



# **Charitable and Nonprofit Gambling in Washington State**

*A Research Project for the Washington State Gambling Commission*

**Presented at:**

**September 2004**

**Gambling Commission Meeting**

- Executive Summary
- Overall Trends
- Detailed Trends
- Regulation
- Bingo
- Rule Changes
- Other States

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**P R A C T I C A L  
S O L U T I O N S**

WASHINGTON STATE GAMBLING COMMISSION

A STUDY OF CHARITABLE AND NONPROFIT GAMBLING IN THE STATE OF  
WASHINGTON

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TABLE OF CONTENTS

<b>Reader's Guide to the Report</b>	i
<b>Chapter 1: Executive Summary/Findings and Recommendations</b>	1
Executive Summary	2
Findings and Recommendations	4
Project Overview and Acknowledgements	9
<b>Chapter 2: Overall trends in charitable/nonprofit gambling</b>	12
Trends in commercial and charitable/nonprofit gambling	14
Trends in Bingo, Punchboards/Pulltabs, Raffles	16
Trends in other C/NP gambling activities	19
<b>Chapter 3: Detailed trends in charitable/nonprofit gambling</b>	21
By stated purpose	23
By Top 20/Top 10 licensees	31
<b>Chapter 4: Regulation of charitable/nonprofit gambling</b>	36
Six factors regulated by the Commission	37
<b>Chapter 5: Bingo—Regulation</b>	46
Narrative history	46
Summary table of regulatory changes	51
Timeline of regulatory changes	54
<b>Chapter 6: Rule changes: net income/net return/adjusted cash flow</b>	60
Narrative summary	60
Table	65
<b>Chapter 7: Other states' experiences</b>	66
Narrative summary	66
Table of responses by state	68
State level summary of charitable/nonprofit gambling indicators	73

<b>Appendix A: Legal/political history of gambling in Washington State</b>	74
Narrative	74
Timeline	90
<b>Appendix B: Legislative declarations</b>	
Narrative	100
Comparative table	105
<b>Appendix C: Detailed data analysis</b>	
Gambling activities by size of licensee (Pool)	108
Backup tables for Stated Purpose analysis (Chapter 3)	111
Backup tables for Top 20/Top 10 licensees (Chapter 3)	121
Backup tables for Top 20/Top 10 licensees (Chapter 3)	125
<b>Appendix D: Punchboards/Pulltabs and Raffles: Regulatory History</b>	
Punchboard/Pulltab narrative history	127
Punchboard/Pulltab timeline	128
Raffles narrative	131
Raffles timeline	134
Raffles timeline	136
<b>Appendix E: Net income/net return/adjusted cash flow—detail</b>	
Details and formulas for each rule change	138
Calculation of how each rule change affected each typical licensee	139
Calculation of how each rule change affected each typical licensee	144
<b>Appendix F: Financial Analysis for sample of large licensees</b>	
Narrative summary	147
Findings	147
List of licensees whose financial reports were reviewed	148
List of licensees whose financial reports were reviewed	151
<b>Appendix G: Charitable/Nonprofit standards</b>	
<b>Appendix H: Consultant background</b>	
152	
156	

# CHARITABLE AND NONPROFIT GAMBLING IN THE STATE OF WASHINGTON

## READER'S GUIDE TO THE REPORT

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This document is organized into seven Chapters and eight Appendices.

### **CHAPTERS:**

**Chapter 1** contains **introductory material**, including a summary of the research requested by the Washington State Gambling Commission (WSGC), the Executive Summary, the major Findings and Recommendations and acknowledgement of key WSGC staff and colleagues. This Chapter is designed to give the reader an overview of the critical information in the report.

**Chapter 2** outlines **trends in commercial and charitable/nonprofit (C/NP) gambling activities that are regulated by the Commission**. This chapter includes data about changes in the commercial and C/NP sectors, and about the major gambling activities (Bingo, Punchboards/Pulltabs, and Raffles) within the C/NP sector.

**Chapter 3** provides a **more detailed analysis of the trends in Bingo, Punchboards/Pulltabs, and Raffles**, by stated purpose of the licensee, and for the largest licensees in each activity. Additional detail supporting this Chapter is found in Appendix C.

**Chapter 4** reviews the **Commission's overall approach to the regulation of charitable and nonprofit gambling in Washington State**, identifying six factors that have been the focus of regulation. Additional detail regarding the regulation of Bingo, PB/PT and Raffles is provided in Chapter 5 (Bingo) and Appendix E (PB/PT and Raffles). Also, the approaches of Other States are outlined in Chapter 7.

**Chapter 5** provides a **detailed history of the regulation of Bingo**, since much of the Commission's regulatory attention has been focused on Bingo. This Chapter includes a three-page summary of the regulatory changes in Bingo and an overall timeline for the regulatory changes.

**Chapter 6** focuses on the **Commission's specific efforts to regulate net income/net return/adjusted cash flow for Bingo licensees**. This chapter shows the effects of the rule changes, in narrative and table form.

**Chapter 7** includes information from Ohio, Oregon, Minnesota, Michigan, Texas and California regarding their approach to regulating charitable and nonprofit gambling. These responses are summarized and shown in table form.

## APPENDICES.

**Appendix A** contains a **legal/political history** of gambling in Washington State, focused on the Legislature's intent for charitable and nonprofit gambling. This information is provided in both narrative and table form. The study looks at It also addresses the court cases, Attorney General's Opinions and federal enforcement efforts that affected gambling in Washington State. In the Appendix is a longer and more detailed history for those readers who might enjoy the drama and intrigue associated with the efforts to authorize gambling.

**Appendix B** specifically focuses on five versions of the **legislative declaration** including the two that ultimately passed (in 1973 and 1994), noting changes in language and summarizing the legislative intent as contained in the declarations that passed.

**Appendix C** provides **detailed data analysis** of licensees according to size (four Pools) and activity. Appendix C also contains the detailed spreadsheets that back up the data in Chapter 3.

**Appendix D** provides the **regulatory history and timelines for Punchboards/Pulltabs and Raffles**. The information is similar to that in Chapter 5 (Bingo) and is presented in narrative and table form.

**Appendix E** provides the **detail** for Chapter 6—the analysis of the rule changes involving **net income/net return/ adjusted cash flow**. Tables are provided showing the specific detail of each rule change, and showing the impact of each rule change on a “typical licensee” in each size Pool.

**Appendix F** provides a **financial analysis** of twenty-two sets of financial reports from nineteen of the largest licensees. The purpose of the analysis is to show the size of **these organizations' gambling revenues and expenses compared to their overall (gambling and non-gambling) operations**. The financial data were drawn from information provided for Qualification Reviews.

**Appendix G** contains a sampling of **standards typically applied to charitable and nonprofit organizations** in the larger charitable/nonprofit environment. These standards have applicability both to licensees and to future decisions by the Commission.

**Appendix H** includes biographical information about Sally Perkins, the consultant who prepared this report.

## DATA ANALYSIS: READER'S GUIDE TO THE INDICATORS USED

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**Note:** this information is also included with Chapters 2 and 3 and Appendix C, all of which contain data items defined below.

This project used several indicators to describe and understand the changes in gambling in the charitable nonprofit sector. The analyses were done by size (Pool), stated purpose, and for the largest licensees (twenty in Bingo and PB/PT and ten in Raffles) in each activity. All data were drawn from the Commission's data base and are by year.

**Gambling activities:** Major activities analyzed in this report were Bingo, Punchboards/Pulltabs (PB/PT) and Raffles. Other C/NP gambling activities include amusement games, fund-raising events, and social card rooms

**Stated purpose:** The charitable or nonprofit purpose identified by the licensee in its application for a gambling activity license.

**Top 20/10 licensees:** The twenty largest licensees, by Gross Receipts, in Bingo and PB/PT for each year between 1993 and 2003. The ten largest licensees, by Gross Receipts, in Raffles for each year between 1993 and 2003. The Top 20 or 10 is for the year indicated, so the licensees on the list can change from year to year.

**Pool:** A grouping of licensees based on size. The dividing lines between the groups are different for each gambling activity, based on how the licensees cluster. There are four Pools in each activity: Small, Medium, Large and Extra-Large.

### Key indicators:

**Best Year:** The year in which the specific indicator is at its highest level—for example, the year in which gross receipts or the number of licensees is highest. Many of the comparisons done are between the Best Year and 2003, to give a picture of how much change has occurred since the Best Year. In some cases, 2003 is the Best Year.

Looking at whether the Best Years cluster into certain time periods (or not) gives an additional picture of how the sector and the activities within it have been affected by Commission actions, growth of competition, etc.

**Size: Total Gross Receipts:** Total gross receipts indicate whether the C/NP sector, and the gambling activities within it, are growing or declining.

**Size: Average Gross Receipts or Gross Receipts per Licensee.** The gross receipts in an activity for any given year divided by the number of licensees in that year. This indicator measures the size of the games and whether they are growing or declining. Because the number of licensees in a Pool or stated purpose changes from year to year, the average GR gives a better picture of growth or decline than only looking at the total.

**Benefit to the C/NP Purpose: Total Net Income.** Net income is gross receipts less prize payouts and expenses of the gambling operations. It is the total amount available to apply to the charitable or nonprofit purpose.

Total net income measures whether the amount of money being generated by gambling activities for C/NP purposes is increasing or decreasing.

**Benefit to the C/NP Purpose: Average Net Income or Net Income per Licensee.** This is the total net income for an activity in any given year divided by the number of licensees in that year. This indicator measures whether the amount of net income per licensee is increasing or decreasing. Because the number of licensees in a Pool or stated purpose changes from year to year, the average GR gives a better picture of growth or decline than only looking at the total.

**Volume vs. Profit: Net Income as a percentage of Gross Receipts.** This indicator divides net income by gross receipts to look at the relationship between growth or decline in volume (GR) and whether higher volume produces more net income. Here, the trend from year to year is the key measure.

**Cost to Raise a Dollar of Net Income (CTR):** Expenses of the gambling operation are divided by net income for each year. This indicator was chosen for two reasons. First, it gives a picture of how much money is being spent to raise \$1.00 of net income for the C/NP purpose. Second, it provides a comparison to other non-gambling charitable and nonprofit fundraising activities.

The Cost to Raise indicator was developed as a way to compare to other forms of nonprofit fundraising, where the cost to raise a dollar of private support should not exceed 35 cents (Better Business Bureau, Wise Giving Alliance, 2003).

Trends in CTR are useful because they show if expenses are rising faster than net income. A rapid rise in CTR for an individual licensee appears to be an indicator of potential financial problems in the gambling operation.

## **CHAPTER 1**

### **EXECUTIVE SUMMARY / FINDINGS AND RECOMMENDATIONS PROJECT OVERVIEW ACKNOWLEDGEMENTS**

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Chapter 1 includes the Executive Summary and a series of key Findings and Recommendations. Both the Executive Summary and the Findings and Recommendations are linked to more detailed references in the subsequent Chapters and in the Appendices.

The Project Overview details the scope of work requested by the Washington State Gambling Commission for this project, and acknowledgements of key WSGC staff and colleagues.

**CHARITABLE AND NONPROFIT GAMBLING IN THE STATE OF WASHINGTON**  
**A RESEARCH PROJECT PREPARED FOR**  
**THE WASHINGTON STATE GAMBLING COMMISSION**  
**July, 2004**

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**EXECUTIVE SUMMARY**

Charitable and nonprofit (C/NP) gambling was always included in legislative discussions regarding the authorizing of gambling in Washington State. For some legislators, it was the primary reason to authorize gambling. However the legislative history indicates clearly that the Legislature intended that their authorization of gambling should be broader than charitable and nonprofit activities. Further, the Legislature did not single out charitable and nonprofit gambling for special priority or treatment. See Appendix A for a detailed history of gambling in Washington State and Appendix B for an analysis of the relevant legislative declarations.

Today, the charitable/nonprofit gambling sector in Washington State is declining. Bingo gross receipts in particular have declined steadily over the past nine years. Gross receipts for charitable/nonprofit punchboards/pulltabs (PB/PT) have also declined, but more slowly, such that PB/PT gross receipts were nearly as high as Bingo by 2003.

For calendar year (CY) 2003, PB/PT net income exceeded Bingo net income, and Raffles earned almost half as much net income as Bingo did. See Chapters 2 and 3 for details of these trends.

The Commission has been very successful and effective in its regulation of how charitable/nonprofit gambling activities and games are operated. While there have been some compliance issues, in general the licensees have operated successfully within the rules. Chapter 4 provides an overview of the Commission's regulatory efforts.

The one exception to this has been the net income/net return/adjusted cash flow issue. Since 1983 the largest licensees have struggled to comply with the rules and have sought assistance from the Commission numerous times. The Commission has made nine rule changes in this area since 1983. However the changes made since 1990 have reduced the required cash flow for the largest licensees by 58%, a dramatic and probably unintended result. See Chapter 6 for more detail.

The goal of assuring a portion of the gambling proceeds are applied to the stated purpose common throughout C/NP gambling in the United States; the question is whether the net income/net return/adjusted cash flow method is still sufficient to achieve the goal. A number of other states focus on regulating expenses, either by amount or type of expense. See Other States, Chapter 7.

The Commission is urged to step back and discuss its overall philosophy and approach to regulating charitable/nonprofit gambling, so that Commissioners and staff are using agreed-upon principles and standards to develop and modify rules, and respond to licensee concerns. Both Chapter 4 and Appendices F and G provide additional information.

Within that philosophy and approach, the Commission should re-examine standards related to adjusted cash flow or net income requirements and verification of primary purpose other than gambling to be sure that the requirements adequately carry out the Commission's desired regulatory approach. See Chapter 6 and Appendices F and G for further detail.

In addition there are a number of fundraising, financial and governance standards widely used in the broader charitable/nonprofit environment that the Commission might consider applying in its work. See Chapter 4 and Appendix G.

Finally, the Commission is urged to make greater use of its extensive database to analyze trends and flag emerging problems in the charitable/nonprofit sector. Appendices F and C provide some examples.

Competition from Indian gambling and commercial gambling within Washington State and neighboring states and Canada has increased greatly. There have been significant changes in the market for charitable nonprofit gambling. This may mean that the business model for charitable/nonprofit gambling, especially Bingo, no longer works well.

Bill Virgin, business columnist for the Seattle Post-Intelligencer, discusses gambling in his July 13, 2004 column. He notes the impact of gambling expansion: "The net effect in gambling will be what happens in any industry when the rare becomes commonplace—it becomes a low-margin commodity business."

Applying that concept specifically to charitable/nonprofit gambling, it is likely that the margins (net income) generated by C/NP gambling will continue to decline. It will become increasingly difficult to attract new players and retain existing players.

The one "competitive advantage" that charitable and nonprofit gambling has (and will have) to offer players is the opportunity to benefit a good cause. This is C/NP gambling's niche, its unique position. However, taking greater advantage of this niche will require the Commission and C/NP gambling licensees to pay more attention to the charitable/nonprofit aspect of the industry.

It will become increasingly important for the Commission and licensees to answer effectively such questions as how much money goes to the charitable purpose, how much money actually goes to direct services to benefit clients, how much it costs to raise that money, and what proportion of the organizations' total revenues and expenses are gambling as opposed to non-gambling.

## CHARITABLE AND NONPROFIT GAMBLING IN WASHINGTON STATE FINDINGS AND RECOMMENDATIONS

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### **CHARITABLE/NONPROFIT GAMBLING SECTOR REGULATED BY THE COMMISSION:**

**The overall charitable/nonprofit gambling sector is declining, while commercial sector gambling is increasing.** Within the charitable/nonprofit sector, Bingo has declined the most, punchboards/pulltabs (PB/PT) have fluctuated, and Raffles have steadily increased. Other gambling activities authorized for charitable/nonprofit organizations—amusement games, fund-raising events and social card rooms—contributed very little net income to the sector by CY2003. See Chapter 2 for added detail.

**In CY2003, PB/PT generated the most net income (gross receipts minus prizes and expenses) for charitable/nonprofit organizations, followed by Bingo and Raffles.** PB/PT had net income of \$8.0 million, Bingo had net income of \$6.7 million, and Raffles had \$3.2 million. Raffle net income is now almost half as much as Bingo net income. See Chapter 2 for more detail.

**The efforts of the Commission to assist the largest Bingo licensees to comply with net income/net return/adjusted cash flow rules have not accomplished their goal in terms of the amount of funds required for the stated purposes.** While the rule changes (nine since 1983) have enabled most licensees to get or stay in compliance, they have reduced the required income/cash for the stated purpose by 58% since 1990. The rule changes have substantially “lowered the bar,” especially for the largest licensees. See Chapter 6 and Appendix E for more detail.

**The Commission did not develop or employ a clear and consistent philosophy or guiding principles within which to make decisions about net income/net return/adjusted cash flow requirements.** As a result, the Commission, albeit with the best intentions, responded piecemeal and reactively to licensee concerns about compliance. This in turn led to the unintended but dramatic reduction in the amount of income/cash required for the stated purposes.

**RECOMMENDATION: The Commission should develop a clear philosophy and set of principles to guide its regulation of the charitable/nonprofit sector gambling activities and requirements.** The philosophy and principles should address increased requirements for income/cash for the stated purposes, whether an organization exists primarily for gambling or other purposes, and how standards from the broader charitable/nonprofit environment might be utilized in the Commission’s regulatory work. See Chapter 4 for a more detailed list of issues to be considered.

**RECOMMENDATION: The Commission should clarify which business factors in charitable/nonprofit gambling it can influence through its regulatory program.** The conditions that caused the compliance problems for the largest licensees in the first place—larger prize payouts, competition from organizations that the Commission does not regulate, the aging of the customer

base, changing customer preferences—may not be factors that the Commission can influence through its rule-making.

However, if the factors the Commission does control would result in reductions in the amount of cash required for the stated purposes, then the Commission should assess whether this is the intent.

**RECOMMENDATION: The Commission should consider increasing the adjusted cash flow requirement to increase the amount of funds required to be applied to the stated purposes.** In other states, notably Oregon, Tennessee and Indiana, policy-makers are considering or implementing increases in return requirements. Holding licensees to higher standards, rather than helping licensees stay in compliance, is becoming a higher priority. See Chapter 7, Other States.

**The current business model for large-scale C/NP gambling may be failing, given changes in the gambling industry overall.** Large C/NP licensees may no longer be able to compete with commercial or tribal gambling operators on type of game, size of prize payout, or related amenities. The competitive advantage for C/NP licensees may increasingly be the “good causes” that their gambling income supports, and players that participate in C/NP gambling may do so in order to support the charitable purpose of the organization.

**RECOMMENDATION: The Commission should consider the erosion of the C/NP gambling business model and the implications of this erosion for regulating the C/NP sector,** as part of its discussion of philosophy and guiding principles. Successful and unsuccessful C/NP gambling activities should be studied to understand the business dynamics more fully.

**RECOMMENDATION: If it is true that the “good cause” focus will increasingly be the competitive advantage for C/NP licensees, then the Commission should study fundraising and financial standards from the charitable/nonprofit environment as possible factors to regulate.** See Appendix G for examples and detail.

**There are a number of standards in the greater charitable/nonprofit environment that could be beneficial to the Commission in its regulatory role.** These include both the legal requirements—501 (c) designation as appropriate and registration in the State of Washington as a corporation and/or a charity as required--as well as voluntary industry standards about cost of fundraising, percent of dollars spent on programs, disclosure of fundraising costs to donors (players), audits, allocation methodologies, etc.

**RECOMMENDATION: The Commission should compile relevant charitable/nonprofit standards and utilize them as appropriate in setting regulatory standards for charitable/nonprofit gambling.** See Appendix G for examples and detail.

**FINANCIAL DATA:** The financial findings and recommendations below are based on a sample of 22 sets of qualification review financial reports. The reports contain financial data from nineteen of the largest licensees, from 2002-03. Three licensees had both 2002 and 2003 reports in the sample, for a total of 22 sets of financial reports reviewed. Appendix F contains the detailed analysis and a list of the licensees whose financial reports were reviewed.

**A number of the largest licensees from this sample report that gambling expenses are the majority of their total gambling and non-gambling expenses.** Over half of the 22 qualification review financial reports showed gambling expenses at 60% or more of the organization's total expenses. This raises the question of the primary purpose of the organization—gambling or programs.

**A number of the largest licensees from this sample report that gambling revenues are the majority of their total gambling and non-gambling revenues.** Over 40% of the 22 situations reviewed showed gambling revenue as 60% or more of the organization's total revenue. This raises two questions: what is the primary purpose of the organization, and is the organization too vulnerable to further downturns in the charitable/nonprofit gambling sector.

**RECOMMENDATION: The Commission should set or seek additional standards, beyond those currently mentioned in statute, for organizations to demonstrate that they are “operating primarily for purposes other than gambling”.** Such standards should include both expense and revenue standards and be phased in over time to allow licensees adequate time for compliance. For example, Ohio requires their charitable/nonprofit licensees to have less than 50% of their total (gambling and non-gambling) expenses in gambling expenses.

**Sixty-eight percent of the largest licensees reviewed in this sample showed overall net losses in their total operations (gambling and non-gambling) for the periods reviewed (2002-03).** The reported losses ranged from \$613,000 to \$1,900. Five organizations showed net losses of more than \$100,000, and another four had losses between \$50,000 and \$90,000. Losses of this magnitude, even if only for one year, can endanger the ability of the organization to continue as a going concern. See Audit recommendation below.

**The financial reports required from and provided by Group IV and V licensees that undergo regular qualification reviews are not required to be drawn from audited figures.** Rather, a CPA is required to compile the figures but may do so from unaudited figures from the licensee. This means that internal controls (essential in high-cash operations), methods for allocating expenses to different gambling activities, and other financial factors may not be examined by an outside CPA.

**RECOMMENDATION: The Commission should require copies of outside audits for all licensees over \$500,000 in gross receipts.** This should include the management letter, which will identify material weaknesses in systems and any auditor comments on whether the organization is a going concern. The \$500,000 figure is a substantially higher threshold than is typically set for nonprofit organizations.

**RECOMMENDATION: The Commission should set criteria for appropriate allocation of expenses among gambling activities.** This is in response to the wide fluctuation in expenses allocated to PB/PT.

**RECOMMENDATION: The Commission should review the expense reporting format for Qualification Review financial data to determine why so many expenses are reported in the “Other” category.** Additional categories may need to be added to capture expenses adequately.

#### **DATA MANAGEMENT AND UTILIZATION:**

**The Commission has an extensive database that is not being used to its fullest capabilities.** The Commission has a wealth of information in its database that could assist in monitoring, tracking trends and flagging potential problems. Several types of indicators, based on Commission data, were developed for this project. Utilizing such indicators on a regular basis would assist Commission staff in spotting problems and identifying trends and changes.

