in regards to payout percentage of electronic pull tabs.

My name is Brook Lyter, I am a licensed charitable gaming distributor. I am proud to offer quality service and a variety of solutions for gaming devices to charitable gaming organizations across North Dakota.

Over the past couple years I've been able to take feedback from customers to help manufacturers tailor their products better for North Dakota. This process has led to adjustments in payout structures, customizable payout percentages by denomination, and in the case of one manufacturer, a completely different pricing model. These innovations have helped many of my customers fine tune their results and in some cases double their profit models from where they began in 2018 to where they are now. Competition in the market has led to diversification and quality options for charitable gaming organizations. To those charities who believe they are stuck with one product option, I would like to invite them to shop around. The industry has come a long way in a short period of time.

A key challenge for me is to match my customers with the products that best fit their operational needs and financial goals. In pursuit of that challenge, I have installed all six (6) manufacturer's devices and studied the results from a lot of experimentation over the past two and half years.

One of the hot topics in the industry, aside from how taxes are calculated, is payout percentage of the games. Having seen every manufacturer and pay table in action, I can definitely shed some light on this subject:

- Charities currently have choice in regards to payout options which range from 85% to 90%, with five (5) out of six (6) manufacturers offering an 88% payout option.
- A little less than thirty percent of my customer base uses 88% payouts with all others choosing the maximum 90% payouts.
- Lower payouts may be a good option for some, but do not necessarily translate to more profits. Frequency of wins definitely translates to more play and ultimately the total volume of play produces the highest net profits. Only two of my customers took the 85% payout option when it became available, and switched back to either 88% or 90% after one quarter of play after seeing overall play diminish. Currently I do not have a single customer using 85% payouts.
- My top five locations (in terms of gross proceeds and net profits) all have one thing in common, they use 90% payouts.

For my customers, the decision on which payouts to use is based on the dynamics of individual locations, demographics, competition, and sometimes the overall business model or philosophy of the charity. A trending configuration is a blend of 88% on dollar plays and 90% on two dollar plays, for example.

My point is that charities currently have a lot of options when it comes to selecting games & payout percentages, so it is confusing to me why SB2309 and other bills are seeking to reduce the maximum payout from 90% to 88% when charities clearly have plenty of options to choose from that best suits their needs.

My question to the committee is, what is the motivation behind reducing the maximum allowed payouts from 90% to 88%?

Save charities money?

While there is a valid case to be made that 90% payouts provide the best net results long term, others argue that 88% works better for them, and that's fine.

Charitable gaming organizations that want 88% payouts have five (5) manufacturers to choose from and organizations that complain they don't have options are simply not informed.

Force the lone manufacturer to offer an 88% payout?

The one manufacturer that does not offer an 88% payout option happens to be the market leader with more than 50% market share. The creators of this product did however recently create another manufacturer/device which offers additional payout options. There is no question in my mind that if and when the market demands more options on their original devices they will deliver. In the meantime, many of the competing manufacturers have built their business around filling these kinds of gaps. There is a potential unforeseen consequence of reducing competition by mandating all manufacturers provide all the same options.

Or is the motivation behind reducing payouts to simply make electronic pull tabs in North Dakota less successful?

The only other reason I can think of for motivation behind limiting payouts is to intentionally limit the success of charitable gaming.

For these reasons and on behalf of my clients, I urge you to reject SB2309.

I would also like to point out I support the Charitable Gaming Association of North Dakota (CGAND) and House Bill 1212 which addresses important issues related to charitable gaming.

Thank you for your time.

Respectfully,

Brook Lyter
FPN Gaming/President