**RECOMMENDATION: The Commission should investigate ways to incorporate “flags” or indicators into the database as an early warning and diagnostic tool for staff to use.** Possible indicators include cost to raise (CTR) a dollar of net income, net income as a percentage of gross receipts, gambling expenses as a percentage of total expenses, and gambling revenues as a percentage of total revenues. See Appendices F and C for examples.

**The Commission has no meaningful way in its current database to differentiate between “charitable” and “nonprofit” organizations, or to analyze the various stated purposes.** The original distinction, that “charitable” meant providing help and assistance to people and “nonprofit” meant benefiting the club or post, has been lost. Further, because every potential licensee can self-identify multiple stated purposes, the stated purpose information is inconsistent at best. If the Commission wished to look more closely at stated purpose, the current data base would not provide appropriate information to do so. See Chapter 3, Stated Purpose analysis.

**RECOMMENDATION: The Commission should consider using the IRS definitions of “charitable” and “nonprofit” and/or the appropriate stated purpose designations approved by the IRS to classify current and future licensees and update the database accordingly.** The IRS 501 (c) code (Publication 557) provides the structure for doing this. Texas differentiates only at the “charitable” versus “nonprofit” level; Ohio uses the detailed 501 (c) categories. Either is preferable to the current system.

**LEGISLATIVE:**

**The political/legislative history and declarations related to gambling show clearly that the Legislature intended to authorize both charitable/nonprofit and commercial gambling.** However, there is no language that indicates that the Legislature intended to favor or encourage charitable/nonprofit gambling over other forms of gambling. See Appendices A and B for further detail on the legislative/political history and legislative declarations.

**OTHER:**

**The rules applying to charitable/nonprofit organizations are spread throughout the various WAC chapters.** A potential licensee, seeking to understand the operational or financial requirements of operating gambling activities, would have to refer to five different chapters to identify all of the requirements.

**RECOMMENDATION: The Commission should consider compiling the relevant rules for each charitable/nonprofit gambling activity, including the general rules for charitable/nonprofit organizations, into individual documents.** To save on printing costs, this material could be made available on CD rather than hard copy.

## **CHARITABLE AND NONPROFIT GAMBLING IN WASHINGTON STATE PROJECT OVERVIEW AND ACKNOWLEDGEMENTS**

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This research project was done at the request of the Washington State Gambling Commission, to obtain factual and unbiased independent factual data concerning charitable/nonprofit (C/NP) gambling, reach conclusions, and make recommendations for changes.

The RFP for the project identified the following scope of work:

Review and summarize the legislative history from when the Gambling Act was passed in 1973, including reviewing news articles during that period. Determine if other versions of the legislative declaration (RCW 9.46.010) were considered and whether there have been any court decisions that refer to, or interpret, the legislative declaration. As part of the review of the legislative history, determine if charitable/nonprofit organizations were discussed when the legislative declaration was being developed. Report the reasons for passage of the Act, focusing on both the history of corruption/graft that had occurred and reasons charitable/nonprofit gambling was allowed. Examine the statutory structure that exists to implement charitable and non-profit gambling to determine if the current laws and changes made to the gambling act since 1973 promote the legislative declaration (the policy of the state) of allowing charitable/nonprofit organizations to raise funds through gambling (example: the recent change removing the restriction on operating 3 days/week). Staff will provide some background information for this.

Review the Commission's rules and regulatory program for charitable/nonprofit gambling and draw conclusions as to whether these are consistent with the legislative declaration and intent, and statutes as identified by the research. If not, make recommendations for changes. Include in this a review of the current adjusted cash flow rules and determine whether implementation of these rules has been successful in ensuring funds are directed towards the stated purposes of the charitable/nonprofit organizations. If not, make recommendations for changes. Many rules were passed when bingo was a primary gambling activity; since that has changed, make recommendations on whether rules should or could be changed, yet still be consistent with the legislative intent.

With the assistance of staff and/or information provided by Commission staff, collect and summarize factual data, showing how bingo and other charitable/nonprofit gambling activities (punchboards/pull tabs, raffles, amusement games, and social card rooms) are occurring today. Based on a representative sample, compare the differences between large, medium, and small operators. In this, compare payout percentages, net income, volunteers versus paid positions, and other costs for the three groups. Determine how many organizations have "charitable" purposes compared to "non-profit" purposes.

Based on a representative sample, determine what percent of organizations' budgets are from gambling revenue compared to other sources of revenue and compare how this has changed over the past five, ten and twenty years. Determine if the percent varies based on the type of gambling activities the organization offers (raffles only, bingo, etc.). Determine what services are currently funded through gambling dollars. Determine what other sources of revenue are available for charitable/nonprofit organizations.

With the assistance of staff and/or information provided by Commission staff, create a timeline showing gross receipts, number of licensees, and when charitable/nonprofit and other changes were made.

By contacting states that have significant amounts of charitable/nonprofit gambling, determine if there are ways to enhance Washington's regulation of the charitable/nonprofit industry. Also determine what games or gambling activities have been added in other states or Canada in the past ten years for charitable/nonprofit gambling. For each game or activity, determine whether they have been successful and identify the necessary statute or rule changes needed and policy implications.

The project included in-depth research on the history of gambling, including C/NP gambling in the State of Washington, from Territorial days through 1973, when the initial authorizing legislation was passed. Five legislative declarations are examined in detail. The project included detailed timelines of regulatory and legislative changes since 1973 for the three largest C/NP gambling activities: Bingo, Punchboards/Pulltabs (PB/PT) and Raffles.

The project included a large data analysis component, based on information from the Commission's extensive database. Data analysis was performed based on size of licensee, the largest licensees in each activity, and stated purpose. Organizational financial data were also reviewed for a sample (22) of the largest licensees, based on qualification review financial data.

Finally, the project included conversations with state officials in Oregon, Ohio, Michigan, Minnesota, Texas and California regarding regulation of their charitable/nonprofit gambling sectors.

I would like to extend my deepest appreciation to the many talented and dedicated Commission employees who assisted with this project:

- Amy Blume, the project coordinator, who answered innumerable questions, connected me with many staff members, provided materials and spoke with me regularly to help keep the project on time and focused;
- Susan Arland and Arlene Dennistoun, who provided detailed information about legislation and WAC's;
- Kathy Mills, Loren Husted and Cameron Baker, who generated many Excel spreadsheets and charts, and ruminated with me about the data;
- Terry Westhoff, Tina Griffin and Dave Trujillo, who provided information about qualification reviews and licensing requirements;
- Neal Nunamaker, who provided an invaluable historical perspective.

And special thanks to my colleague Susan Seykota-Smith, whose sharp eye for detail and challenging questions added immeasurably to the quality of the final product.

Sally Perkins  
Practical Solutions  
August, 2004

## CHAPTER 2:

### OVERVIEW OF COMMERCIAL AND CHARITABLE/NONPROFIT GAMBLING TRENDS

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The data presented in this Chapter provide an overview of the trends in gambling activities regulated by the Commission. A comparison of the trends in commercial vs. charitable/nonprofit gambling is provided, as well as a more detailed analysis of Bingo, Punchboards/Pulltabs (PB/PT) and Raffles. A brief description of Amusement Games, Fundraising Events (FRE's) and Social Card Rooms is also provided.

**Key terms** used in this chapter include:

Gambling activities: Major activities analyzed in this report were Bingo, Punchboards/Pulltabs (PB/PT) and Raffles. Other C/NP gambling activities include amusement games, fund-raising events, and social card rooms

Stated purpose: The charitable or nonprofit purpose identified by the licensee in its application for a gambling activity license.

Top 20/10 licensees: The twenty largest licensees, by Gross Receipts, in Bingo and PB/PT for each year between 1993 and 2003. The ten largest licensees, by Gross Receipts, in Raffles for each year between 1993 and 2003. The Top 20 or 10 is for the year indicated, so the licensees on the list can change from year to year.

Pool: A grouping of licensees based on size. The dividing lines between the groups are different for each gambling activity, based on how the licensees cluster. There are four Pools in each activity: Small, Medium, Large and Extra-Large.

**Key indicators:**

**Best Year**: The year in which the specific indicator is at its highest level—for example, the year in which gross receipts or the number of licensees is highest. Many of the comparisons done are between the Best Year and 2003, to give a picture of how much change has occurred since the Best Year. In some cases, 2003 is the Best Year.

Looking at whether the Best Years cluster into certain time periods (or not) gives an additional picture of how the sector and the activities within it have been affected by Commission actions, growth of competition, etc.

**Size: Total Gross Receipts**: Total gross receipts indicate whether the C/NP sector, and the gambling activities within it, are growing or declining.

**Size: Average Gross Receipts or Gross Receipts per Licensee**. The gross receipts in an activity for any given year divided by the number of licensees in that year. This indicator measures the size of the games and whether they are growing or declining. Because the number of licensees in a Pool or stated

purpose changes from year to year, the average GR gives a better picture of growth or decline than only looking at the total.

**Benefit to the C/NP Purpose: Total Net Income.** Net income is gross receipts less prize payouts and expenses of the gambling operations. It is the total amount available to apply to the charitable or nonprofit purpose.

Total net income measures whether the amount of money being generated by gambling activities for C/NP purposes is increasing or decreasing.

**Benefit to the C/NP Purpose: Average Net Income or Net Income per Licensee.** This is the total net income for an activity in any given year divided by the number of licensees in that year. This indicator measures whether the amount of net income per licensee is increasing or decreasing. Because the number of licensees in a Pool or stated purpose changes from year to year, the average GR gives a better picture of growth or decline than only looking at the total.

**Volume vs. Profit: Net Income as a percentage of Gross Receipts.** This indicator divides net income by gross receipts to look at the relationship between growth or decline in volume (GR) and whether higher volume produces more net income. Here, the trend from year to year is the key measure.

**Cost to Raise a Dollar of Net Income (CTR):** Expenses of the gambling operation are divided by net income for each year. This indicator was chosen for two reasons. First, it gives a picture of how much money is being spent to raise \$1.00 of net income for the C/NP purpose. Second, it provides a comparison to other non-gambling charitable and nonprofit fundraising activities.

The Cost to Raise indicator was developed as a way to compare to other forms of nonprofit fundraising, where the cost to raise a dollar of private support should not exceed 35 cents (Better Business Bureau, Wise Giving Alliance, 2003).

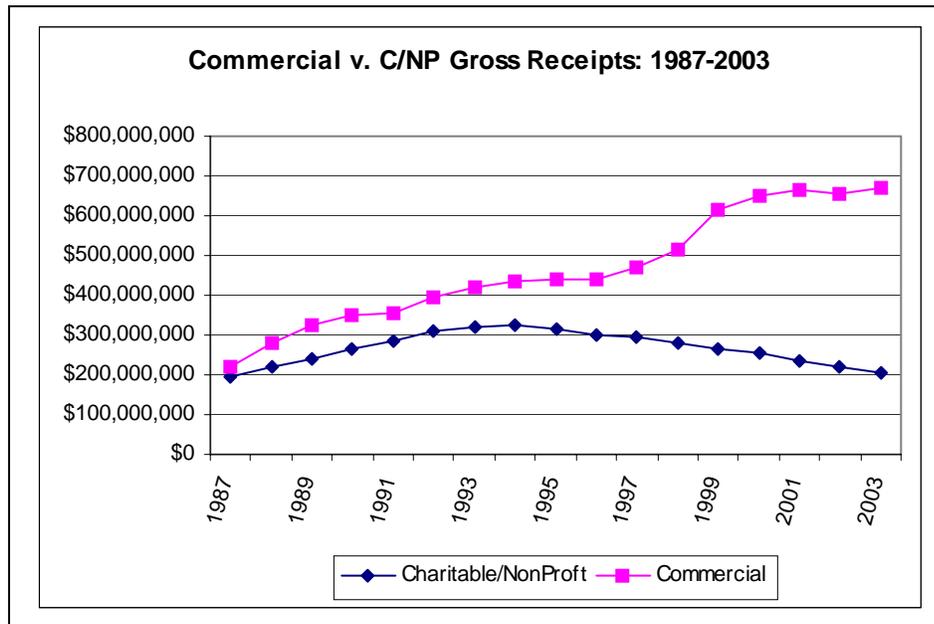
Trends in CTR are useful because they show if expenses are rising faster than net income. A rapid rise in CTR for an individual licensee appears to be an indicator of potential financial problems in the gambling operation.

## CHAPTER 2: COMMERCIAL AND CHARITABLE/NONPROFIT GAMBLING SECTORS: OVERVIEW AND COMPARISON

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Both commercial and charitable/nonprofit gambling activities are authorized in Washington State. This section examines data related to how the gambling activities regulated by the Commission in total have evolved since 1987, and how the various activities within the C/NP sector have fared since 1987.

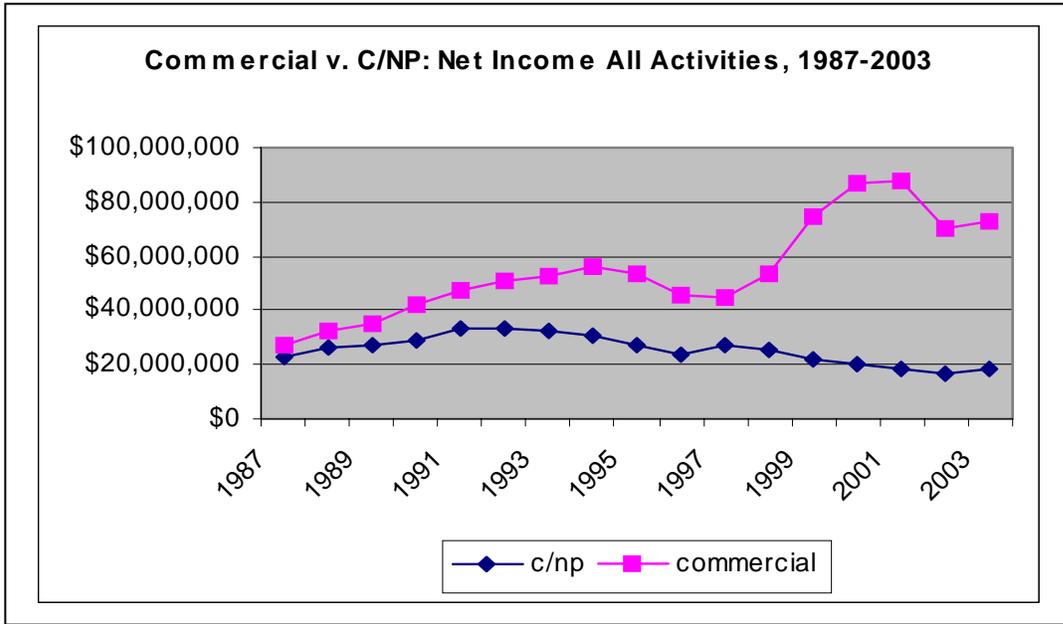
**Overall. Gross Receipts.** In 1987, total gross receipts for all gambling activities regulated by the Commission in Washington State (commercial and C/NP) totaled \$415.6 million. Of that total, commercial activities grossed \$221 million, or 53%, while C/NP activities grossed \$194.6 million, or 47%. Since that time, the gap between commercial and C/NP gross receipts has steadily increased. By 2003, commercial activities grossed nearly 77% of the total, while C/NP gross had dropped to 23%. Clearly, commercial gambling activities have expanded and C/NP activities have shrunk. Note that this table does not include tribal gambling, state lottery or horse-racing figures.



**Licensees.** The number of commercial licensees grew from 1987 until 1994-95, when they peaked at 2,641. Since then they have declined slowly, to a total of 2,035 in 2003. On the other hand, the number of C/NP licensees has declined steadily, from 1,991 in 1987 to 1,471 in 2003.

**Net income** (gross receipts less prizes and expenses) in the commercial sector had two peaks between 1987 and 2001. The first peak came in 1994, with \$56.5 million in net income. Commercial net income then declined for several years before building to the second peak in 2001, at \$87.8 million. This is likely attributable to the authorization of house-banked card rooms in late 1997.

Meanwhile, net income in the C/NP sector peaked in 1992 at \$33.3 million and then declined fairly steadily to \$17 million in 2002 before increasing to \$18.1 million in 2003. In 2003, the C/NP sector earned 20% of the total gambling net income in Washington State. This is slightly less than the C/NP share (23%) of total gross receipts.

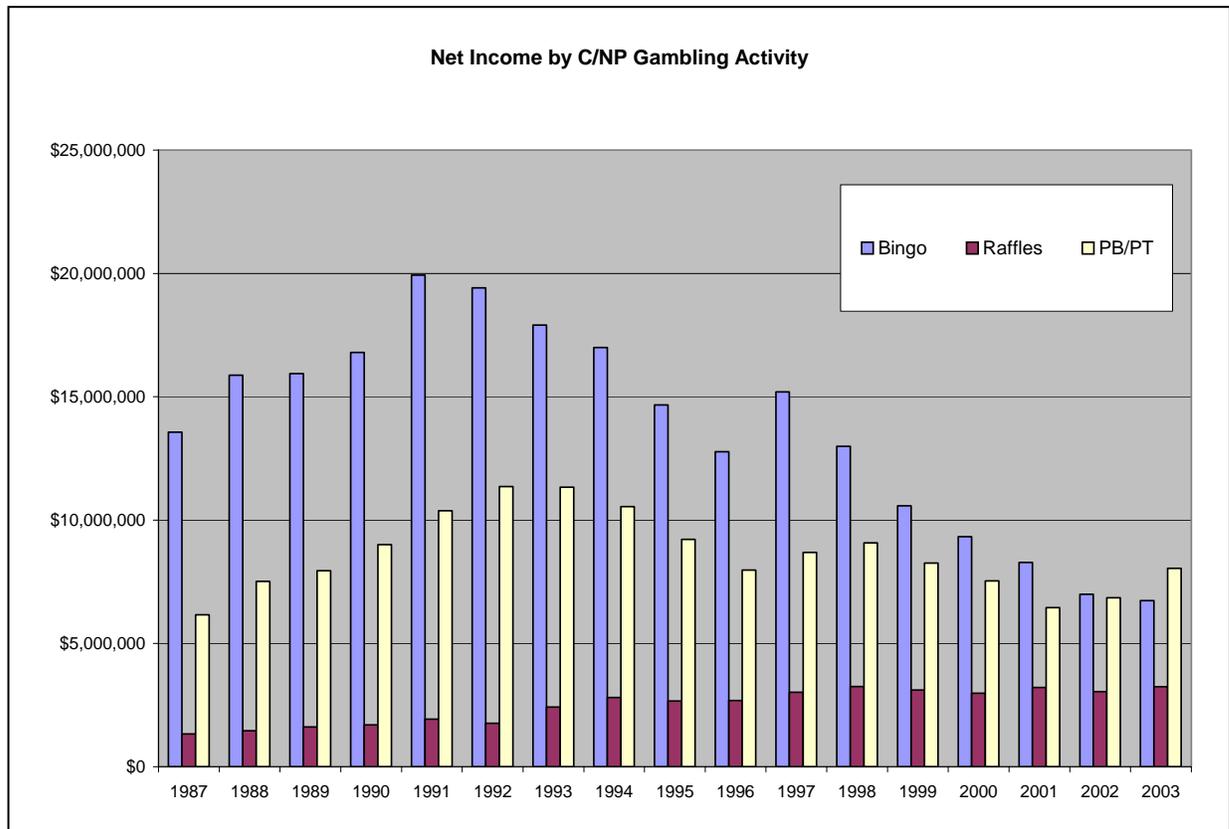


**Cost to Raise a Dollar.** Finally, the C/NP sector consistently kept its cost to raise a dollar of net income lower than that of the commercial sector. The gap began at about 20 cents in 1987 and actually narrowed in the early-to-mid 1990s. Starting in 1997 the CTR for the C/NP sector began to drop, while the commercial CTR rose. By 2003 the gap was more than \$2.00, with C/NP CTR at \$2.18 and commercial CTR at \$4.31. This undoubtedly reflected the use of volunteers and lower-cost venues by many of the C/NP licensees, which reduced costs.

## GAMBLING ACTIVITIES WITHIN THE CHARITABLE/NONPROFIT SECTOR TRENDS IN BINGO, PUNCHBOARDS/PULLTABS, RAFFLES

**Overall.** The charitable/nonprofit gambling sector has steadily declined. Many organizations have stopped participating in C/NP gambling activities and the total number of licensees has dropped significantly since 1987. Even though gross receipts and net income have increased steadily in Raffles, there have been larger declines in Bingo and PB/PT. Thus, the entire sector's gross receipts are down 36% from its best year in 1994 compared to 2003 (\$321 million to \$206 million).

Total net income (gross receipts less prizes and expenses) in the sector topped out at \$32.5 million in 1992, dropping to \$18 million in 2003, a 45% decrease. This chart summarizes how the relative importance of Bingo declined, with PB/PT generating the most net income in 2003 and Raffles steadily increasing their share of net income.



This is substantially different from the conventional wisdom about charitable and nonprofit gambling, which assumes that Bingo is the major generator of income. It also clearly demonstrates that the efforts of the Commission to rework the net income/net return/adjusted cash flow regulations in Bingo have not resulted in increased net income for the stated purposes.

Note: Additional data detail for Bingo, PB/PT and Raffles is found in Chapter 3, Data, and in Appendix C.

**Bingo.** Bingo has declined significantly:

- Licensees down 40% since 1987 (from 571 to 431)
- Gross receipts down 44% since 1994, the best year (\$202 million to \$112 million)
- Net income down 66% since 1991, the best year (\$19.9 million to \$6.7 million)

Meanwhile, the cost to raise a dollar of net income increased 223% and the percentage of gross receipts that ended up as net income decreased from 11% to 8.7%.

The original reason for authorizing bingo, to allow churches to run their bingo games, has completely disappeared...the Religious stated purpose had no licensees by 2003.

The smallest licensees (Small Pool) did well over the past 10-15 years. The Medium licensees did moderately well. The Large licensees were hit the hardest by the pressures of growth and competition. The Extra-Large licensees managed to sustain their levels of gross receipts but had serious declines in net income, indicating that they generate a lot of volume but that the volume does not translate into net income for their stated purposes. Increasingly the Extra Large licensees have dominated Bingo, with the Top 20 licensees generating over 70% of total gross receipts in 2003.

The stated purpose that showed the most success with Bingo gross receipts was Athletic. The stated purposes with the most net income per licensee were Agricultural and Patriotic.

The declining net income (even with higher gross receipts in the Extra Large pool) and the increased cost of raising a dollar indicate that the business model for Bingo as a successful fundraising strategy may no longer work. This is worrisome, as a number of licensees draw a considerable portion of their total revenue from their bingo operations. The challenge for these organizations is to assess the future viability of their bingo operations and plan for new sources of income to replace bingo income.

**Punchboards/pulltabs.** Charitable/nonprofit PB/PT also declined but not as much as bingo. The number of licensees was down slightly—by 91 licensees, or 28% since the best year in 1994. However, by 2003, net income for PB/PT was the highest of all three activities. See chart above.

Gross receipts were also down, 25% since 1993, the best year. The drop was from \$115 million in 1993 to \$87 million in 2003. Similarly, net income dropped from \$11.4 million to \$8.0 million, or 29%, between 1992 to 2003.

For the Small and Medium licensees, PB/PT declined significantly, suggesting that a high volume of potential customers is needed to generate enough PB/PT activity. PB/PT may not be a particularly profitable fundraising strategy for smaller licensees.

While the Extra-Large licensees also play a big role in PB/PT they do not dominate the way they do in Bingo. The Top 20 PB/PT licensees generated 42% of total gross receipts in 2003. However, the data suggest that some of the very largest licensees

have been making a concerted effort to grow their PB/PT business, possibly as a way to offset the decline in Bingo.

It may be true that the high volume of people in a Bingo hall are needed to make PB/PT profitable, while the profits from PB/PT are needed to help the Bingo facility be financially feasible.

Licensees in the Civic, Educational and Athletic stated purposes have had the most success in growing their gross receipts and net income in PB/PT.

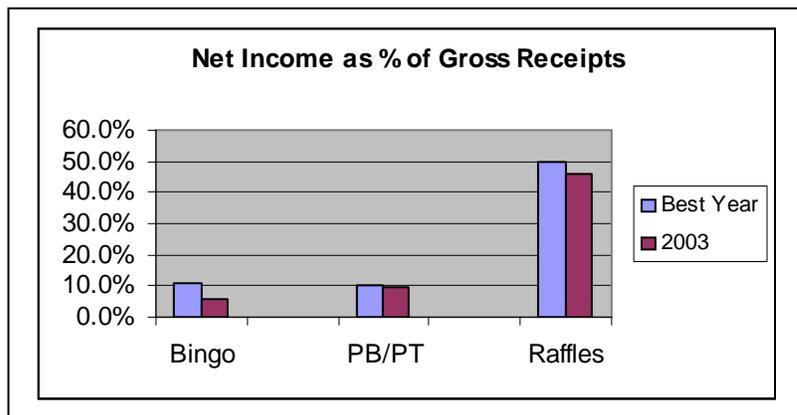
Expenses in PB/PT were puzzling. The CTR went up and down and then showed a significant decline in the 2002-2003 period. This may be a function of how expenses are allocated or reported. For those licensees operating both Bingo and PB/PT, the allocation logic for expenses between the two is not clear. The amount of expenses (beyond the cost of purchasing the games) seems high for the amount of staff time and space needed to operate PB/PT.

**Raffles.** Raffles are the most successful activity in charitable/nonprofit gambling. The number of licensees increased 44%, from 490 in 1987 to 705 in 2003. Total gross receipts also increased, from \$2.5 million in 1987 to nearly \$7.1 million in 2003.

But the big story is in net income. Because the cost to raise a dollar in Raffles was so much lower than in Bingo or PB/PT, net income in Raffles increased from \$1.3 million in 1987 to over \$3.2 million in 2003. Net income in Raffles was almost half as much as net income in Bingo in 2003. The chart above illustrates how Raffles have become a more and more important component of net income in C/NP gambling.

It is interesting to note that in Raffles, the smallest licensees had the greatest growth in gross receipts and net income. In some ways, the many small licensees participating in Raffles represent the initial reasons why charitable/nonprofit gambling was authorized—to allow organizations to utilize their members to raise money for their causes. Given that the smaller licensees generally did not see growth in their Bingo and PB/PT activities, Raffles may be the most effective C/NP gambling activity for small organizations.

Raffles are by far the most efficient at converting Gross Receipts into Net Income as the chart below shows.

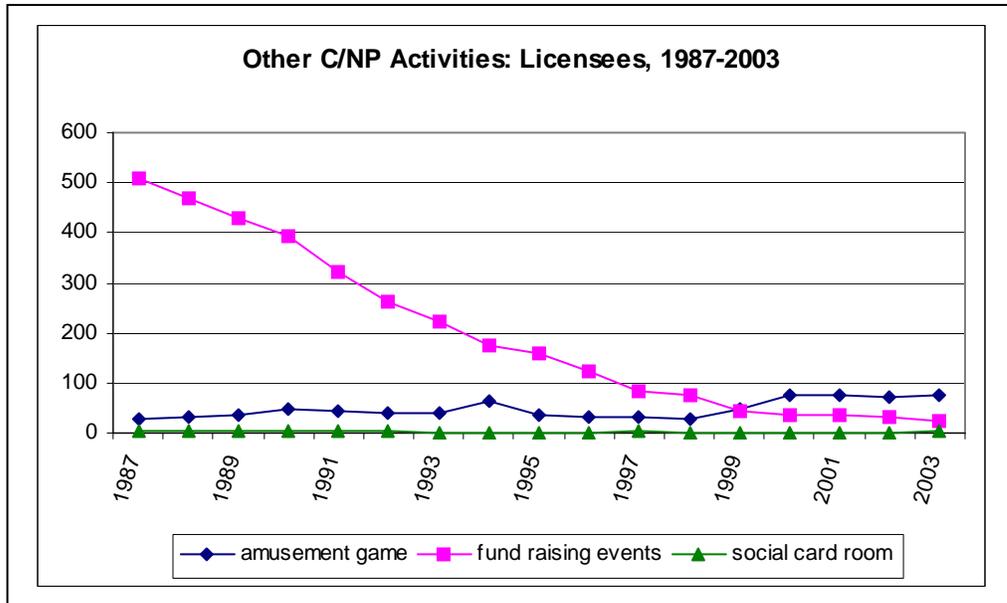


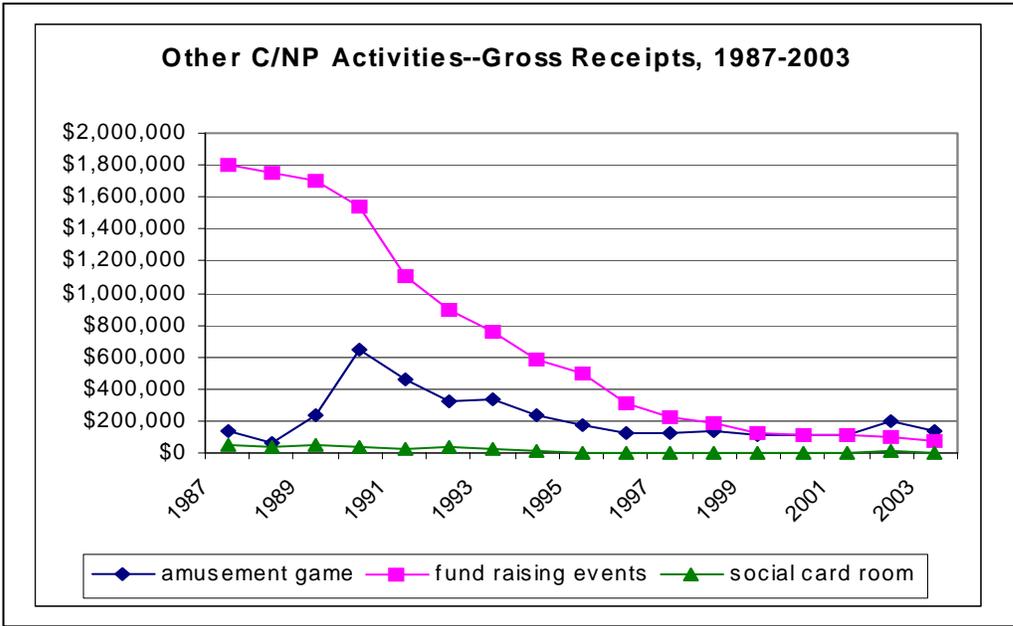
**Other C/NP gambling activities.** While Bingo, PB/PT and Raffles are the largest activities within the C/NP sector, the Legislature has also authorized amusement games, fund-raising events (FREs) and social card rooms for C/NP organizations. All three of these activities have been small (see chart, next page).

The largest of the three was Fund Raising Events, or casino nights. The number of licensees decreased steadily from 1987 to 2003—there were only 24 FRE licensees in 2003 compared to 508 in 1987. FREs grossed almost \$1.8 million in 1987 but saw a dramatic decline starting in 1991 and continuing into 2003. This decline has been due to the expansion of Indian casino gambling and commercial card rooms. Gross receipts and net income both declined in concert with the drop in the number of licensees.

C/NP amusement games are usually part of a larger gambling operation such as a bingo hall. The number of amusement game licensees has increased from 26 in 1987 to 76 in 2003. However, gross receipts from amusement games peaked in 1990-91 and have declined since then. Net income has fluctuated between \$40,000 and \$100,000 since 1994.

There are no social card rooms currently being operated for fundraising purposes. The social card room licensees all operate their card rooms as a social pastime for their members.





## CHAPTER 3:

### DETAILED ANALYSIS OF BINGO, PUNCHBOARDS/PULLTABS AND RAFFLES BY STATED PURPOSE AND BY LARGEST LICENSEES IN EACH ACTIVITY

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The data presented in this chapter provide a detailed analysis of Bingo, Punchboards/Pulltabs (PB/PT) and Raffles, by Stated Purpose and by Top (Largest) 20 or 10 licensees. The detailed data tables on which these analyses are based are located in Appendix C.

**Key data terms** include:

Stated purpose: The charitable or nonprofit purpose identified by the licensee in its application for a gambling activity license.

Top 20/10 licensees: The twenty largest licensees, by Gross Receipts, in Bingo and PB/PT for each year between 1993 and 2003. The ten largest licensees, by Gross Receipts, in Raffles for each year between 1993 and 2003. The Top 20 or 10 is for the year indicated, so the licensees on the list can change from year to year.

**Key indicators**:

**Best Year**: The year in which the specific indicator is at its highest level—for example, the year in which gross receipts or the number of licensees is highest. Many of the comparisons done are between the Best Year and 2003, to give a picture of how much change has occurred since the Best Year. In some cases, 2003 is the Best Year.

Looking at whether the Best Years cluster into certain time periods (or not) gives an additional picture of how the sector and the activities within it have been affected by Commission actions, growth of competition, etc.

**Size: Total Gross Receipts**: Total gross receipts indicate whether the C/NP sector, and the gambling activities within it, are growing or declining.

**Size: Average Gross Receipts or Gross Receipts per Licensee**. The gross receipts in an activity for any given year divided by the number of licensees in that year. This indicator measures the size of the games and whether they are growing or declining. Because the number of licensees in a Pool or stated purpose changes from year to year, the average GR gives a better picture of growth or decline than only looking at the total.

**Benefit to the C/NP Purpose: Total Net Income**. Net income is gross receipts less prize payouts and expenses of the gambling operations. It is the total amount available to apply to the charitable or nonprofit purpose.

Total net income measures whether the amount of money being generated by gambling activities for C/NP purposes is increasing or decreasing.

**Benefit to the C/NP Purpose: Average Net Income or Net Income per Licensee.** This is the total net income for an activity in any given year divided by the number of licensees in that year. This indicator measures whether the amount of net income per licensee is increasing or decreasing. Because the number of licensees in a Pool or stated purpose changes from year to year, the average GR gives a better picture of growth or decline than only looking at the total.

**Volume vs. Profit: Net Income as a percentage of Gross Receipts.** This indicator divides net income by gross receipts to look at the relationship between growth or decline in volume (GR) and whether higher volume produces more net income. Here, the trend from year to year is the key measure.

**Cost to Raise a Dollar of Net Income (CTR):** Expenses of the gambling operation are divided by net income for each year. This indicator was chosen for two reasons. First, it gives a picture of how much money is being spent to raise \$1.00 of net income for the C/NP purpose. Second, it provides a comparison to other non-gambling charitable and nonprofit fundraising activities.

The Cost to Raise indicator was developed as a way to compare to other forms of nonprofit fundraising, where the cost to raise a dollar of private support should not exceed 35 cents (Better Business Bureau, Wise Giving Alliance, 2003).

Trends in CTR are useful because they show if expenses are rising faster than net income. A rapid rise in CTR for an individual licensee appears to be an indicator of potential financial problems in the gambling operation.

## ANALYSIS OF LICENSEE AND FINANCIAL DATA BY STATED PURPOSE

**OVERVIEW.** Every organization that wishes to conduct charitable/nonprofit (C/NP) gambling in the State of Washington is required to identify its stated purpose(s) according to the categories listed in RCW 9.46.0209. Organizations are required to show that they have been organized “primarily for purposes other than the operation of gambling activities...”

Because an organization can choose to identify more than one stated purpose, there is some inconsistency in the way that similar organizations classify themselves. In some cases, one type of organization can be found in as many as four of the available stated purposes. If the WSGC wished to analyze C/NP gambling according to stated purpose in any rigorous way, the Commission would need to assign or direct organizations to the appropriate stated purpose. There are several ways to do this, which are discussed in the Recommendations section.

The purpose of this analysis is to examine how each gambling activity has changed between 1987 and 2003 and to determine if the changes have affected organizations within some stated purposes more than others for that activity. In some cases, the comparison is between the “best year”—the year in which the highest level of licensees or dollars occurred—and 2003, to get a sense of the extent of the change. Often the best year is neither 1987 nor 2003 but falls in the early or mid-1990s. The best year also varies by stated purpose. All years are calendar years. The data on which this narrative is based are located in Appendix C.

The stated purposes currently found in the RCW and in use today include (note some of the overlaps below):

Agricultural	(Granges, fairs)
Athletic	(youth hockey, soccer, rowing, baseball, boosters, etc.)
Charitable	(Big Brothers Big Sisters, Boys and Girls, Catholic Charities, Eagles, Kiwanis, Lions, Rotary, hospitals, senior centers, etc.)
Civic	(Rotary, Lions, Kiwanis, Chambers of Commerce, cities, fire Districts, etc.),
Educational	(schools, PTA’s, Junior Leagues, various community groups with educational missions)
Fraternal	(Elks, Moose, Sons of Norway, Eagles, etc.)
Patriotic	(American Legion, VFW)
Religious	(churches, church schools, church-related groups)
Social	(recreational, Emblem, senior citizens, country clubs)
Other	(includes some from each of the other categories)

### **Terms and abbreviations used in this section:**

**C/NP** = charitable/nonprofit

**Stated purpose** = one of the ten categories listed above

**Activity** = the type of C/NP gambling, such as bingo, or raffles

**PB/PT** = punchboard/pulltabs

**GR** = Gross Receipts

**NI** = Net Income

**CTR** = Cost to raise a dollar (of net income)

**Best Year** = the year in which there was the highest number of licensees, the highest gross receipts, the highest net income (may be a different year for each)

## BINGO

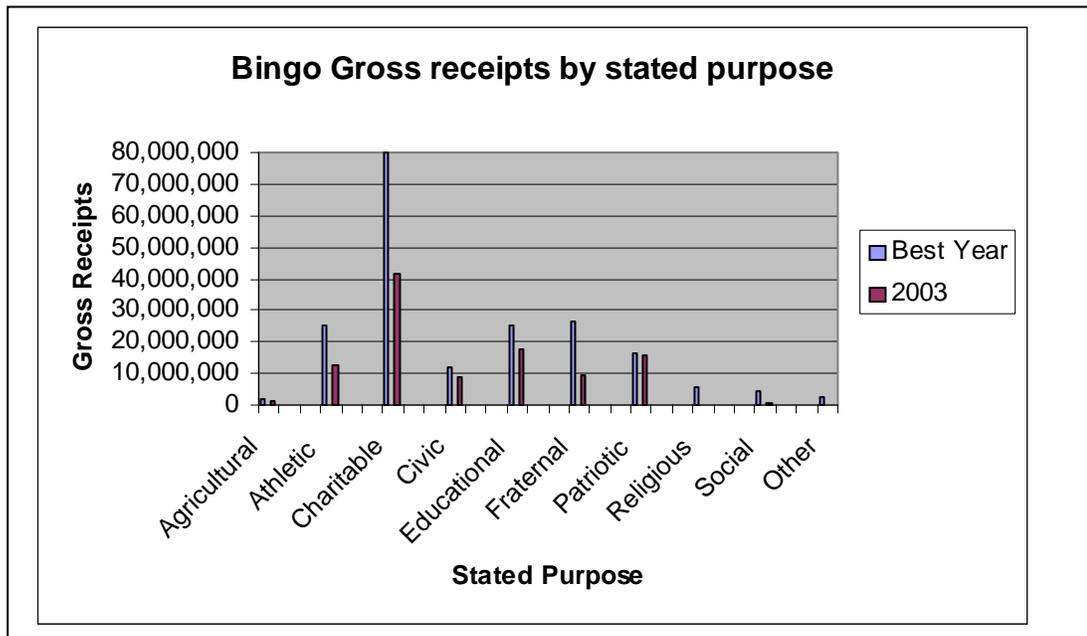
**Licensees:** Fewer C/NP organizations are participating in Bingo. The number of licensees is down by about 59% in total since 1987.

The number of licensees reporting Bingo activity has dropped significantly since 1987. The largest declines were in Fraternal (-77), Other (-47) and Patriotic (-41) stated purposes.

Despite this decline, Fraternal was the largest by far in total licensees in 2003, with 133 licensees. Charitable was next with 59, followed by Social (49), Patriotic with 48 and Educational with 29,

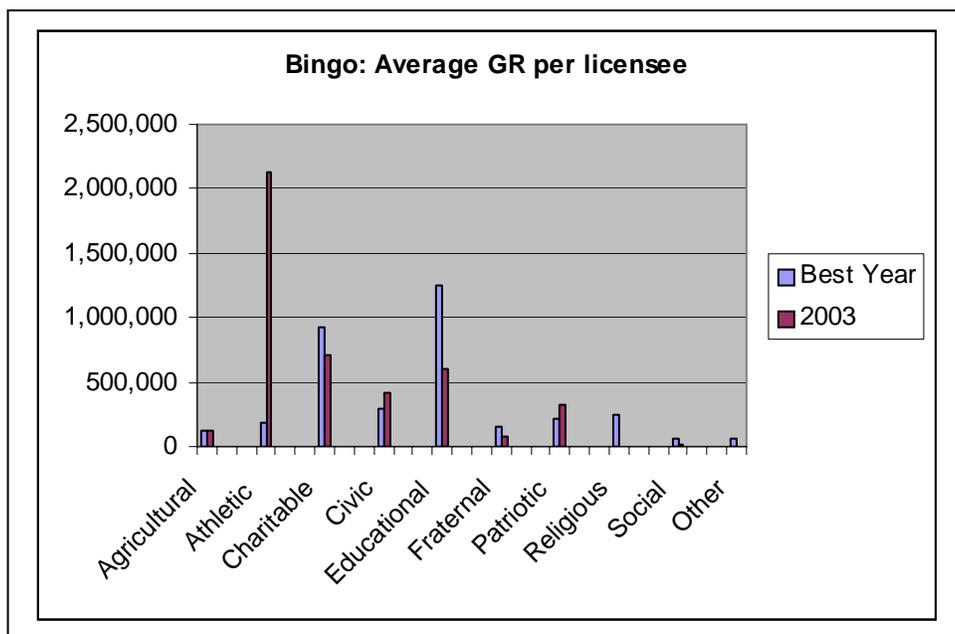
**Size of games (Gross Receipts(GR) Gross Receipts per Licensee):** All stated purposes have declined from their best years in terms of total GR in that stated purpose. However when GR per licensee is examined, some stated purposes are increasing while others are decreasing.. Bingo is no longer operated for the Religious and Other stated purposes and the Social stated purpose has virtually no activity in Bingo as well.

**Total Gross Receipts.** This bar chart shows the decline in total Gross Receipts by stated purpose. Note especially the sharp declines in the Charitable, Fraternal and Athletic stated purposes. Patriotic is the only stated purpose of any size that maintained its level of total gross receipts over time.



GR per licensee. The Athletic stated purpose, even though it declined in total GR, has increased dramatically in GR per licensee. The Athletic licensees have very large bingo operations. Patriotic and Civic also increased, but much more modestly.

Religious, Social and Other licensees no longer participate in Bingo. Charitable, Fraternal and Agricultural licensees have experienced declines in their gross receipts. Fraternal and Agricultural licensees operate small games relative to the other stated purposes.



It is interesting to note that one of the major reasons for authorizing gambling back in 1973 was to allow church bingo games to “be legal.” By 2003, the church games, as represented in the Religious stated purpose, are gone. It is also interesting to note that although Bingo is declining overall, some stated purposes are actually increasing their gross receipts per licensee.

**Size of benefit to charitable/nonprofit purpose (net income, total and per licensee):**

**In general, net income (gross receipts less prizes and expenses) per licensee has declined significantly from the best year for NI and 2003. The best year varies by stated purpose. Only the Agricultural and Patriotic stated purposes have seen an increase in average NI per licensee. All other stated purposes have seen decreases, some dramatic.**

The largest declines in net income occurred in the Educational, Social, Charitable and Civic stated purposes, all of which declined by 100% or more from their best years. Education declined by over 300% and Social by nearly 200%.

If these figures were adjusted for current dollars, all stated purposes would be declining in the purchasing value of their net income, even those whose actual dollars have increased. Note that licensees are required to return 60% of their net income to their stated purpose. Thus, the amount of money flowing to charitable purposes in Bingo decreased significantly from the best year.

**Cost to raise (CTR) a dollar of net income has increased significantly in most stated purposes. Notable exceptions are Agricultural and Fraternal.** The Cost to Raise indicator was developed as a way to compare to other forms of nonprofit fundraising, where the cost to raise a dollar of private support should not exceed 35 cents (Better Business Bureau, Wise Giving Alliance, 2003).

With one exception, net income per licensee goes down as CTR goes up in every stated purpose. Only in Patriotic do both Net Income and CTR increase from the best year to 2003. In the Civic, Charitable, Educational and Athletic stated purposes, CTR has more than doubled from the best year to 2003. In the Civic stated purpose, it has nearly tripled.

It is of concern that the cost to raise a dollar of net income is rising rapidly while net income is falling. At what point does the cost of raising a dollar of net income become prohibitive?

The sectors with the lowest CTR in 2003 are Agricultural and Fraternal, who likely rely heavily on volunteers to run their games.

**Best Year.** The concept of the "Best Year" is used to reflect the year in which the highest level of licensees, gross receipts and net income occurred. It is possible for each of these to occur in a different year. For the number of licensees, it is possible for multiple years to "tie" for best year. It is interesting to see where the best years cluster by stated purpose.

In numbers of licensees, Other, Religious and Social are actually or virtually out of Bingo by 2003. Athletic and Agricultural had their best years in the early and mid-1990s. Educational, on the other hand, has experienced more recent best years.

In Gross Receipts, the stated purposes that are no longer participating had their best years either in 1987 or 1993. The others have best years in the mid-to-late 1990s. The most recent best year was 1997 for Athletic. The Net Income best years are similar, except that Agricultural had its best net income year in 2001.

There are clearly three peaks--in 1987, another in the early 1990s and a third in the mid-1990s. These coincide with efforts made by licensees to achieve modifications in bingo regulations due to declining gross receipts and problems with complying with net income/return/adjusted cash flow requirements.

**Summary.** Bingo is declining. No stated purpose showed 2003 as its best year. Three stated purposes (Religious, Social, Other) are no longer participating in Bingo. Net Income per licensee is dropping faster than Gross Receipts per licensee. The Cost to Raise a dollar of Net Income has increased significantly for every stated purpose except Agricultural and Patriotic. In four stated purposes (Civic, Charitable, Educational and

Athletic) the CTR has more than doubled from their best Net Income years. This indicates, based on other analysis of CTR, that these four stated purposes may be the next to decline significantly.

### **PUNCHBOARD/PULLTABS (PB/PT)**

**Licensees:** Fewer C/NP organizations are participating in PB/PT. The number of licensees is down by about 28% from the best years in each stated purpose.

The number of licensees reporting activity has dropped since 1987. Every stated purpose has declined in number of licensees reporting activity. The largest declines have been in Charitable, Fraternal and Patriotic; and Other and Religious stated purpose licensees have stopped participating in PB/PT altogether.

In 2003 the top three stated purposes for numbers of licensees were Fraternal (173), Patriotic (86) and Charitable (36).

**Size of games (Gross Receipts(GR) and GR per licensee):** The Gross Receipts of all stated purposes have declined between their best year and 2003 (some significantly, others just slightly). However GR per licensee varied, increasing in some areas and decreasing in others. By 2003 there was no PB/PT activity in the Other and Religious stated purposes. The Agricultural stated purpose had the smallest amount of GR in 2003.

GR per licensee have increased significantly (90%) for Civic and quite strongly for Educational and Athletic (45-46%) from their best year to 2003. Patriotic increased slightly.

GR per licensee have decreased somewhat for all other stated purposes.

**Size of benefit to charitable/nonprofit purpose (net income and net income per licensee):** In general, net income (gross receipts less prizes and expenses) per licensee varied widely when best year and 2003 net income were compared. Educational and Athletic stated purposes have seen significant increases in net income per licensee. Religious and Other are no longer participating in PB/PT and Agricultural, Civic and Fraternal have decreased.

Educational increased net income per licensee by 95% and Athletic increased theirs by 78%. Both Social and Civic had increases of close to 40% in net income per licensee.

Agricultural net income per licensee declined by almost 60%; while Charitable and Fraternal declined by 29% and 22% respectively.

Religious and Other licensees no longer participate in PB/PT.

**The Cost to raise (CTR) a dollar of net income has fluctuated among the stated purposes.**

Only the Agricultural stated purpose showed a significant increase in the cost of a dollar of net income raised; all the others either showed decreases (economies of scale?) or are flat. Interestingly, in Bingo, the Agricultural stated purpose has had one of the lowest CTRs. This may represent a different cost allocation strategy between Bingo and PB/PT for organizations in the Agricultural stated purpose.

The Civic, Agricultural and Athletic stated purposes show the highest CTR overall, in the \$2.40 to \$3.70 range.

These variations may reflect the licensees' different methods of allocating costs among the various types of games. There is no Commission-required or prescribed allocation methodology.

**Best Year.** The concept of the "Best Year" is used to reflect the year in which the highest level of licensees, gross receipts and net income occurred. It is possible for each of these to occur in a different year. For the number of licensees, it is possible for multiple years to "tie" for best year. It is interesting to see where the best years cluster by stated purpose.

For total number of licensees, the "best years" were definitely the 1990s, up until 1996. Only Agricultural maintained its highest number of licensees into 2000; all other stated purposes peaked by the mid-1990s.

The best years for total gross receipts were in the 1990s as well, except for Social, which showed 2003 as its best year. Interestingly, gross receipts per licensee increased between the best year and 2003 for Civic, Educational and Athletic even though their best years for total gross receipts were in the 1990s.

The best years for net income all cluster between 1992-94 except Social, with 1998 as its best year. Interestingly, Educational, Athletic, Social and Civic had increases in net income per licensee between the best year and 2003 even though their best years for total net income were in the 1990s.

In general, the best period for PB/PT seems to be the early to mid 1990s, possibly reflecting an effort by C/NP organizations to diversify their gambling operations as Bingo activity declined. The higher GR and NI per licensee in 2003 even though their best years for total GR and NI were in the 1990s suggests that the remaining licensees are growing their games and running them more efficiently.

**Summary.** The PB/PT experience has been mixed. The number of licensees is down, but not as much as Bingo. Some stated purposes saw increases in gross receipts and net income per licensee while others showed decreases. Civic, Educational and Athletic had the most success with PB/PT. Religious and Other licensees no longer participate in PB/PT. The expense structure of PB/PT is difficult to interpret. CTR was actually higher than Bingo in some years but decreased quite rapidly in the 2000s. This may reflect cost allocation decisions.

## RAFFLES

**Licensees: More C/NP organizations are participating in Raffles. The number of licensees is up by about 45% since 1993.**

The largest increases in numbers of licensees have been in Charitable (119), Educational (86), Civic (29), and Athletic (23).

The numbers of Fraternal, Patriotic, Religious, Agricultural and Social licensees have stayed constant over the years. The Other stated purpose has declined significantly in the number of licensees.

In 2003 the top three stated purposes for numbers of licensees were Fraternal (182), Charitable (171) and Educational (118).

**Size of games (Gross Receipts (GR) and gross receipts per licensee): Overall, total Gross Receipts for Raffles trended steadily upward. The Educational sector showed 2003 as its best year for Gross Receipts. All sectors declined somewhat in terms of total GR in the sector. However GR per licensee varied, increasing in some areas and decreasing in others. The comparison is between best year and 2003.**

Gross receipts per licensee increased significantly for Other (170%) and somewhat for Athletic (28%).

Gross receipts per licensee decreased the most for Agricultural (66%), followed by Fraternal, Civic and Religious (all around 30%).

To provide a sense of scale, gross receipts per licensee tend to run between about \$5,000 and \$15,000. GR per licensee are probably declining because the number of licensees is growing faster than GR.

**Size of benefit to charitable/nonprofit purpose (net income and net income per licensee): In general, net income per licensee declined somewhat between the best year for NI and 2003.**

Only the Other sector saw an increase (121%) in average NI per licensee. All other sectors have seen decreases, some dramatic. Agricultural declined 72%, and Civic by 45%. Patriotic and Athletic declined by 38% and 33% respectively. Other stated purposes also declined in net income per licensee but less dramatically.

To provide a sense of scale, net income per licensee tends to run between \$1,700 and \$9,000. What is interesting about Raffles is that due to their lower costs (see CTR below), Raffles now generate total net income equaling over half of the total net income generated in Bingo.

**Cost to raise (CTR) a dollar of net income is very modest in Raffles, likely reflecting the use of volunteers to sell tickets and the receiving of donated or discounted prizes. A typical CTR in Raffles is 20-25 cents. The only notable exception is Agricultural, which may be related to the small number of licensees in this sector (3).**

For the Fraternal, Patriotic and Religious sectors, the CTR actually declined between the best year and 2003. In any event, the CTR is small enough that it does not significantly affect overall Net Income in Raffles. This means that Raffles are a relatively “high-yield” method of raising funds for charitable and nonprofit purposes.

**Best Year.** The concept of the “Best Year” is used to reflect the year in which the highest level of licensees, gross receipts and net income occurred. It is possible for each of these to occur in a different year. For the number of licensees, it is possible for multiple years to “tie” for best year. It is interesting to see where the best years cluster by stated purpose.

Raffles are different from Bingo and PB/PT because Raffles’ best years tended to cluster in the more recent years (late 1990s, 2000s), reflecting the growth in Raffles as a fundraising strategy for C/NP organizations. Net income is a partial exception, reflecting an increasing number of licensees but a finite market for Raffles.

**Summary.** Fraternal, Charitable and Educational groups are the largest participants in Raffles, with nearly 200 licensees in Fraternal and Charitable and over 100 licensees in the Educational sector. The greatest growth in the number of licensees has occurred in the Charitable and Educational sectors.

While total Raffle GR have increased, GR per licensee have generally decreased, as more groups have decided to do Raffles as a fundraising activity. This suggests that the market for raffle tickets may be finite. Net income from Raffles also increased quite steadily to 1998 and since then has hovered around \$3.5 million annually. Interestingly, net income for Raffles has now grown to where it equals 50% of Bingo’s net income in 2003.

## ANALYSIS OF LICENSEES AND FINANCIAL DATA BY TOP 20 OR TOP 10 LICENSEES

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As part of the analysis of the charitable/nonprofit gambling sector, we identified the Top 20 licensees by Gross Receipts and Net Income, 1993-2003, for Bingo and PB/PT; and the Top 10 licensees by Gross Receipts and Net Income, 1993-2003, for Raffles. The purpose was to see how the largest games changed over time and the extent to which the largest games dominate the C/NP sector and the gambling activities. The Top 20 or 10 is for each given year; thus the list can change from year to year. In Bingo and PB/PT, many of the same licensees are on the Top 20 list year after year. This is less true for Raffles.

### Terms and abbreviations used in this section:

**C/NP** = charitable/nonprofit

**Top 20** = Twenty largest licensees, in Gross Receipts for Bingo, PB/PT in any given year

**Top 10** = Ten largest Raffles licensees, in Gross Receipts

**Activity** = the type of C/NP gambling, such as bingo, or raffles

**PB/PT** = Punchboard/Pulltabs

**GR** = Gross Receipts

**NI** = Net Income

**CTR** = Cost to raise a dollar (of net income)

**Best Year** = the year in which there was the highest number of licensees, the highest gross receipts, the highest net income (may be a different year for each)

In terms of the largest licensees, the dynamics of the three activities are quite different as outlined below. Note that all years are calendar years.

### BINGO.

- The top 20 licensees represent only about 6% of the total licensees but have gone from representing less than 40% of the total Gross Receipts in Bingo to over 70% of the total GR in 2003. In other words, the largest games dominate the total activity in Bingo.
- The Top 20 licensees represented only about 4% of all licensees in 1993 and nearly 6% of all licensees in 2003. This increase may be due to the decline in total licensees in Bingo (the numerator got smaller).
- The Top 20 licensees have increased their share of total Net Income in Bingo from 50% of the total in 1993 to over 70% of total Net Income in 2003. The largest licensees dominate Bingo.
- However, the Top 20 licensees' share of Net Income has increased only half as fast as their share of Gross Receipts. This indicates that both prize payouts and expenses are rising faster than Gross Receipts in the largest games. In other words, a high level of Gross Receipts does not guarantee a

correspondingly high level of net income.

- Net income is declining for the largest licensees. The Net Income earned by the highest-earning licensee declined 27.5% between 1993 and 2003.
- The Net Income earned by the 20<sup>th</sup> highest earning licensee has declined 74% since 1993. So while Net Income is declining overall, it is declining faster for all but the very largest games.
- The Cost to Raise (CTR) a dollar of net income is nearly \$1.00 higher for the Top 20 Gross Receipts licensees as it is for the Top 20 Net Income licensees. It would be useful to look at the cost structures of the Top 20 Net Income licensees to determine which factors allow them to keep their income up and their expenses down. Some licensees are on both lists.
- There may be an anomaly in 2003, where the #1 Bingo Gross Receipts organization increased its GR by \$2.2 million from 2002. This represents almost a 30% increase in a one-year period. This may reflect an expansion in hours of operation due to the seven-day operations authorization.

**PUNCHBOARDS/PULLTABS.** Most of the Top 20 licensees in PB/PT are also on the list of Top 20 Bingo licensees. However the concentration of dollars in the largest licensees is far less pronounced.

- The Top 20 licensees represented 30% of Gross Receipts in 1993 and 42% of Gross Receipts in 2003. This indicates some additional concentration of dollar volume in the largest games, but far less pronounced than in Bingo. The Top 20 in PB/PT represent from just under 5% to 6.2% of total licensees, which may reflect the drop in number of licensees.
- The number of charitable and nonprofit PB/PT licensees has declined approximately 22% since 1993. In 2003 there were 323 C/NP PB/PT licensees, compared to 413 in 1993.
- The top 20 licensees have increased their share of total Net Income from 28% in 1993 to nearly 40% in 2003. This indicates that PB/PT Net Income is earned far more widely across licensees than is the case in Bingo (where the top 20 licensees generate more than 70% of the Net Income).
- The largest PB/PT licensee had three times the amount of GR than the 20<sup>th</sup> licensee in 1993. By 2003, the largest licensee had more than nine times the amount of GR than the 20<sup>th</sup> largest licensee. The big increase in this gap occurred between 2001 and 2003. The gap in Net Income has widened similarly. This means that the handful of very large licensees (three to five licensees depending on the year) are much bigger than the other licensees, even those in the Top 20.
- The Cost to Raise (CTR) a dollar in Net Income is **higher** for PB/PT than for Bingo until 2002, when Bingo's costs go up and PB/PT's costs go down. This may be an anomaly of the reporting process but it also raises the question of what were the typical expenses, beyond the cost of the games, for PB/PT, or how costs were allocated between Bingo and PB/PT.
- As in Bingo, the CTR for the Top 20 GR PB/PT licensees tends to run about \$1.00 higher than the CTR for the Top 20 NI licensees.

**RAFFLES.** The Top 10 Raffle licensees are an almost completely different set of licensees from the Top 20's in Bingo and PB/PT.

- The Top 10 Raffle licensees represent less than 2% of the total licensees, but over 20% of Raffle Gross Receipts and 26% of Net Income in 2003. The Top 10 do not dominate in Raffles the way the Top 20 do in Bingo and PB/PT.
- Unlike Bingo and PB/PT, the Top 10 licensees' share of both Gross Receipts and Net Income has declined since 1993, falling from nearly 30% to just over 21% of Gross Receipts, and from over 37% to just under 26% in Net Income. This means that the largest Raffle licensees do not dominate the total Raffle activity in the same way that the largest Bingo and PT/PB dominate their activities and that their share of the total has decreased.
- The total number of Raffle licensees has increased 45% since 1993, from 486 to 705.
- The Gross Receipts of the Top GR licensee have nearly doubled since 1993. Net Income increased for the largest Raffle licensees until 2000 and has decreased since then (almost a bell curve shape). This means that the income generated by the biggest Raffle licensees has declined somewhat after seeing strong growth up through the late 1990s.
- In 2003, the amount of Net Income generated by the Top two Raffle licensees is greater than the Net Income generated by all but the top six of the largest PB/PT licensees. This means that the largest Raffles now rival the larger PB/PT licensees in terms of income generated.
- In 2003, the amount of Net Income generated by the Top 2 Raffle licensees is greater than the Net Income generated by all but 12 of the largest Bingo licensees. This means that the largest Raffles now rival the larger Bingo licensees in terms of income generated.
- The Cost to Raise (CTR) a dollar of Net Income in Raffles has ranged in the 12 cents to 25 cents range. The Top 10 Net Income Raffle licensees have consistently been under 20 cents for CTR. The Top 20 GR licensees have seen their costs creep up to 34 cents in 2003, after staying in the 20-25 cent range from 1999-2002.

**HOW NET INCOME OVERLAPS AMONG THE HIGHEST NET INCOME LICENSEES  
IN ALL THREE ACTIVITIES: 2003**

<b>RANK</b>	<b>AMOUNT</b>	<b>ACTIVITY</b>
1	\$726,533	Bingo
2	\$583,876	<b>PB/PT</b>
3	\$475,823	Bingo
4	\$437,282	Bingo
5	\$416,558	<b>PB/PT</b>
6	\$414,683	Bingo
7	\$324,616	Bingo
8	\$274,247	Bingo
9	\$244,141	Bingo
10	\$223,352	<b>PB/PT</b>
11	\$217,897	Bingo
12	\$209,339	Bingo
13	\$204,254	<b>Raffle</b>
14	\$189,674	Bingo
15	\$180,720	Bingo
16	\$179,725	<b>PB/PT</b>
17	\$163,008	<b>PB/PT</b>
18	\$162,011	<b>Raffle</b>
19	\$154,091	Bingo
20	\$152,080	Bingo

Seven (35%) of the Top 20 Net Income licensees were PB/PT or Raffle licensees in CY 2003. In other words, in considering which licensees are generating the most income for their stated purposes, PB/PT and Raffles licensees now are as successful as the largest Bingo licensees.

**CHAPTER 4:  
WASHINGTON STATE GAMBLING COMMISSION  
APPROACH TO THE REGULATION OF CHARITABLE AND NONPROFIT  
GAMBLING**

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Since 1973, the Commission's overall approach to regulating the C/NP sector has varied in emphasis. The Commission has developed detailed and refined operational and record-keeping standards for all C/NP licensees. This was an extremely important and positive decision. Without these standards, it would have taken years of effort to assist licensees to develop their own financial and record-keeping systems to the level necessary to conduct gambling activities properly. At the same time, the Commission has attempted to moderate regulatory burdens on the smallest licensees.

The Commission has been remarkably open to authorizing new types of games and operating practices to allow licensees to be more competitive, far more so than many other states. The Commission has been stringent in enforcing the definition of a "bona fide charitable or nonprofit organization." All of these are significant strengths of the Commission's regulatory program.

At times, the Commission has bent over backwards to assist licensees, especially the largest licensees, to be profitable and to comply with income/cash rules. There have been two unintended results of these efforts to address the income and compliance rules. One is that the regulations have been tested and tweaked and changed and modified nine times in twenty years. The other is that the largest licensees are now in compliance but at the expense of dollars for the stated purpose. The required level of income/cash has dropped considerably for the largest licensees since 1996.

The Commission would benefit from a wide-ranging conversation about the current status of the non-gambling C/NP sector generally, and the specific issues pertaining to Washington's C/NP gambling sector, for the purpose of developing a clear and consistent philosophy for regulating the sector.

The discussion should include:

- what "strict control" means in the C/NP sector;
- what "safeguarding the public" means in the context of C/NP gambling and in the charitable/nonprofit environment generally;
- how to balance licensee compliance/ability to offer C/NP gambling activities with assuring significant funds for the stated purpose;
- whether the current method of determining "significant progress" is adequate;
- consideration of specific standards for how large a C/NP organization's gambling operation can be before gambling is considered to be the primary purpose of the organization;
- how the C/NP gambling business model is changing and its implications for regulation;
- the broader C/NP sector's standards for charitable fundraising, to determine which standards might be applicable for the Commission's work in regulating C/NP gambling.

## **SIX FACTORS REGULATED IN THE CHARITABLE/NONPROFIT SECTOR**

The regulation of charitable and nonprofit gambling in Washington State has focused on six aspects of the industry:

1. The nature of a C/NP organization and member
2. Reporting requirements
3. Size (gross receipts)
4. Operating constraints
5. Income and how to calculate it
6. Dollars flowing to the charitable purpose (significant progress)

All of these areas required initial Legislative approval. Over time the Legislature has delegated some areas to the Commission. The Commission handles a number of areas in more detail through the rule-making process, while others have required additional legislative action.

- 1. The nature of a charitable/nonprofit (C/NP) organization and member.** When the 1973 authorizing legislation was passed, both the Legislature and the newly-formed Commission assumed that the C/NP organizations already participating in gambling (largely bingo) and the ones who wanted to become licensed, were legitimate organizations. The focus was getting these groups licensed quickly and the Commission took pride in doing so.

This assumption held quite well until the late 1970s and early 1980s when the Commission realized that a number of organizations had been formed largely to benefit individuals and family members through charitable gambling. At that point, the Commission requested, and the Legislature approved (1981), stronger language defining a “bona fide charitable or nonprofit organization” and “bona fide member.”

The definitions included the following requirements:

- Adding the concept of a “bona fide member” as a person accepted for membership, with a specified membership process;
- Requiring not fewer than 15 bona fide members;
- Requiring that the organization have been operating continuously for at least 12 months prior to applying for the license.

This resolved the problems with questionable or bogus organizations seeking to enter the gambling business as charitable/nonprofit organizations.

There was an effort in 1997, in SB 5034, to reduce, from 15 to 7, the minimum number of members that a bona fide charitable or nonprofit organization had to have in order to conduct gambling operations. The bill passed but Gov. Locke vetoed this section on the grounds that the small number of required members (not Board members but members) would “encourage small groups of people to form nonprofit organizations for the primary purpose of engaging in charitable gaming activities, in violation of the gambling code.” (Gov. Locke’s veto message, May 16, 1997.).

- 2. Reporting requirements.** The 1973 authorizing legislation gave the Commission broad power to require information in license applications, and to require licensees to perform certain record-keeping and cash-handling procedures.

Recognizing that the handling of money (especially cash) offers the greatest chance for illegal or fraudulent activity, the Commission has consistently strengthened reporting requirements and provided assistance, thorough training and auditing, to licensees who needed help with record-keeping.

Probably the most important decision the Commission made in this regard was to require a single format for record-keeping and reporting for all licensees over a certain level of gross receipts. By standardizing record-keeping and reporting, the Commission avoided the necessity of spending years assisting licensees to develop their own reporting systems to a sophisticated enough level to assure that illegal or fraudulent activities were not occurring.

While these requirements have added complexity to the regulations, they have actually simplified the Commission's work in oversight and audit and undoubtedly helped reduce the number of problems encountered with C/NP licensees over the years.

The other significant decision made by the Commission—in the early 1980s—was to upgrade its audit function and add staff positions for this purpose. The ongoing focus on audits has also helped minimize the number of problems with C/NP licensees.

- 3. Size.** The rapid growth of the C/NP sector—most notably Bingo—was one of the most vexing problems addressed by the Commission. Initially, the Commission assumed that the C/NP activities would be small. In fact, the Commission saw “promoting orderly growth” of Bingo as one of its key roles, and set limits on gross receipts as the method for doing so.

This approach worked for the first decade of authorized C/NP gambling. The problem was that by the mid-1980s, the largest operators were bumping up against the \$3.5 million cap on gross receipts. In 1988, the Commission allowed Bingo operators to exceed \$3.5 million in gross receipts if 14% of the overage were given to a charitable cause. In 1988 the Commission added two new license classes over \$4.0 million.

Issues of growth continued to arise, however, and in the mid-1990s, the Commission added four more license classes over \$4.0 million.

Interestingly, nearly all of the focus on size issues has been directed to Bingo. Almost unnoticed, the gross receipts from C/NP punchboards and pulltabs (PB/PT) had increased to \$88.2 million by CY2003, compared to \$119.9 million for Bingo. In other words, PB/PT gross receipts are now \$3.00 for every \$4.00 of Bingo gross receipts.

Further, in CY2003 net receipts for C/NP PB/PT were \$25.1 million, while bingo net receipts were \$29.5 million. Net receipts are gross receipts less prizes.

Even more interestingly, net income (gross receipts less prizes and expenses) for CY2003 showed that PB/PT net income now exceeds Bingo's net income:

Activity	Net Income: CY2003
Bingo	\$6,738,756
C/NP PB/PT	\$8,043,236
Raffles	\$3,242,590

While much of the focus has been on Bingo, PB/PT net income (gross receipts less prizes and expenses) now exceeds Bingo's net income and even Raffles generate nearly half as much net income as Bingo does.

- 4. Operating constraints.** In Washington State, the Legislature has the primary role in changing the operating constraints under which C/NP gambling takes place. The Legislature sets the maximum price of a raffle ticket and a punchboard chance and pull tab. The Legislature sets the exceptions to licensure. Thus changes in operating constraints are usually a function of individuals or groups in the C/NP gambling business approaching the Legislature to make changes. Once the Legislature has acted, then the Commission often has a role in writing the implementing details in WAC.

In both Raffles and PB/PT, the Legislature has increased the maximum "price" of a chance several times (1985, 1995, 1997). In each case, gross receipts jumped up after the price was increased.

In 2002, the Legislature passed HB 2918, which authorized bingo operations seven days a week for C/NP licensees.

The Commission has the authority to approve new forms of games offered within Raffles, PB/PT and Bingo. Particularly in the past ten years the Commission has authorized a greater variety of games to be offered. This has been in response to requests to "help level the playing field" between C/NP gambling on the one hand, and commercial and Tribal gambling on the other.

Significant enhancements to games approved by the Commission include:

- 1989: Alternative drawing mechanisms for Raffles (duck races, etc.)
- 1994: Electronic bingo daubers.
- 1996: Keno bingo; progressive jackpots, bonus or "step up" games and bonus pulltabs, carry over jackpots authorized for pulltabs.
- 1998: Linked bingo games; increased PB/PT prizes; non-members can sell Raffle tickets
- 2000: C/NP licensee can sell PB/PT to customers of an adjacent commercial card room; free food and beverages allowed for customers of bingo operators
- 2002: Shared facilities OK'd for bingo operators, also shared management

It is clear that both the Legislature and the Commission have tried quite consistently to provide opportunities for growth and diversification of the games and constraints under which C/NP licensees operate. Conversations with selected other state regulators indicate that Washington has been a leader in this regard.

- 5. Income and how to calculate it.** As activities, especially Bingo, grew in size, the Commission was concerned that sufficient dollars be applied to the organization's stated purpose. However growth in gross receipts did not always translate into growth in net income, in part because Bingo games needed to offer higher prize payouts and nicer amenities (thus more expenses) to sustain or grow their market share. Thus increased gross receipts were often accompanied by lower net income.

This led to a whole series of efforts to define/require net income (see Chapters 5 and 6 (Bingo and Net Income/Return/Adjusted Cash Flow and Appendix D for details). For the first ten years of authorized C/NP gambling, there was not a specific net income requirement. In 1983, prize payouts were limited (by setting limits as a percentage of gross receipts) as a way to stop what was seen as unfair competition by larger games. In 1984, the first net income requirements were set, as a quarterly calculation, on a percentage of gross receipts, for licensees with gross receipts over \$500,000.

In 1985, the calculation was made annual, and set required percentages that had a two percentage point range. The ranges effectively lowered the required net income percentage. Prize payout limits were raised 2-3 percentage points, based on gross receipts. This approach was continued in 1988, but a provision was added allowing the very largest licensees to exceed \$3.5 million in gross receipts, if 14% of the excess was given to a charitable purpose.

In 1989, the net income requirements were reduced by 1 to 3 percentage points (based on Bingo class) across the board for Bingo only and increased for bingo/PB/PT operators. New license classes were added for \$3.5 million and \$4.0 million in gross receipts. Prize payout limits were continued.

In 1990, licensees were permitted to add PB/PT and snack bar net income to their Bingo net income. Because this increased total net income, the net income requirements were 1 to 2.5 percentage points higher than 1989 for Bingo/PB/PT licensees.

In 1993, net income requirements were reduced by one percentage point across the board, for Bingo only and Bingo/PB/PT licensees. Prize payout limits were continued.

In 1996, new license classes up to and exceeding \$6.0 million were added, with 16% net return requirements for the new classes. Class D and Class E gross receipts ranges were changed. Net income was renamed net return and standardized for all operators. Income from sales of food, drink, other and PB/PT) was included and prize payout limits were raised 1 to 2 percentage points. Limits were imposed on Class D bingo (none had existed previously for this class).

In 1999, a moratorium was placed on the downgrading of license classes for licensees who were not meeting the minimum net return requirement, and the net return requirement was reduced by 5 percentage points across the board.

In 2001, the net return approach was scrapped and replaced by “adjusted cash flow” which allowed additional income from raffles, amusement games and related activities to be counted, while dropping amortization and depreciation from the expense side (non-cash items). Adjusted cash flow simplified the calculations by grouping licensees into four “bands” of gross receipts, and requiring a fixed amount to be applied to the stated purpose, plus a percentage of the gross receipts over the minimum. All calculations were to be done on a quarterly basis. The effect of this change was to decrease the dollar requirement.

In 2004, the adjusted cash flow calculations were changed to an annual basis, and the minimum dollar amounts and percentages stayed the same. Previously, the calculation had been done on a “rolling quarter” basis and had been difficult to administer and track.

To the outside observer, this tortuous process seems to represent an extraordinary amount of effort to deal with a business sector that is struggling to meet required profit targets. It is probably time to re-examine the viability of the business model for Bingo, especially the largest bingo operations, and their ability to generate significant net income for their stated purposes over time.

- 6. Dollars flowing to the stated purpose (significant progress).** The original rationale for authorizing C/NP gambling was to benefit the stated purposes of the charitable and nonprofit organizations that operate the games. The initial assumption appeared to be that if the activities were authorized, the dollars would flow to the stated purposes.

However because the issues with net income/return/adjusted cash flow have been so difficult, they have raised the companion issue of how much money really does go to the stated purpose. It is one thing to be profitable in gambling, but C/NP gambling organizations are required to be profitable in ways that clearly benefit their stated purposes.

The Commission has tackled this issue in two ways. One has been to focus on the organization’s “stated purpose”—the statement the organization makes on its application for licensure or re-licensure. The other has been to refine, over time, the concept of “significant progress toward the accomplishment of the purposes of the organization.”

The concept of “purpose” was contained in the 1973 authorizing legislation, specifically distinguishing between the organization’s purpose and gambling—in other words, the organization must exist for a purpose other than gambling. The “approved” purposes were spelled out as “charitable, benevolent, eleemosynary, educational, civic, patriotic, political, social, fraternal, athletic, or agricultural.” These were consistent with other RCWs governing charitable and nonprofit organizations.

In 1983, the Commission defined “stated purpose” as “all rules and guidelines set out in the organization’s constitution and/or bylaws which have been approved and are

on file with the commission.” The Commission required that all applicants demonstrate, on initial applications and annually thereafter, the progress they have made toward meeting their stated purpose (WAC 230-04-061). This is the first intersection of “stated purpose” and “progress” in the Commission’s regulatory approach.

The significant progress concept had been included by the 1981 Legislature in ESSB 3307, as part of the tightening up of the definition of a “bona fide charitable or nonprofit organization:

*An organization must demonstrate to the commission that it has made significant progress toward the accomplishments of the purposes of the organization during the twelve consecutive month period preceding the date of application for a license or license renewal.*

As noted above, this provision was first passed by the Legislature to screen out questionable or bogus organizations seeking to become licensed to provide C/NP gambling.

However, as net income issues arose, the significant progress concept became a key aspect of assuring that licensees did indeed make progress toward their stated purposes on an annual basis.

The “progress toward the stated purpose” language was then revised by the Commission in 1994 and 1996 to include “compliance with all requirements set forth in its bylaws and articles of incorporation” and “actively engages in providing services to the public or its members during the entire period under consideration, and such services directly relate to the stated purpose of the organization.”

Meanwhile, In 1993, the Commission had quantified the meaning of “significant progress” for licensees in Group II and III (at that time the largest licensees) as follows (WAC 230-08-255):

*Any charitable or nonprofit organization requesting certification to conduct gambling activities in Group II or Group III, as defined in WAC 230-04-040, must demonstrate that it has made significant progress toward meeting its stated purpose(s) during the period under review. Compliance with the following requirements shall be prima facie evidence that an organization has made significant progress:*

- 1) It held elections to select officers at least once in the previous two years;*
- 2) it held a general membership meeting to conduct the business of the organization at least once in the previous two years:*
- 3) it expended at least 60% of the gambling proceeds earned in its most recently completed fiscal accounting year by either directly providing program services or by purchasing capital assets necessary to provide future program services. For purposes of compliance with this subsection, the following provisions and procedures apply:*
  - a) an organization will be deemed to have complied with the requirements of this subsection if:*

- i) *it expends an amount equal to sixty percent or more of gambling proceeds during the current fiscal accounting period providing program services;*
- ii) *it has a formal plan to spend an amount that is equal to or greater than sixty percent of the gambling proceeds earned in the current period and the plan is submitted to the commission as part of its certification application.*

The WAC then specified the conditions under which an organization may be exempt from these requirements. The WAC also specified that no more than 35% of the total amount spent on program services may be for administrative or supporting services (or if more than 50% of the program services are provided indirectly, then the administrative and support limit is 20%), and defined the expense items that could be included within administrative and supporting services.

In 1994, the Commission revised the definition of “significant progress” for all C/NP licensees as follows, making it somewhat less stringent for the smaller licensees:

*“Significant progress” means an organization has complied with requirements set forth in its Bylaws and articles of incorporation; has actively engaged in providing services to the public or its members during the entire period under consideration; and the services provided directly relate to the stated purpose of the organization. Such activities will be deemed significant when an organization utilizes a substantial portion of the resources it has available, including net gambling income, for providing services.*

The Commission retained the stricter requirements from 1993 for larger licensees, including:

- That they had held elections of officers and membership meetings at least once within the past two years;
- 60% of net gambling income was utilized to provide services to the public;
- A specific formula for computing net gambling income
- Allowing up to 35% for supporting services.

In 1996, the Commission revised the requirements again, adding the concept that the organization must use a “substantial portion of its available resources for providing program services in an efficient manner.” The revised rules made a clear distinction about what the concept of “available resources” did and did not include. The rules also defined “using available resources in an efficient manner” as no more than 35% of total functional expenses used to provide supporting services (defined in a separate section of WAC). There was an exception for program services that were provided indirectly. The rule specified the formula for calculating percentage of functional expenses used to provide supporting services. A waiver provision was included for those licensees who were not in compliance.

The Commission again revised the requirements effective January 1, 1999. The specific requirement for election of officers and a general membership meeting for all licensees were added back (having been dropped except for large licensees in 1996). The reference to using the funds in an “efficient manner” was dropped.

For the larger licensees (now Groups IV and V), the “use of funds” requirement was condensed to say that the organization “has expended at least sixty percent of net gambling income earned in the organization’s most recently completed fiscal year on functional expenses to operate the organization’s programs.” “Functional expenses” were defined as both program and supporting expenses. The calculation formulae were dropped. Waivers were still permitted and the purchase of non-depreciable assets for program purposes were considered part of program services.

In 2002, the Commission revised the significant progress rule again, adding a required “qualification review” process for Group IV and V licensees and an optional qualification review by Commission staff at the request of the Director for Group III licensees. The qualification review was required to occur every three years at a public meeting of the Commission, based on information provided by the licensee.

A question that is not answered by this method of measuring the “significant progress” is whether the dollars being applied to the stated purpose from gambling proceeds are increasing or decreasing from year to year. Since the licensee has the option of applying between 60% and 100% of the gambling proceeds to the stated purpose, the amount could fluctuate widely from year to year just based on the licensee’s decision about percentage to be applied. When that level of flexibility is added to the steady decrease in the net income/return/adjusted cash flow requirements and the declining gross receipts overall, one wonders what the actual amount of money flowing to the stated purpose really is over time. A statistical analysis of four different-sized hypothetical licensees shows that the required amounts have been steadily reduced for the largest licensees.

Finally, the Legislature has responsibility for **tax policy** as it relates to C/NP gambling. The key elements of tax policy are outlined below.

Gambling in Washington State has always been taxed. There is no state tax; all gambling taxes are local taxes. For the most part, the tax proceeds have flowed to local governments.

Charitable and nonprofit licensees felt, from time to time, that the required taxes hindered their ability to meet their net income requirements and made them less competitive. As a result, the C/NP gambling industry approached both the Legislature and local governments for tax relief several times.

Significant Legislative actions on C/NP gambling taxation include:

- 1984: repeal of the pulltab machine tax (these tax proceeds flowed to the Commission, not to local governments.) The tax was replaced by a license fee based on pulltab gross receipts.
- 1999: SB 5745 reduced tax on Bingo and Raffles from 10% to 5% of gross receipts less prizes, effective 1/1/2000.

Significant Commission actions on taxes related to how taxes were reported and counted in a licensee's financial reports.

- 1990: Licensees permitted to show local taxes as a credit on their financial reports, in response to continuing problems with net income/return compliance.
- 2001: Commission deleted local tax credit as part of shift to adjusted cash flow requirements.

In response to financial losses due to Tribal gambling and other competitive pressures, some licensees requested individual local governments to reduce the level of taxation on C/NP receipts.

## CHAPTER 5: BINGO REGULATORY HISTORY AND TIMELINE

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**Overview.** Bingo is the largest form of charitable/nonprofit gambling regulated by the WSGC and much, if not most, of the Commission's regulatory work in C/NP gambling has been dominated by issues arising out of Bingo.

In the debates leading up to the passage of SJR 5 in 1972 and the implementing legislation in 1973, Bingo was characterized both as a "social pastime" (what was familiarly known as church bingo) and as a potential source of problems, given the significant amounts of cash that could flow through large Bingo games. In some states, there had been (and still are) scandals associated with professional gamblers using bingo as a "front" for illegal activity.

The regulation of Bingo in Washington State has had three distinct phases. The first ran from 1973 to 1983, with minimal regulation. Games were small, and charitable/non-profit organizations were seen as innocuous, especially compared to commercial gambling. By 1983 concerns about declining profits began to arise, and these concerns persist to this day. By 1985, concerns about the rapid growth of the largest games—and their gross receipts—had also surfaced and continued into the mid-1990s.

The focus of regulation has shifted over the years. Initially the focus was orderly growth, regulation to keep the games "clean," and assuring that monies earned were returned to the C/NP purpose. Over the years, the regulatory process has expanded, at the request of licensees, to deal with competition and market factors, while continuing to require that appropriate amounts of net income be applied to the C/NP purpose.

Changing markets and financial conditions, some of which are not subject to regulation by the Commission, have increased the challenges of regulating Bingo over the years.

**Initial regulation—record-keeping, gross receipts.** When the Gambling Commission was established in July 1973, it immediately addressed Bingo, Raffles and Amusement Games, as these were the activities that were "allowed under previous law...and had ongoing programs of fund raising utilizing these activities. To delay would interrupt the continuing operation of fund raising activities by many of these worthwhile groups." [Preliminary Report to the Washington State Legislature from the Washington State Gambling Commission, Sept. 14, 1973, p.1]. The Commission also noted that "because of the charitable or nonprofit character of the organizations authorized to operate bingo, raffles and amusement games, as opposed to the much more general authorization for the use of punch boards and pull tabs, that more potential problem areas were to be found with respect to the operation and regulation of the latter activities." [Ibid, p. 2]

By the time the Commission made its report in September 1973, it had issued 490 Bingo licenses.

The earliest regulations established by the Gambling Commission focused on two main areas: record-keeping for the large amounts of cash that flowed through Bingo games, and managing the growth of C/NP Bingo through the setting of gross receipts limits.

By December 1973, the Commission had mandated daily records for Bingo and Bingo income limitations (12/73). As licensees and the Commission gained experience with the record-keeping requirements, the Commission modified them (April 1974, November 1975, August 1977). In 1977, the Commission upgraded its audit capabilities and required additional financial information from licensees.

The initial purpose of the income limitations was to promote orderly growth. However by 1977, the Bingo income limitations had been increased, with the highest license class (H) permitting gross receipts over \$500,000. At the same time, the smallest games requested that they be exempted from licensure because of their small size, limited frequency and social/recreational purpose (rather than “revenue-gaining purposes”). This request was approved by the Legislature in SHB 90, in the 1976 Legislative Session.

Discussion continued between 1977 and 1980 regarding tightening up the financial oversight of licensees. “In fiscal year 1980, the Gambling Commission announced its intention to increase the emphasis on financial investigative or audit-type requirements.” (WSGC 1980 Annual Report, page 5). The Commission also requested revisions to the RCW that tightened the definition of a “bona fide member” of a charitable organization and of “bona fide charitable or nonprofit organization.” In the Commission’s own words, “the proposal provides more definitive language to assist in determining the eligibility of non-profit organizations and members thereof to obtain a gambling license...” (1980 WSGC Annual Report, page 11). This action was in response to a significant increase in the number of organizations applying for gambling licenses, many of which appeared to be of questionable status as true charitable or nonprofit groups. The strengthened definitions assisted the commission in screening out the problem applicants.

**Regulation of growth and competition.** By 1983, the impacts of growth and competition within the Bingo market were being felt. Licensees from the Spokane area came to the Commission expressing concern that high prize payouts by large games in that area were hurting the smaller games. The Commission formed an ad hoc study group to examine the problem in more detail. This began a series of attempts by the Commission to regulate prize payouts and net income.

The 1983 WSGC Annual Report stated “early in their deliberations, the committee determined that there was a need to establish some additional bingo controls to ensure that net profits to the organizations were protected.”

This was an important development, as it suggested that licensees expected the Commission to regulate not only to keep illegal activity out of Bingo games and to assure that income generated went to the appropriate C/NP purpose, but also to protect the profits of those organizations who chose to utilize Bingo as a fundraising strategy.

Interestingly, further study by the Commission (Bingo in Washington State-1986: Past, Present and Future) showed that the actual problem of declining net income probably began in 1980-81, as the level of growth in C/NP bingo leveled off. The impact may not have been felt until 1983, but the trend had been developing for several years.

This realization was part of an overall acknowledgement by the Commission that “while bingo may have at one time been an incidental activity, conducted as much for social purposes as fund raising, it has evolved into a major funding source for many of

Washington's charitable/nonprofit organizations." (Bingo in Washington State—1986, page 1).

The report went on to say (page 2):

*This evolution from primarily a recreational activity to a major fund-raising activity has not been without its problems. Over the past two years, the Gambling Commission has had to face some tough questions related to the legislative intent in the area of bingo. These questions included: Should there be limits to the size of games and, if so, based on what criteria; Should there be restrictions placed on the use of income derived from bingo; Should traditional "charities" (providing for the physical well-being of the needy) be given priority or should a broader definition be given to charity; and Should there be further limitations placed on salaries and other expenses.*

In response to the work of the Study Committee, the Commission issued an emergency rule on prize payout limits so that they could be tested (April through September, 1983) for effectiveness. The limit was 80% for licensees generating over \$125,000 in gross receipts per quarter, down to 68% for licensees grossing more than \$750,000. Monthly reports were required.

The rule was made permanent in October 1983, so that the Commission would not have to continue to extend the emergency rules. The permanent rule limited gross receipts to \$3.5 million and restructured them. The rule also modified the prize payout limits to begin at 80% of \$500,000 gross receipts, with a 2 percentage point decrease for every license class increase. The rule added a minimum net income requirement. The rule, because licensees felt it needed continued review, had a sunset provision. The Commission also removed all controls from games that did not exceed \$500,000 in annual gross receipts.

Over the next year, it became apparent that the limits on gross receipts and payouts and related net income requirements were not working well and they were changed again in June, 1985. Gross receipts continued to be limited to \$3.5 million. Prize payouts were shifted to annual limits, with variable rates beginning at 83% for games grossing over \$500,000 and decreasing to 70% for games at the \$3.5 million level. Net income requirements were made annual, ranging from 4% for games grossing \$500,000 to 14% for those grossing \$3.5 million.

All of this regulation was intended to limit prize payouts by the larger games so that smaller games could succeed, and to require that a certain level of net income be generated and applied to the charitable/nonprofit purpose. The regulation also limited outright the maximum size of any Bingo game. Games grossing under \$500,000 (Classes A-E) were exempted from limits.

After a three-year "break" from rule proposals in this area, the maximum size of Bingo games became an issue again in 1988. The larger games were reaching the \$3.5 million gross receipts limit and wanted the limit increased. The Commission formed a committee to study the matter further. In 1988, a temporary rule was passed to allow an increase in the gross receipts limit if 14% of the gross amount above \$3.5 million was donated to a charitable cause. In 1988, the Commission also added two new license

classes over \$4.0 million in gross receipts (Classes L and M), and added back limits for licensees in Classes D and E.

**Problems with meeting the net income requirements as the key regulatory issue.**

By 1990, the focus of regulation had shifted from dealing with the size of games to dealing with net income requirements. Growth in net income had flattened between 1988 and 1990 and licensees were having trouble achieving the required net income levels.

The response was to change how income could be computed. Licensees were permitted to add income from punchboards and pull tabs (PB/PT) and snack bars to their income totals, and were permitted to show their local taxes as a credit (thus reducing expenses). In return, the new net income requirements were one percentage point to 2.5 percentage points higher than the 1989 net income requirements. Small games were required to have a positive cash flow if they paid wages or rent related to their Bingo game.

By 1993, licensees were once again having trouble meeting their net income requirements. Bingo net income, after a bounce in 1991, was actually declining, and proceeds from PB/PT were flat or declining. The Commission reduced the net income requirement by one percentage point across the board, and gave the Director the authority to grant variances based on local conditions.

The problems persisted and in 1995, the Commission put a moratorium on enforcement while a new Bingo Task Force studied the problem.

In 1996, the Bingo Task Force recommended a number of changes. These included adding from sales of food, drink, other and PB/PT to overall income and renaming it "net return," reducing the net return requirement (again), by one-half to one percentage point, and dividing the rule into three parts (requirements, variances and sanctions). The Task Force recommended adding four new license classes (over \$4.0 million) to permit additional growth. Prize payout limits were raised 1 to 2 percentage points. Limits were imposed on Class D Bingo. Class D and E gross receipts ranges were changed. The Commission promulgated these changes in 1996. Mandatory prize payout limits were changed to guidelines.

The Task Force also recommended that Bingo games be enhanced in a number of ways, including liberalized promotions, different schemes, etc., and suggested new variations for PB/PT games.

By 1998, the licensees were again reporting declines in their activity. In response, in 1999, the Commission placed a temporary moratorium on the net return requirements and established a Bingo Net Return Task Force to address the issues. Meanwhile, the moratorium reduced the net return requirements by five percentage points across the board.

The Bingo Net Return Task Force reviewed the history of net income and net return regulation and recommended that the net return requirements be modified to cluster classes of licensees into "bands" and to create a blended rate (base amount plus percentage over that amount) for the required minimum net return. In cases where the

minimum net return was not met, prize payout limitations and other penalties could come into play.

New rules passed by the Commission in 2001 codified this approach, renaming it the “minimum cash flow” requirement. Adjusted cash flow was defined as all income from the bingo operation (including snack bar, PB/PT, raffle and amusement game income) less all prizes and expenses. Depreciation/amortization of the bingo facility was not counted as an expense of the bingo operation, but the tax credit for local taxes was removed, as local taxes were seen as a cost of doing business. Licensees were required to maintain positive cash flow and failure to maintain positive cash flow for two consecutive quarters would result in summary license suspension.

The adjusted cash flow requirement was applied to four different levels (bands) of gross receipts per quarter, to licensees in Class D and above.

In 2003, the Commissioners and staff requested a change to the minimum cash flow rules, which had been difficult to administer. In 2004, in response to this request, the Commission changed the measurement of gross receipts amounts to calendar years (rather than quarters) and allowed a licensee one chance every four years to make a 25% reduction in the required adjusted cash flow. This one-time reduction replaced the variances previously allowed, and was in lieu of an automatic license revocation. The requirement to maintain positive cash flow was continued, and failure to maintain positive cash flow for two consecutive quarters still resulted in summary license suspension.

**Market conditions.** While the regulatory process for charitable and nonprofit bingo occurs within the purview of the Washington State Gambling Commission, the licensees operate in the larger gambling market in the region. This means that licensees are competing with Tribal and commercial gambling activities in Washington and bordering jurisdictions.

Competition can take at least three forms. One is geographic—the more gambling options within a reasonable driving distance, the more fragmented the gambling market will be. The greater Puget Sound region is a good example of this phenomenon.

Another form is the nature of the Bingo games. Tribal organizations offering gambling, and in some cases operators in adjacent states and provinces, can attract Washington state gamblers to games (slot machines, for example) that are not available in Washington State. There are also anecdotal suggestions that Tribal Bingo is provided as a “loss leader” to get gambling customers to come to Tribal facilities, with the intent of “upgrading” the bingo customer to a casino customer.

A third factor is the experience the gambling customer has at the Bingo hall, casino or other facility. This can range from the newness of the facility to lighting, to the amenities (snack bar, etc.) available. The potential for a ban on smoking in all public places (which will affect C/NP and commercial gambling operators but not Tribes) is the most recent development that could affect the gambling customer’s experience.

## History of prize payout and net income/return and adjusted cash flow regulation

DATE	REGULATION STATUS
<b>Prior to 1983</b>	No regulation.
<b>1983</b>	Declining profit from Bingo and prize "wars" prompts emergency temporary prize payout limit rule: <ul style="list-style-type: none"> <li>▪ Beginning at \$125,000 per quarter = 80%, down to 68% for over \$750,000</li> <li>▪ Required monthly reports</li> </ul> Licensee and staff Study Committee formed.
<b>1984</b>	Permanent rule: <ul style="list-style-type: none"> <li>▪ Restructured gross receipts and limited to \$3.5 million.</li> <li>▪ Modified prize payout limits to begin at \$500,000 = 80% with 2 percentage point decrease for every license class increase.</li> </ul> Added minimum net income requirement. Required annual review of rule ("sunset" provision).
<b>1985</b>	Gross receipts limited to \$3.5 million (continued). Prize payouts: <ul style="list-style-type: none"> <li>▪ Both quarterly and annual limits</li> <li>▪ Annual = variable rates beginning at 83% for \$500,000, decreasing to 70% for \$3.5 million.</li> </ul> Net income: <ul style="list-style-type: none"> <li>▪ Annual limits only</li> <li>▪ Annual = 4% @ \$500,000 up to 14% for \$3.5 million.</li> </ul>
<b>1988</b>	Larger games started to reach \$3.5 million gross receipts limit. Committee formed to discuss increasing gross receipts limit. Temporary increase in gross receipts limits if 14% of the excess beyond \$3.5 million was donated to any charitable cause.
<b>1989</b>	Added two new license classes (L, M) over \$4.0 million. Classes D and E now covered by limits. Removed requirement for annual review of rule.
<b>1990</b>	Added PB/PT and Snack Bar to the net return mix (net income). Net income increases 1 to 2.5 percentage points for Bingo/PB/PT licensees. Allowed local tax as a credit (reduces expenses). Increased prize payout limits by 1 to 2.5 percentage points. Reduction in net income limits by one percentage point if no PB/PT. Required small games (up to \$100,000) to have positive cash flow if rent or wages paid. Added requirement for minimum net income from PB/PT for non-profits without a bingo license.
<b>1993</b>	Legislature changed RCW 9.46.070 (10) and (16) to make them discretionary. Decreased net income requirement by 1 percentage point for bingo only and PB/PT. Allowed variances (Director approved) for local conditions. <ul style="list-style-type: none"> <li>▪ Added enforcement guidelines and procedures (mandatory downgrade).</li> </ul> Added penalties for bingo managers for prize payout violations. Codified staff procedures.
<b>1994</b>	Significant progress rule passed.

DATE	REGULATION STATUS
1995	<p>Licenseses were having a hard time meeting net income requirements. October 1995 emergency moratorium—no mandatory downgrade if within 2.5% of the net income requirements for the licensee’s license class (modified to 4.5% in permanent rules). Formed Bingo Task Force.</p>
1996	<p>Bingo Task Force Recommendations:</p> <ul style="list-style-type: none"> <li>▪ Change to net return from net income.</li> <li>▪ Split the net return rule into three separate rules: requirements, variances, and sanctions</li> <li>▪ Added four new license classes (over \$4.0 million)</li> <li>▪ Class D and E GR ranges change, Class D removed from regulation</li> <li>▪ Reduced net return requirement (new def.) across the board by 0.5 to 1 percentage point.</li> <li>▪ Deleted the prize payout limits (became guidelines only)</li> <li>▪ Deleted penalties for bingo managers</li> <li>▪ Codified difference between bingo for “fund-raising” or “social” purposes</li> <li>▪ Allowed electronic POS transactions</li> <li>▪ Liberalized promotions (coupons, promotional gifts, birthday gifts, frequent player points, drawings, creativity and originality contests, birthday bonus, free games as prizes and good neighbor prizes)</li> <li>▪ Liberalized Raffles—discount sales, prizes for selling tickets, and credit cards for phone sales.</li> </ul> <p>Other significant changes to Bingo:</p> <ul style="list-style-type: none"> <li>▪ Liberalized promotions; free food, etc.</li> <li>▪ Pre-sale of games and gift certificates</li> <li>▪ Authorized electronic daubers</li> <li>▪ New games authorized (keno bingo, satellite bingo, 3# speed bingo and hidden face bingo)</li> <li>▪ Authorized “second element of chance” schemes</li> <li>▪ Mandatory throw-away cards for large games</li> <li>▪ Make it a violation to have a loss from a snack bar, if not in compliance with net return.</li> </ul>
1998	<p>Licenseses seeing another decline in activity; changing market conditions.</p>
1999	<p>Temporary moratorium on bingo net return requirements instituted in January. Bingo Net Return Task Force established.</p>

DATE	REGULATION STATUS
2000	<p>Changes streamlined bingo rules. Gambling proceeds, net return and the qualification to be considered an active member were redefined; the retention period of some bingo records was reduced; political contributions were no longer required to be reported to the commission, as they are reported to the Public Disclosure Commission; electronically generated formats for inventory control were allowed as an inventory control format; bingo operators were allowed to offer free and discounted food and non-alcoholic beverages to their players; language was added to clarify that a maximum of 66 electronic bingo cards could be played at one time; and language that was redundant with other rules was removed for streamlining purposes.</p> <p>New rules allowing free food and beverages.  Minimum net return rules proposed, carried forward into 2001.  Positive cash flow required.  Significant progress rule updated.  Minimum net return modified to blended rate calculation; to "band" groups of license classes, to set base amounts and % of net income over base amounts; prize payout limitations and other penalties in certain circumstances where minimum net return is not met.</p>
2001	<p>Minimum cash flow requirements set; adjusted cash flow defined as all income from the bingo operation less all prizes and expenses, with depreciation/amortization not counted as an expense of the bingo operation.  Added profit from Amusement Games and Raffles (income side)  Adjusted cash flow applied to four different levels of gross receipts per quarter, applied to Class D and above.  Summary license suspension for failure to maintain a positive cash flow for two consecutive calendar quarters.</p>
2002	<p>Statutory authorization for bingo operators to share a facility and operate seven days a week.</p>
2003	<p>Request from licensees to modify the minimum cash flow rules (due to continuing problems with meeting the minimum cash flow requirements).  Petition for variance portion of the minimum cash flow requirements removed due to complexities in administering it.</p>
2004	<p>The gross receipts amounts were set to calendar year (instead of quarters), and there was a 25% reduction permitted to the required adjusted cash flow every four years at the request of the licensee. One-time reduction in lieu of automatic revocation of bingo license.  Summary license suspension for failure to maintain a positive cash flow for two consecutive calendar quarters continued.</p>

**BINGO TIMELINE**  
**STATUTORY / REGULATORY / CONTEXTUAL EVENTS**

<b>DATE</b>	<b>CONTEXT</b>	<b>RCW</b>	<b>WAC</b>	<b>DISCUSSION</b>
<b>1973-1976</b>	<p>Implementing legislation for SJR-5, 1973.</p> <p>In 1976, growth in size for largest operators resulted in their request to increase the \$300,000 max in gross receipts. (Gross receipts regulated by Commission).</p>	<p>SHB 90 Allows bingo up to three times a week, offered by charitable and non-profit orgs. Places limits on income to be derived from bingo</p> <p>Receipts can be taxed but not greater than 10% of gross.</p> <p>Smallest operators exempted from limits and licensure in some cases.</p>	<p>WAC 230-20-250 Bingo income limitations (rules filed 12/19/73, 12/30/75, 5/25/76, 9/10/76)</p> <p><b>Repealed 1/7/77</b></p> <p>License classes based on size—gross receipts (1974) Increased limits for gross receipts to over \$500,000</p>	<p>Income limitations were intended to limit/manage growth responsibly.</p> <p>Class H license added in 1975</p> <p>License class change to relieve reg burden on smallest operators (A,B) in 1976.</p>
<b>1977-83</b>	Commission upgrades audit function.		<p>WAC 230-20-251 Requiring comprehensive financial information</p> <p><b>Repealed 12/12/83</b></p>	Assure uniformity in reporting, to make review of records more efficient.
<b>Early 1980s</b>	Tribal bingo increases, becomes large-scale; impact on C/NP bingo. Rate of growth slows starting in 1980.			Change in C/NP market share, gross receipts. Impact not seen overall until 1984
<b>1983</b>	<p>Bingo Task Force formed in response to complaints that “prize wars” in the Spokane area were hurting smaller operators.</p> <p>Data from temporary rule showed that unregulated prize amounts were indeed hurting smaller operators.</p>		<p>WAC 230-20-061 Rule for temporary prize limits (9/13/83 through 12/13/83)</p> <p><b>Replaced by permanent rule</b> (see below)</p>	Regulatory discussion focused on size of game (smaller games proposed to be exempted from income regulation); and pros and cons of regulating based on gross or net income..

DATE	CONTEXT	RCW	WAC	DISCUSSION
<b>1984 Final Rule</b>	Results of work of Bingo Task Force and testing of temporary rule.		<p>WAC 230-20-063 (Limits on gross receipts and prize payments and regulation of net income</p> <ul style="list-style-type: none"> <li>▪ removed all controls from games with less than \$500,000 in annual gross receipts.</li> <li>▪ Prize payout requirements only increased by 2-3% of GR across the board</li> <li>▪ Increase in minimum net return required (% of GR) to assure continued support of charitable/non-profit purpose</li> <li>▪ Set maximum limit of \$3.5 million in annual gross receipts</li> </ul> <p><b><i>Repealed 6/14/85.</i></b></p>	<p>The consensus was that if a C/NP organization could not meet a minimum standard for net return to its non-profit purposes, the purpose or viability of the bingo activity was called into question.</p> <p>The goals of this rule included:</p> <ul style="list-style-type: none"> <li>▪ to stop the prize wars (and declining net incomes) that were placing many (smaller) games in jeopardy.</li> <li>▪ to assure that growth would be directly related to nonprofit purposes</li> <li>▪ to manage the growth of games in an orderly manner (i.e., not too-rapid growth)</li> </ul>
			▪	▪

DATE	CONTEXT	RCW	WAC	DISCUSSION
<b>1985-1996 (overall)</b>	Continued efforts to manage gross receipts, net income, prize payouts.  See detail below.		WAC 230-20-064  6/14/85 6/16/87 3/15/88 7/1/89 7/1/90 7/18/93 4/6/94 1/5/95 2/9/96 7/1/96  <b>Repealed 12/22/96</b>	Largest licensees exceeded gross receipts limits in 1988-89
<b>1985</b>	Continued work on gross receipts limits and prize payouts		Gross receipts still limited to \$3.5 m. Prize payouts limited on Q and A basis, variable rates based on size Net income limits set at 4% for \$500,000 gr up to 14% for \$3.5 m gr	
<b>1986 (?)</b>	Thoresen-Peterson Planning Group study "Impact Analysis of Bingo in the State of Washington"			Attempted to show social and economic benefits of bingo, advocated increasing payout levels to compete with Tribal bingo.
<b>1988</b>	Larger games start to reach the \$3.5 m limit.		Temporary increase in gross receipts limits if 14% of the excess over \$3.5 m went to (any) charity	

<b>DATE</b>	<b>CONTEXT</b>	<b>RCW</b>	<b>WAC</b>	<b>DISCUSSION</b>
<b>1989</b>	Decision to deal with growth in gross receipts		Two new license classes, L,M added for \$4.0 m + games; limits placed on D and E class licensees	
<b>1990</b>	Problems with licensees meeting the net income requirements produces changes in how income is regulated		Net income changed to add PB/PT and snack bar net income as part of income of bingo operation  In exchange the net income requirement was increased by between 1 and 2.5 percentage points.	Intent was to count all income of the bingo operation and require a higher level of return to the charitable purpose.
<b>1993</b>	Problems again for licensees in meeting net return requirements.		Net income requirement decreased by one percentage point across the board.	
<b>1995</b>	Problems again for licensees meeting net return requirements. Bingo Task Force formed.		Emergency moratorium on enforcement of net income rules.	
<b>1996</b>	Bingo Task Force recommendations		Added four new license classes over \$4.0 m. (N, O, P, Q) Changed to net return req. by 0.5 to 1.0 percentage point, added AG and R income Deleted prize payout limits Liberalized promotions Added new game features	Adopted 11-96, Effective 12/22/96  Attempt to make games more competitive, allow licensees to comply with income requirements.

<b>DATE</b>	<b>CONTEXT</b>	<b>RCW</b>	<b>WAC</b>	<b>DISCUSSION</b>
<b>1998</b>	Licensees see another decline in activity			
<b>1998</b>			Linked Bingo game rules pass, effective 1/1/99	
<b>1999</b>	Bingo Net Return Task Force established.		Temporary moratorium on net return req. Net return reduced 5 percentage points across the board.	
<b>2001</b>	Net return changes		<p>Blended rate for bands of licensees, set base amount and % above base amount. Set prize payout limits and other penalties if min. net return not met.</p> <p>Defined adjusted cash flow as all income from the bingo operation less all prizes and expenses (not counting amort. and deprec.). Applied to Class D and above.</p> <p>Summary license suspension for failure to maintain positive adjusted cash flow for two consecutive calendar quarters</p>	Attempt to assist licensees to compete and to comply with requirements for returning funds to the stated purpose.

DATE	CONTEXT	RCW	WAC	DISCUSSION
2002		Bingo increased to seven days a week passes, shared facilities and management allowed.	Shared management and shared facilities allowed	Goal was to allow bingo operators to conserve funds so that they could use monies for the charitable purpose, not expenses.
2003			WAC 230-20-059— Minimum cash flow requirements revised. Petition for variance repealed.	Variance provision difficult to administer; replaced in 2004 by licensee option to request once every four years reduction in adj. cash flow.
2004			WAC 230-20-059— Minimum cash flow req. revised. One-time 25% reduction in adjusted cash flow allowed at request of licensee (replaces variance).  Gross receipts set to calendar year rather than quarters.  Continuation of summary license suspension for failure to maintain positive adjusted cash flow for two consecutive calendar quarters.	

## CHAPTER 6:

### NET INCOME—NET RETURN—ADJUSTED CASH FLOW RULE CHANGES

#### IMPACT ON AMOUNT OF FUNDS FOR THE CHARITABLE/NONPROFIT PURPOSE

**Overview.** For a number of years, the Commission has, at the request of licensees, reviewed and adjusted the rules related to the financial results of the licensees' C/NP gambling operations. The changes have often been made in response to licensees' problems in complying with the existing rules. The Commission has moved from regulating prize payouts (which had limits from 1983 through 2001) and net income/net return, to a more bottom-line-oriented approach reflected in the change to adjusted cash flow in 2001. Two summaries of all of the rule changes in this area were prepared as part of this project:

- Narrative table of rules changes by year—see Appendix D
- Spreadsheet of the actual formula changes in each rules revision—see Appendix D

The two summaries found in the Appendices trace both the regulatory history of the changes, as well as the financial details. The rules were changed in 1983, 1985, 1988, 1989, 1990, 1993, 1996, 1999, and 2001.

This analysis answers the following question: whether this series of rule changes has been successful in ensuring funds are directed toward the stated purposes of the C/NP organizations.

If the goal of the rule changes was to enable most licensees to comply and thus continue their C/NP gambling activities, then the effort was successful. And for those licensees who were unable to comply, the rules have been successful either in persuading the organizations to relinquish their licenses voluntarily or in allowing the Commission to revoke licenses for non-compliance.

If the goal of the rule changes was to sustain or increase the amount of money available for the C/NP purpose, then they did not succeed, and also “lowered the bar” considerably, especially for the Extra-Large Pool licensees. The rules changes reduced the required amount of net income/cash by 58% for the Extra-Large licensees between 1990 and 2001.

To provide some context, the Extra-Large Pool licensees accounted for:

- over 70% of the Net Income in Bingo in CY2003
- nearly 40% of Net Income in PB/PT in CY2003
- under 26% of the Net Income in Raffles in CY2003.

Thus, this reduction of requirements, while it improved compliance, certainly did not stop or slow the decline in Net Income and may have accelerated the decline in actual Net Income for the stated purposes. See Net Income by C/NP Activity chart, Chapter 2, page 14.

This is of even greater concern when the actual requirement for returning funds to the charitable purpose is considered. The licensee is required to return 60% of any given year's net income to its stated purpose, and of that 60%, 35% can go for administration and supporting services. In effect, the required amount that must be returned to direct services for clients, scholarships, etc. is 65% of 60%, or 39% of net income. When the decline in overall net income is taken into account, the amounts required to flow to the stated purpose's direct services are not large.

It appears from the regulatory history that the Commission spent considerable time from the mid-1980s to the late 1990s attempting to assist licensees who were finding C/NP gambling activities less and less profitable. At one point (1985-86 Annual Report), the Commission even stated that, "this Division is also heavily involved with charitable/nonprofit organizations, both as a regulator and **a facilitator of profitable operations.**" (emphasis added.)

It is also clear from the regulatory history that the Commission's understanding of its role in assisting, versus regulating or controlling, C/NP licensees, has shifted over time. This project did not find any specific basis in the legislative declarations or legislative history for the Commission's "assistance" role in terms of profitability. The Commission is urged—see Chapter 4, page 34 for more detail—to discuss and develop a clear and consistent philosophy for its overall approach to the C/NP sector, grounded in the legislative declarations and history.

**Analysis—Meeting the Requirement.** To test the impact of the nine rule changes, Commission staff members first created four Pools of Bingo licensees, by size:

Pool One (Small):	Up to \$25,000 in gross receipts
Pool Two (Medium):	\$25,001 - \$500,000
Pool Three (Large)	\$500,001 - \$3.5 million
Pool Four (Extra-Large):	\$3.5 million - \$10 million

Staff members then constructed a "typical licensee" for each Pool, based on the characteristics of all of the licensees in the Pool. The four "typical licensees" were each assigned appropriate figures for Bingo and PB/PT receipts gross receipts, net receipts, and expenses. The Net Income or Net Return or Adjusted Cash Flow (depending on what the rule required) was then computed. For comparability purposes, the same figures for each Pool were used throughout the analysis, so that the impact of each rule change was applied to the same base figures.

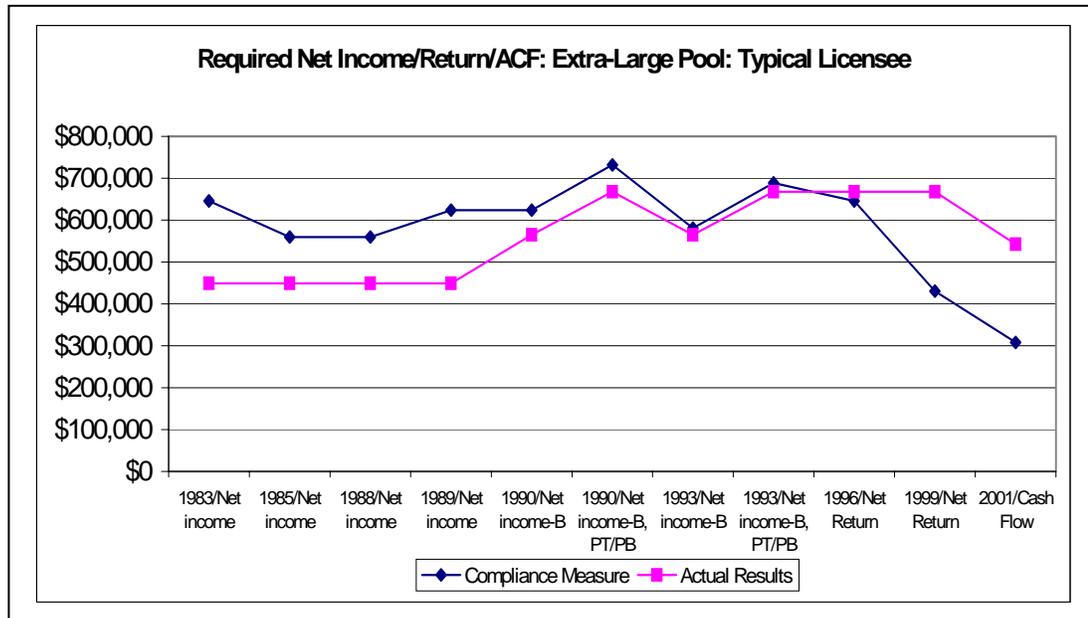
The results are startling.

For the Extra-Large Pool, the required levels of net income/net return/adjusted cash flow move steadily downward. The example licensee is out of compliance in 1983, 1985, 1988, 1989, 1990, and 1993. In 1996, the licensee is barely in compliance.

Only in 1989 and then when PB/PT income was added to the mix in 1990 did the required amounts rise. By 2001, the required cash flow of \$307,745 was 58% lower than the \$731,737 of net income required in 1990.

If any of these figures were adjusted to current dollars, the drop would be much more pronounced.

The chart on the next page shows the “typical” Extra-Large Pool licensee and how the requirements changed for that licensee through the nine rule changes. Note that while actual net income (gross receipts less prizes and expenses) is higher than the required amount, the required amount decreases significantly from 1999 to 2003, and the actual amount decreases somewhat.



For the Large Pool, the typical licensee was out of compliance with the 1983, 1985, and 1988 Net Income rules. From 1983 until 1988 the required net income amount for the Large Pool decreased. The required amount then fluctuated as high as \$161,000 (1990, with PB/PT included) and as low as \$48,000 in 1999. In 2003 the required cash flow was \$97,917, the second lowest level of any of the nine rules requirements.

For the Medium Pool, there were no requirements until 1989. From 1989 until 1993 these requirements were modest. In 1996, the requirements were lifted and not restored until the adjusted cash flow rule in 2001. The dollar amount required was never higher than \$2,300.

For the Small Pool, there were no requirements until 2001, when licensees were required to have \$1.00 of positive cash flow.

Because the example licensees in all Pools were in compliance by 1996, the actual amounts of net income exceed the requirement, sometimes by a great deal. However, the required amounts have dropped. A chart showing these figures for all four Pool sizes is found immediately following this narrative.

It should be noted here that some licensees who were having difficulty complying with the requirements at various times eventually chose to relinquish their licenses

voluntarily, or had their licenses revoked for failure to comply. Thus, the “typical” Extra-Large licensee, with its series of “non compliance” results, might well have given up or lost its license in real life. The examples are shown to provide a sense of how the dollar requirements evolved over time and are not intended to show the Commission’s enforcement actions for those situations.

**Analysis: Amounts to the Stated Purpose.** Meeting the requirement does not guarantee that all of the earnings are actually applied to the stated purpose. The Commission’s rules require the licensee to apply at least 60% of their net income/ net return/adjusted cash flow dollars to the stated purpose. This means that licensees are allowed to use up to 40% of the net income/net return/adjusted cash flow dollars for other purposes.

In addition, up to 35% of the 60% applied to the stated purpose can be used for administrative and supporting services. While those functions are important, they support the stated purpose, but are not the stated purpose.

The figures were analyzed to determine how much of the net income actually supported direct services.

Using the Extra Large Pool example, the numbers fall out as follows:

<b>Year</b>	<b>Required Net or CF</b>	<b>60% for stated purpose</b>	<b>%of GR</b>	<b>39% for direct services</b>	<b>%of GR</b>
<b>(Col. 1)</b>	<b>(Col. 2)</b>	<b>(Col. 3)</b>	<b>(Col. 4)</b>	<b>(Col. 5)</b>	<b>(Col. 6)</b>
1993-B+PB/PT	\$688,650	<b>\$413,190</b>	9.6%	<b>\$268,574</b>	6.5%
1996-NR	\$645,650	<b>\$387,390</b>	9.0%	<b>\$251,804</b>	5.8%
1999-NR	\$430,433	<b>\$258,260</b>	6.0%	<b>\$167,869</b>	3.9%
2001-ACF	\$307,745	<b>\$184,647</b>	4.3%	<b>\$120,021</b>	2.8%

This table shows in Column 3 (60%), that if a licensee in the Extra-Large Pool just met the minimum for net income/net return/adjusted cash flow from 1993 to 2001, the amount of money that that licensee would have been required to apply to the stated purpose would have decreased from \$413,190 to \$184,647. This is a decrease of nearly \$230,000, or 55%.

The percentage of this licensee’s gross receipts that actually end up supporting the stated purpose drop from 9.6% to 4.3% (Column 4). To run a \$4.3 million dollar C/NP gambling operation just to generate \$184,647 for the stated purpose appears to be a great deal of effort and expense for the yield.

Similarly, if the goal is to return funds to the direct services represented by the stated purpose—sports programs for kids, services for senior citizens, etc.—then a licensee could have returned as little as 39% of its net income to these direct services, as reflected in Column five. This would have decreased the amount of cash flowing to direct services from \$268,574 to \$120,021 between 1993 and 2001. To run a \$4.3

million dollar C/NP gambling operation just to generate \$120,021 for direct services also appears to be a great deal of effort and expense for the yield.

To a lesser degree this same dynamic applies to the Large Pool. The Medium Pool experienced an increase in the amount required for net income/net return/adjusted cash flow. The Small Pool had no limits through eight of the rules changes and only a \$1.00 cash flow requirement in the ninth.

In conclusion, the changes in the net income/net return/adjusted cash flow rules were made primarily at the request of, and to benefit, the largest licensees. The effect of the rules changes was to allow the largest licensees to come into compliance. However, the effect was also to reduce significantly the required cash flowing to the stated purpose.

The conditions that have caused the compliance problems for the largest licensees in the first place may not be factors that the Commission can influence through its rule-making process. Competition from Indian and commercial gambling, competition from other forms of entertainment, a finite market for C/NP gambling and increased expenses of operation all affect the profitability of C/NP gambling, especially Bingo. The Commission may wish to identify those factors that **can** be managed or influenced through rule-making. However if those factors cause a drop in the amount of cash required to be applied to the stated purpose, then the Commission might then assess whether that is the intent, either of RCW 9.46 or of the Commission itself.

**REQUIRED NET INCOME/NET RETURN/CASH FLOW BY POOL--IMPACT ON DOLLARS FOR CHARITABLE PURPOSE**

<b>Year/Rule</b>	<b>Small</b>	<b>Compl?</b>	<b>Medium</b>	<b>Compl?</b>	<b>Large</b>	<b>Compl?</b>	<b>Extra-Large</b>	<b>Compl?</b>
1983/Net income Actual NI	None 669	Yes	None 10,915	Yes	145,610 111,639	No	645,650 449,064	No
1985/Net income Actual NI	None 669	Yes	None 10,915	Yes	113,252 111,639	No	559,564 449,064	No
1988/Net income Actual NI	None 669	Yes	None 10,915	Yes	113,252 111,639	No	559,564 449,064	No
1989/Net income Actual NI	None 669	Yes	1,644 10,915	Yes	129,431 111,639	No	624,129 449,064	No
1990/Net income-B Actual NI-B	None 1,007	Yes	1,644 12,733	Yes	129,431 147,428	Yes	624,129 564,969	No
1990/Net income-B, PT/PB Actual NI-B, PB/PT	None 1,007	Yes	2,465 98,405	Yes	161,789 269,778	Yes	731,737 667,495	No
1993/Net income-B Actual NI-B	None 1,007	Yes	822 12,733	Yes	113,252 147,428	Yes	581,085 564,969	No
1993/Net income-B, PT/PB Actual NI-B, PB/PT	None 1,007	Yes	1,644 98,405	Yes	145,610 269,778	Yes	688,694 667,495	No
1996/Net Return Actual NR	None 1,007	Yes	None 98,405	Yes	129,431 269,778	Yes	645,650 667,495	Yes
1999/Net Return Actual NR	None 1,007	Yes	None 98,405	Yes	48,537 269,778	Yes	430,433 667,495	Yes
2001/Cash Flow Actual Cash Flow	1 1,007	Yes	2,269 97,711	Yes	97,917 202,729	Yes	307,745 542,199	Yes

## **CHAPTER 7: CHARITABLE/NONPROFIT GAMBLING: COMPARISONS WITH OTHER STATES**

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**Overview.** This project included contacting other states that have significant amounts of charitable/nonprofit gambling to determine their approach, regulatory base and any enhancements planned or recently implemented.

The states contacted were:

Oregon	(Bingo, Raffles but no PB/PT, tribal gambling, border state)
Ohio	(new law after scandals there)
Michigan	(Bingo, PB/PT, Raffles, tribal gambling, commercial gambling, border state)
Texas	(large Bingo and PB/PT program, no tribal gambling)
Minnesota	(Bingo, PB/PT, Raffles, tribal gambling)
California	(always of interest, but C/NP gambling is regulated locally, so is not comparable with Washington)

These states were chosen because they have gambling profiles similar to Washington's, or because they have recently dealt with problems in their C/NP sectors.

Efforts to contact state officials in Colorado and Indiana were not successful. They were initially selected because Colorado's overall gambling profile is similar to Washington's, and Indiana has recently experienced problems with return to the charitable purpose in its Bingo activity.

Each person interviewed is in a senior-level regulatory role. Each stressed that the information presented was from their perspective and that perspectives from colleagues could be different. Thus the information presented should not be interpreted as the official policy or practice of the state, but rather the best understanding/judgment of the interviewee. Following each interview, the interview notes were provided to the interviewee to assure accuracy. Three of the interviewees provided follow-up confirmations/corrections.

### Summary observations from these interviews:

- The regulation of charitable/nonprofit gambling is not generally a high-level priority, as evidenced by its organizational placement. Frequently, on the state web site, sifting through multiple sites and menus is necessary before finding the correct office.

The regulatory staff are located in a variety of settings—Attorney General, Department of Revenue, Lottery Commission, etc. Sometimes the regulatory responsibilities are split between the financial regulators and the licensors (Michigan). In Texas, the regulatory function started out in the Comptroller's office (because of the tax revenue raised), then moved to the Alcoholic Beverage Commission and finally the Lottery Commission.

In some states, Bingo is regulated in one agency, while other C/NP gambling activities are regulated in another.

- None of the states interviewed articulated a clear, over-arching philosophy about charitable/profit gambling or their role in regulating it. Most indicated that the Legislature sets the high-level policy and that regulation is not always the Legislature's highest priority.
- States tend to regulate different aspects of the gambling activities. Some authorize certain expenses, others limit certain expenses. Expenses are the focus of regulation in four of the five states interviewed. Allowable times of operation are a key focus in Oregon.
- Approaches to regulating the amount of money for the charitable purpose vary. Some states do not regulate this area at all, preferring to regulate expenses instead. Other states use a variety of formulas based on gross receipts, adjusted gross receipts (gross receipts less cost of goods sold), and total income. Most states interviewed expressed concern about whether appropriate amounts of income were being applied to the charitable purposes for which they were generated.
- States are starting to consider increasing their requirements for percentages or amounts to be applied to the charitable purpose.
- Major competition for C/NP gambling comes from Indian gambling, commercial gambling (from within the state in some cases, from neighboring states or countries in other cases). Competition was cited as a major reason for the decline in C/NP Bingo.
- In most states, Bingo is declining. The exceptions appear to be states that do not have significant commercial or Indian gambling, or in areas where the population is growing quickly and the market is expanding.
- Washington tends to be ahead of other states in allowing enhancements to existing gambling activities and games.
- Washington tends to be more strict and detailed in its regulation of operational matters than other states, but somewhat less strict and detailed in its regulation of charitable/nonprofit issues such as audits, proper classification of stated purpose, etc.
- Other states report that there is often not adequate oversight of the gambling operation by the charitable/nonprofit organization's top management and Board of Directors.
- Ohio is implementing a new computer system that will allow their staff to flag certain data that are outside normal parameters. Ohio has also instituted specific measures for items such as whether the organization exists primarily for gambling or for programs. Additional materials regarding these items were requested from Ohio as part of this study.
- California regulates C/NP gambling at the local jurisdiction level and thus there is no statewide picture of trends, etc.

**OTHER STATES' CHARITABLE/NONPROFIT GAMBLING RESPONSES**

<b>ITEM/STATE</b>	<b>WASHINGTON</b>	<b>TEXAS</b>	<b>OHIO</b>
<b>C/NP Gambling Activities Authorized/Regulatory Agency</b>	Bingo, PB/PT, Raffles, Amusement games, FRE's, Social card rooms  Gambling Commission	Bingo, Pulltabs  Lottery Commission	Bingo, Pulltabs (Instant Bingo)  Attorney General's Office
<b>Overall Philosophy toward C/NP sector</b>	Provide opportunity for C/NP org's to raise funds for their stated purposes. Strict regulation of operation of games and record-keeping. Significant progress toward stated purpose	Provide an opportunity for org's to raise money through Bingo a a fundraising activity. Assure that org's are legitimate nonprofits. Have been very customer friendly but are moving to being more firm about meeting requirements.	Try to control, be sure that organizations that are doing gambling are licenses, be sure people are not using C/NP organizations as "fronts."
<b>Items specifically regulated</b>	Adjusted cash flow, percent of net income to stated purpose (60%). Requirements vary by size of licensee.	35% return to the charitable purpose (35% of AGR less expenses). Prize limits by game only. PT have 65% payout requirement. Expenses are authorized (salaries, rent, etc.) but not controlled.	Divides org's by IRS status (c-3's and veterans/fraternal). C-3's can keep 100% of their income; vet/frat orgs must distribute 50% to a charitable organization.  50% of total income from non-gambling sources. Payout ratios required.
<b>Major competition</b>	Commercial and tribal gambling in WA, Canada and Oregon	Oklahoma, Louisiana, Mexico. No commercial gambling in TX. State has shut down Indian gambling.	No Indian or commercial gambling. May be some competition from border states.
<b>Trends in authorized activities</b>	Bingo has declined significantly; PB/PT and Raffles are up.	Both Bingo and PT trended upward until 2002. Number of licensees is flat.	Traditional bingo up due to addition of instant bingo (PT). Traditional bingo tends to operate at a loss.

ITEM/STATE	WASHINGTON	TEXAS	OHIO
<b>Enhancements considered or implemented</b>	Seven days a week and shared operations, satellite bingo, linked games.	Added new type of PT in 2002. Considering a new type of electronic PT. Looking at other Class II games such as Multimedia, IGT, Aristocrat.	Not likely to add additional gambling activities. May consider other forms of Bingo (linked, satellite, etc.)
<b>Top three problems in the C/NP sector</b>		<ol style="list-style-type: none"> <li>1. Organizations turning the games over to professional managers and trusting them without adequate oversight.</li> <li>2. Bingo hall owners dictating terms of use to licensee</li> <li>3. Getting operators to use the dollars for their intended purpose.</li> </ol>	<ol style="list-style-type: none"> <li>1. Organizations trying to use C/NP status when they aren't a group or aren't charitable.</li> <li>2. Being sure the organizations really do donate money to charity</li> <li>3. Multiple rule changes have caused confusion and errors.</li> </ol>
<b>Other comments of interest</b>		<p>Location of C/NP regulatory function has moved four times.</p> <p>AG oversees Raffles, but Raffles are not licensed.</p>	Keep legislators well-informed of changes in the industry and involve user groups throughout the process.

ITEM/STATE	MICHIGAN	MINNESOTA	OREGON
<b>C/NP Gambling Activities Authorized/Regulatory Agency</b>	Bingo, Raffles, Millionaire Nights (FRE's), Pulltabs.  Bureau of State Lottery	Bingo, Raffles, Pulltabs, Tipboards, Paddlewheels  Department of Revenue, Lawful Gambling Control Board.	Bingo, Raffles, Monte Carlo games (FRE's  Department of Justice
<b>Overall Philosophy toward C/NP sector</b>	To first educate and then correct any problem. Regulate/manage expenses and assume that an appropriate amount goes to the charitable purpose.	Transparency: be sure that all information dealing with the industry is public. MN had local control provisions but problems occurred and the state took control.	Make Bingo available to as wide a universe of C/NPs as possible through limiting hours of operation by one licensee. Overall approach is less strict regulation than WA
<b>Items specifically regulated</b>	Expenses: compensation, rent advertising.  No specific requirement re: return to the C/NP purpose.	Expenses (total expenses and rent only, not on compensation) Prize payouts Gross receipts and amount returned to the C/NP purpose are not regulated.	Expenses—salary cap, admin. expense cap. Return to the C/NP purpose must be 5% of GR for all licensees over \$250,000 in GR.
<b>Major competition</b>	Three commercial casinos in Detroit, 19 tribal casinos, Windsor, Canada and Indiana.	MN has compacts with 15-17 Indian tribes.	All Bingo licensees face competition from tribal gambling.
<b>Trends in authorized activities</b>	Bingo has decreased for past 8 years, now leveling off. Raffles and Pulltabs are up.	Bingo appears to be a dying enterprise. C/NP gambling is down in the more established areas, growing in the growing areas (suburbs).	Bingo is declining and the larger games are declining faster. Raffles are increasing. Monte Carlo games are not profitable.

ITEM/STATE	MICHIGAN	MINNESOTA	OREGON
<b>Enhancements considered or implemented</b>	Recent legislation to enhance progressive games by allowing prizes to accumulate week to week. Handheld electronic bingo introduced in 2003. Progressive linked games are being studied. Monte Carlo nights have been changed to allow players to play against each other.	Satellite bingo being considered. Tipboards to play off seal cards—looking at multi-jackpot options. Being asked to approve Tipboards based on the outcomes of sporting events.  Everything in Bingo is paper, the state prohibits electronic enhancements	Eased prize payout limits. Considering linked progressive Bingo game with a statewide prize pool. Testing Planet Bingo (first C/NP to test).
<b>Top three problems in the C/NP sector</b>	<ol style="list-style-type: none"> <li>1. Competition (tribes, commercial)</li> <li>2. Lack of volunteers</li> <li>3. Skimming</li> </ol>	<ol style="list-style-type: none"> <li>1. Organizations not staying within their expense limits</li> <li>2. Changing the outcome of the game through illegal activity (pulltabs)</li> <li>3. Embezzlement and internal theft.</li> </ol>	<ol style="list-style-type: none"> <li>1. Market decline/competition</li> <li>2. Independent control (limit on # of hours per week means shared facilities and one licensee or facility owner can dominate all the others using that facility)</li> <li>3. Lack of adequate oversight by the C/NP Board over its gambling operations.</li> </ol>
<b>Other comments of interest</b>	The C/NP operators are not well-organized and do not present a common front. The larger operators tend to be more visible and vocal. MI just redid their rules to simplify and organize them better. MI uses “directives” as a way to issue guidance without having to go through the formal rule adoption process.	MN has GR in excess of \$1 billion in its C/NP program.	OR is not likely to reduce its 5% return requirement even though licensees are having trouble meeting it. Other states are raising their return requirements.  The City of Eugene banned smoking and the Bingo licensee in Eugene closed.

Note: **California** officials were also interviewed for this project. However, in California, C/NP gambling activities are controlled by local jurisdictions and there are not statewide answers for these questions. The State of California only gets involved if a local jurisdiction specifically requests help with enforcement. Bingo is the major C/NP activity, and Raffles have just been authorized. The law requiring 50% of proceeds to go to the charitable purpose has been rendered unenforceable by court decisions (because the requirement is not appropriate for a start-up organization). Data are not reported so there is no statewide information about trends in Bingo.

**COMPARISON OF OTHER STATES: 2002 RANKINGS (of 25 states ranked)**

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**TOP TEN STATES: GROSS RECEIPTS**

Minnesota	\$1,427,550,000	Washington is #12 with
Kentucky	607,274,870	\$224,432,274
Indiana	583,128,493	
Texas	556,400,000	
New York	460,417,096	
Michigan	429,250,940	
Alaska	351,016,581	
Virginia	299,623,638	
North Dakota	270,671,285	
Nebraska	266,464,279	

**TOP TEN STATES: NET PROCEEDS**

Minnesota	\$123,613,000	Washington is #14
New York	79,613,669	with \$17,845,441
Michigan	77,898,614	
Indiana	73,649,267	
Kentucky	46,011,368	
Virginia	43,995,682	
Wisconsin	34,823,000	
Massachusetts	32,483,941	
Texas	32,200,000	
Alaska	30,612,915	

**TOP TEN STATES: RATIO OF NET PROCEEDS TO GROSS RECEIPTS**

Wisconsin	46.02%	Washington is #20 at 7.95%
Connecticut	33.60%	
Massachusetts	21.02%	
Michigan	18.15%	
New York	17.29%	
Oregon	15.54%	
Mississippi	14.73%	
Virginia	14.68%	
Colorado	14.28%	
New Hampshire	12.78%	

**RANKINGS OF OTHER STATES in ratio of Net Proceeds to Gross Receipts:**  
Indiana (11<sup>th</sup>, 12.63%); Minnesota (tied for 19<sup>th</sup> with West Virginia, 8.66%); Washington (20<sup>th</sup>, 7.95%)(Texas (23<sup>rd</sup>, 5.79%).

Data from National Association of Fundraising Ticket Manufacturers 2002 Annual Report.

## APPENDIX A: NON-PROFIT AND CHARITABLE GAMBLING A LEGAL-POLITICAL HISTORY

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Typically a history of the authorization or legalization of an activity or product focuses on legislative actions. Bills passed by the Legislature are the legal policy decisions. However, in the case of charitable and non-profit gambling, other factors, including court decisions, Attorney General opinions, grand jury investigations, federal laws, local law enforcement policies, and the strong beliefs of political leaders all played a key role in shaping the ultimate legislative outcomes. Thus, this history includes all of these elements.

Much of the research was done in Tacoma, using the Tacoma News Tribune/Ledger (abbreviated in this document as TNT) as the source. This choice was a matter of convenience and access to materials for the researcher, but it is likely that the Tacoma papers, which cover the Legislature and state politics extensively, provided a reasonably complete discussion of the major issues during this time.

**Territorial legislature.** The original prohibition on lotteries was passed by the First Territorial Legislature, meeting in 1854. When the Territorial Legislature recodified all of its laws in 1881, the recodified section (Section 7259 of Title XXXIX, Chapter 5) read:

*“Every person who shall sell any lottery tickets, or shares in any lottery, for the division of property to be determined by chance, or shall make or draw any lottery or scheme for a division of property not authorized by law, on conviction thereof shall be fined in any sum not exceeding five hundred dollars: Provided, That nothing herein contained shall apply to any lottery for charitable purposes.”*

It is not clear whether the 1881 recodification changed any of the previous language. Since 1881 Territorial Legislature codified all of the laws passed previously into the “Code of 1881” (the precursor to the Revised Code of Washington), the reference to 1881 may refer to this recodification process.

Subsequent sections of the law prohibited various forms of gambling and places where gambling might occur. Interestingly, Section 7268, titled “Innocent Games for Pastime Permitted”, said, “No person shall be deemed guilty of gambling who shall play at any game of chance or skill for amusement or pastime only, and not gain for himself or another.” This provision was passed in 1879 and amended/recodified in 1881 as well.

**1889, Constitutional prohibition.** When Washington became a state in 1889, the State Constitution, in Article II, Section 24, stated, “Lotteries and Divorce—the Legislature shall never authorize any lottery, or grant any divorce.” It is probably not a coincidence that a Louisiana Lottery scandal had occurred at this time and that strong federal anti-lottery laws were passed in the 1890’s. [“Gambling and the Law: Pivotal Dates,” I. Nelson Rose, Whittier Law School, [www.gamblingandthelaw.com](http://www.gamblingandthelaw.com), 1999]. Professor Rose notes that “lottery prohibitions were written into state constitutions.” Washington State was not unique in including this prohibition in its Constitution.

It should be noted that “lottery,” as used here, is a broad legal term, covering a range of gambling activities. The “tests” for whether an activity is considered a “lottery” are:

consideration, chance and prize. If these three elements are present, then the activity is considered a “lottery” and is prohibited under Article II, Section 24.

**Statutory exception for charitable purposes.** Within ten years of statehood, the Legislature had passed a provision (Chapter 139 of the penal code) that outlawed lotteries but contained the following language, “Provided, that nothing herein shall apply to any lotteries for charitable purposes.” The available documents are not clear, but this exception may have been carried forward from the Territorial statutes as well.

**1898, Supreme Court rules statutory exception is unconstitutional.** This provision was tested in court in 1898, when the City of Seattle challenged it in *Seattle v. Chin Let*, 19 Wash. 38, 52 P. 324. The City of Seattle asserted that this proviso was in direct conflict with the constitutional prohibition and the Supreme Court agreed: “We think that the constitutional provision admits of no exception in favor of lotteries for charitable purposes or for any other purpose.”

**1909, Horse racing is prohibited, “mechanical devices for gambling” are prohibited** (Laws of 1909, Chapter 249).

**1933, Pari-mutuel betting on horses authorized.** Laws of 1933, Chapter 55. Again this development took place in the larger context of national trends: Professor Rose notes that in the 1930s, “twenty-one states bring back racetracks; *low-stakes charity bingo spreads throughout the nation.*” (emphasis added).

**1937, Use of slot machines by private or non-profit clubs is allowed.** Laws of 1937, Chapter 119. This action exempted private or non-profit clubs from the prohibition on “mechanical devices for gambling” and appeared to be consistent with the earlier (in the 1890s) attempt by the Legislature to allow lotteries for charitable purposes. However the addition of the term “private clubs” likely represented an expansion of the venues that were allowed to provide gambling activities beyond the typical “charitable” group venue.

**1952, Supreme Court rules that exemption for private or non-profit clubs is unconstitutional.** (*State ex rel Evans v. Brotherhood of Friends*). This case was brought by the Spokane County Prosecutor against the Brotherhood of Friends, “a corporation or ‘club’ organized under the laws of the state of Washington as a non-profit, benevolent, educational, fraternal, athletic or social variety.” The suit sought to “determine whether slot machines of the usual type...may be operated by the Brotherhood of Friends.”

The Court addressed the question “Does Article II, §24 of the Washington Constitution, prohibit the legislature from authorizing lotteries of any or all kinds or varieties? Or does the section constitute merely a prohibition of ‘chartered’ or ‘ticketed’ lotteries as these were known and operated in 1889, when the state constitution was adopted?”

The Court noted that the Brotherhood of Friends “has made rather large contributions to recognized charitable organizations” so the issue was not whether a portion of the proceeds were used for charitable purposes. The Court also clarified that the County Prosecutor not only had the right to challenge the constitutionality of the exemption but that he had a duty to do so.

The Court rejected the argument that the constitutional prohibition referred only to the types of lotteries that were prevalent in 1889 and re-stated the Chin Let language (quite emphatically), “[w]e think that the constitutional provision admits of no exception in favor of lotteries for charitable purposes or for any other purpose.” The Court further ruled that slot machines were lotteries, in terms of the three tests to be applied to determine whether a game or device is a lottery.

**1940s to 1970s, “Tolerance policies.”** Throughout this period (1940s to 1970s), at least some local elected and law enforcement officials dealt with the prohibition on gambling by licensing, taxing and/or charging fees to some forms of local gambling, and thereby at least tacitly allowing or authorizing gambling. The revenues were significant enough that these local governments came to rely on them. These tolerance policies also allowed local officials to avoid criticism from charitable organizations and clubs who relied on gambling activities for funding.

**1963, Some forms of gambling approved by the Legislature (Laws of 1963, Chapter 37) but enough signatures were gathered to refer the law to the people for a vote in Referendum 34.**

The precipitating factor for legislative action in 1963 was another Supreme Court decision, issued in 1962, upholding the conviction and removal from office of Robert Twitchell, the Snohomish County Sheriff, for failing to enforce the law against prostitution in Snohomish County (*State ex rel Zempel v. Twitchell*). In this case, Sheriff Twitchell had claimed that it was sufficient to keep an illegal activity “under close surveillance” without actually taking action to stop it. The Sheriff was convicted by a jury of “willful, knowing neglect of duty.” The Supreme Court upheld the jury’s decision and ruled that Sheriff Twitchell had been properly removed from office.

The *Twitchell* decision, even though the case was focused on prostitution, alarmed local officials who had been allowing various forms of gambling (“tolerance policies”) within their jurisdictions. Representatives of state and county fairs, who received substantial income from midway games (largely punchboards), and tavern owners who covered much of their overhead with proceeds from pinballs, also raised concerns. Jack Pyle, political reporter for the Tacoma News Tribune, notes, “Even church groups which hold bingo parties, raffles, drawings and the like, and veterans organizations which do likewise felt some protection was needed.” (TNT, March 6, 1963).

At the same time, U.S. District Attorney Brock Adams notified the state that unless pinballs were legalized, they could not be shipped to Washington State via interstate commerce. U.S. Attorney General Robert Kennedy had started making arrests for interstate transportation of pinball machines to a state that did not legally permit their operation. Mayor Gordon Clinton of Seattle responded to this by ending the City of Seattle’s tolerance policy toward gambling (Jack Pyle, political writer for the TNT, October 21, 1964, reporting on the history of the gambling referendum).

As a result the 1963 Legislature sought to address the issue of authorizing gambling. There was disagreement about whether the Legislature had the authority to do this, or whether such an action would be held unconstitutional. Nonetheless, legislators addressed the issues.

On March 8, 1963, after an evening debate, SB 360 passed with healthy margins in both houses of the Legislature. The measure authorized games that require “skill and attention.” By writing in “skill” the legislators hoped to avoid the constitutional issues around the definition of “lottery.” The bill also contained an emergency clause, which would have made the law effective as soon as the Governor signed it. Some opponents claimed that the emergency clause was designed to protect the City of Seattle from prosecution over illegal importation of pinball machines. An editorial in the Tacoma News Tribune criticized the emergency clause and urged the Governor to veto the bill (March 8, 1963).

As legislators and others reviewed the bill as passed, confusion arose as to some of its provisions. In particular, some legislators had voted for the bill, assuming that it allowed local option regarding gambling. When it appeared that the final language in fact did not allow local option, some legislators urged the Governor to use his item veto to correct the problem. They pointed out that they voted for the bill only because it allowed local officials to license or tax gambling activities in their own communities. By having this control locally, they felt they could “preserve the revenue of county and state fairs and of private and non-profit organizations and those churches which use bingo for raising money for Christian purposes” [by licensing only those forms of gambling]. (Rep. Helmut Juelling, Tacoma, TNT, March 11, 1963).

The Tacoma News Tribune responded to these complaints by legislators with the following editorial comment on March 13, 1963:

*One of the biggest laughs of the year legislatively speaking is the word that many state legislators voted for the gambling bill believing it would legalize church and lodge bingo games. How many days ago were these fellows born? The gambling bill was introduced to permit big gambling, not penny ante stuff. The churches weren't supporting the bill; they were against it. Not many of them would go to the wall if bingo were cut out, and not many of them indulge in even this small gambling, at that.*

This editorial comment illustrates the challenge of trying to assert that the main purpose of authorizing gambling in Washington State was to allow charitable and non-profit groups to raise funds for charitable and non-profit purposes. While this is clearly one reason, the total picture is more complex.

Governor Rosellini then did veto small portions of the bill and urged a court test of the emergency clause.

Homer Humiston, MD, a resident of Tacoma, a former Tacoma City Council member and head of the Pierce County Medical Bureau, decided that the law should go to a vote of the people and on March 14, he went to Olympia to file a Referendum for that purpose. Dr. Humiston had dealt with Tacoma's tolerance policy as a City Council member in the 1950s and felt strongly that SB 360 was a mistake.

However, the emergency clause, which allowed the bill to go into effect upon signature by the Governor, prevented a referendum, so Dr. Humiston asked the Supreme Court to rule on the validity of the “emergency.” The Court ruled that the “emergency” was not valid and Dr. Humiston ended up with about seven weeks to gather over 48,000 signatures to qualify the referendum (Referendum 34) for the ballot.

The public reaction was so great that Dr. Humiston was able to gather more than 82,000 signatures from all over the state in that seven-week period. All of the petitions were delivered to the Secretary of State in Olympia by June 12, 1963.

And then, in a stunning development that no one had anticipated, all 5,530 petitions containing the 82,000 signatures were stolen from the Secretary of State's office by two thieves who had ingratiated themselves with the staff and who talked a cleaning lady into unlocking the door to the vault where the petitions were stored.

An uproar ensued, with finger-pointing about security, angry denunciations of the history of gambling as "corruption, crime and deceit" (TNT, June 25, 1963) and legal questions about whether the measure could still be placed on the ballot. The Secretary of State certified the Referendum on the grounds that since there had been so many signatures, even with a typical rejection rate for signatures, there would still be many more valid signatures than needed. His decision was upheld in court and Referendum 34 was placed on the November, 1964 ballot.

Note: Referenda, when certified, are placed on the ballot for the next general election. This why there was an 18 month delay between the time the signatures were gathered (before the law went into effect in June, 1963) and the actual vote on Referendum 34 (November, 1964).

**1964, Referendum 34 defeated, 45% Yes to 55% No, by the people in November 1964.** Referendum 34 was on the ballot during a watershed election. At the national level, Barry Goldwater ran against Lyndon Johnson for President; at the state level, upstart state legislator Dan Evans ran against incumbent Al Rosellini for Governor. There were six ballot measures up for statewide vote, including bond issues for corrections, outdoor recreational facilities, and schools construction.

Referendum 34 became an issue in the Governor's race, with Mr. Evans' campaign charging that Mr. Rosellini was "consistently soft on gambling," while Mr. Rosellini's camp retorted that Mr. Evans had been a leader in the effort to pass the 1963 legislative measure (Mr. Evans was the Republican floor leader in the House and had voted for the bill, saying that he believed it allowed local option for controlling gambling).

Opponents of Ref. 34 claimed, "This measure is not an innocuous means of legalizing the so-called gambling tolerance policy as that policy operated for so many years in Seattle and many other Washington cities. It would give a legal base to several forms of gambling—coin machines, cardroom poker and such games and bingo. The legal base would be used over a...relatively short time, to expand many forms of gambling far beyond the gambling tolerated in Seattle" (Ross Cunningham, Associate Editor, Seattle Times, quoted in the TNT, October 4, 1964.)

Proponents claimed, "the local option proposal 'will keep out the unwanted syndicate gambling interests that operate below the surface...and insure economic stability for many small business firms and employees' in various fields." (David Levine, former Seattle City Councilmember and chair of the Washington State Committee for Referendum 34, quoted in the Tacoma News Tribune, October 7, 1964).

There was a dispute over the accuracy of statements about Ref. 34 in the official Voters Pamphlet. Opponents claimed that proponents' statements were "misrepresentations" and John O'Connell, the state Attorney General, characterized the Referendum as "confusing for voters."

The Tacoma News Tribune editorialized at length on Oct. 28, 1964, noting that "The long and strange background of the attempt to gain the public a vote on this issue ought in itself to prompt a vote of No."

On Election Day, Ref. 34 was the only ballot measure that failed; the other five measures all passed. More than 1.1 million votes were cast on Ref. 34 and the voters defeated it 505,633 For and 622,987 Against, a ratio of 45/55. The people had spoken.

As is often the case when the people speak with such clarity, the gambling issue moved to the back burner for several years. However, it re-emerged in 1969.

**1969, "Tolerance policies" attacked again; legislation proposed, IRS weighs in, Attorney General opinion.** January 1969 marked a new offensive in the gambling debate when then-State Attorney General Slade Gorton (who, along with Dan Evans had been in the Legislature during the early 1960s) announced that he would "push for a crackdown on pinball machines and gave hints that he will seek stricter enforcement of the state's gambling laws." (Quote is from the January 17, 1969 TNT article, and is paraphrasing Mr. Gorton, thus the awkward language).

Mr. Gorton went on to say that the Legislature must recognize that "a degree of minor and private gambling is inherent in most of us." Mr. Gorton also noted that he "would not attempt to push for anti-gambling laws dealing with private clubs" and stated that "lawmakers must also recognize there will always be some form of gambling and that the state should permit such games as bingo and raffles." (Ibid.)

Mr. Gorton then requested that legislators in the House introduce legislation (HB 453) that would forbid cities and counties to license pinball machines, punchboards, card rooms and other forms of gambling, with the exceptions noted below. Criminal sanctions would be levied against operators of professional gambling devices or games of chance. Local law enforcement would be guilty of malfeasance if they continued to license such operations. Notably, exempt from criminal sanctions would be bingo games, raffles for which tickets were sold at \$1 or less, and similar functions conducted by non-profit organizations.

Law enforcement leaders noted the uneven pattern of "tolerance policies" around the state and the difficulties in enforcement as a result, and generally supported the professional gambling restrictions and penalties. They also noted that "bingo, pools and private betting" are tolerated by the public and that if law enforcement were to move against them, it would create "disrespect" for police. (Jack Pyle, TNT, Feb. 19, 1969).

Mr. Gorton responded that what he was really seeking in his bill were pinball machines. "All he is trying to do, he stated, is to differentiate between professional and casual gambling." (Ibid.)

In March 1969, the Internal Revenue Service announced a ruling that "a non-profit, tax-exempt social club did not imperil its tax-exempt status by collecting money from

gambling devices.” (TNT, March 9, 1969). “So long as the facilities are used only by members and guests, the IRS said, the fact that a club derives part, or most, of its revenue from the recreational facilities, including games of chance, does not affect its tax-free status.” Even if the club gambling took place in a community where gambling is illegal, the club’s tax-exempt status would not be threatened. The IRS noted that the purpose of the gambling is the “pleasure and recreation” of the members. (Ibid.)

The legislation ultimately failed in the 1969 Legislature, and Mr. Gorton then decided (April, 1969) to move things along by issuing a formal Attorney General’s Opinion (AGO) stating that local licensing of “gambling games and devices” was in conflict with state law. (Richard Wolff, TNT, May 1, 1969). The opinion reiterated that state law also prohibits gambling or lotteries “conducted by charitable, religious, fraternal or other organizations.” The article notes that “Gorton’s opinion “conflicts in nearly every county with tolerance policies toward private clubs.”

**1970, another ballot measure, more legislation proposed.** As a result, legislation was introduced during the 1970 Session in the House (HB 50) to “permit raffles and bingo in fraternal and charitable organizations and churches.” The measure prohibited virtually every other form of gambling and set penalties for professional gambling. A Constitutional amendment to repeal the anti-lottery language was also proposed.

Over 50 people testified at the Senate hearing on these bills. One representative of the Elks in Tacoma asserted that “if some gambling were not legalized, the state would have to pick up the charitable programs now being supported by fraternal organizations throughout the state.” (Jack Pyle, TNT, Jan. 14, 1970). The Seattle Assistant Police Chief noted that HB 50 “would separate professional and charitable gambling and termed it a ‘commendable effort.’” (Ibid.)

Governor Evans then entered the fray, advocating for a “carefully worded constitutional amendment.” He opposed local option and supported Mr. Gorton’s effort to authorize bingo for charitable institutions, churches and private clubs as the “proper way.” Governor Evans then went on to say that he felt the “arguments advanced by numerous private clubs, that if they are not allowed to continue certain forms of gambling, they would have to discontinue charitable programs” are not valid.

“If the interest of people in caring for youth and crippled children doesn’t go beyond their gambling winnings then I don’t think there’s enough interest,” Gov. Evans said. (Jack Pyle, TNT, January 23, 1970.)

The House then overwhelmingly passed HB 50, 87-9 (TNT, Jan. 31, 1970). The article notes that opposition to the House bill was “surprisingly light” to the House bill.

This put the focus on the proposed Constitutional amendment that had originated in the Senate. However, both HB 50 and the proposed Constitutional amendment died at the bill cutoff on Feb. 6, 1970.

A subsequent effort to repeal the anti-lottery clause in the state Constitution by Initiative (Initiative 249) failed in early 1970 when Attorney General Gorton refused to write the ballot title for the initiative petitions, on the grounds that there was no provision for amending the Constitution by initiative. (Robert Cummings, TNT, Feb. 14, 1970).

Later in 1970, Attorney General Gorton filed suit against ten operators of pinball machines, from all around the state, in an effort to demonstrate that pinball machines were gambling devices and constituted lotteries. (Jack Pyle, TNT, December 14, 1970). This continued Mr. Gorton's attempts to focus on outlawing pinball machines, which he had often said was his main objective in trying to outlaw/regulate gambling. The trial began in December of 1970 in Pierce County Superior Court.

Attorneys for the defendants accused Gov. Evans and Attorney General Gorton of using the court to make legislation.

On December 23, 1970, Superior Court Judge William LeVeque ruled that pinball machines were not only gambling devices but that they constituted a lottery which was unlawful under the state Constitution. (Jack Pyle, TNT, Dec. 23, 1970). The defendants vowed to appeal to the State Court of Appeals.

### **1971, Federal pressure increases, local tolerance policies are stopped, legislation passes.**

As the pinball machine trial was moving to its conclusion, the FBI informed local officials that Federal Law 91, passed in October 1970, allowed federal officials to take action if local officials allowed gambling contrary to state law. Kitsap County officials immediately moved to end their tolerance policy (TNT, Dec. 22, 1970). This was followed by a warning to local officials from the two U.S. Attorneys in Washington State in early 1971 that "licensing of gambling or certain types of refusal to enforce state anti-gambling laws may make them liable for federal prosecution." (TNT, Jan. 3, 1971). The pressure on local tolerance policies was tightening.

In response, local police chiefs and prosecutors advised gambling establishments within their jurisdictions to close down their gambling operations. Tacoma's Police Chief Lyle Smith said "the crackdown includes all forms of gambling...including charitable bingo; pools; lotteries including those with prizes of merchandise such as cars, not merely those that give away money, shaking dice for merchandise. The crackdown will affect private clubs as well as business establishments such as taverns and restaurants." (Jack Wilkins, TNT, Jan. 7, 1971.) By February 8, all but seven Washington counties had banned most forms of gambling, and 27 counties had banned gambling outright. (TNT, Feb. 8, 1971).

Groups who felt they were unfairly hurt by the ban then spoke up. The News Tribune reported on January 14 that Sen. Joe Stortini of Tacoma feared that Bellarmine Prep School "may have to close" unless the Legislature authorizes certain forms of gambling. Mr. Stortini expressed concern that this would cause property taxes to rise because private school students would enter the public schools and increase the cost of public schools (TNT, Jan. 14, 1971). Mr. Stortini also reported that 97% of his constituents who answered his poll "favor a state lottery, bingo, raffles and dog racing." (Jack Pyle, TNT, Jan. 15, 1971).

On January 15, Bellarmine officials announced it would end two of its longest running (25 years) fund-raising events: a car raffle and the weekly Boostco game. Officials hinted that Bellarmine might have to drop athletics as a result of the lost income. [Note: On February 11, 1971, Bellarmine officials announced a large capital campaign to build

several new buildings and assured the community that the School's finances were in good condition.]

The Bellarmine worries were followed by an article about regular patrons of several amusement clubs and taverns who were, under the gambling ban, grieving the loss of their social lives. "...card rooms were their lives. They were home, in the truest sense. There was companionship there. Friends. And good conversation about old times. All that is gone." (Michael J. Sweeney, TNT, Jan. 17, 1971).

Tavern owners also rallied to fight the gambling bans. At a meeting of the Pierce County Chapter of the Washington State Licensed Beverage Association, members were urged to tell their legislators, "...you want pinballs and punchboards, not just bingo." "...if you lay anyone off, let them [the legislators] know." One participant urged the members to remind legislators that "churches and clubs don't pay their wages; they don't pay the taxes we do." Mr. Lloyd Ragen of Seattle, the VP of the State Association said that he "feels legislation that excludes some organizations from the penalties for gambling 'is hypocritical because it legalizes gambling in churches and clubs.'"

[Note: While all of these examples are from the Tacoma area, the pattern of publicizing the impact on private church-based schools, older people who had lost their social venue, and tavern owners who had lost business, was likely repeated in other parts of the state. This is a typical public affairs strategy for influencing public opinion.]

Meanwhile, Island County flaunted its ongoing bingo games, and officials there said they would wait for a court decision that made it clear that bingo was illegal. (Rita Trujillo, TNT, Jan. 24, 1971).

So, legislation to amend the state Constitution (SJR-5) started through the Legislature again. An article in the Tacoma News Tribune (Jan. 28, 1971) noted that SJR-5 is "specifically designed to bring back bingo and raffles to private clubs and charitable organizations, even though it would permit the legislature to allow any form of gambling all the way up to Las Vegas games of chance." Attorney General Gorton testified against the bill, saying he thought bingo and raffles for charity were fine but that he opposed all other types of gambling. Mr. Gorton noted that he preferred his own version of a constitutional amendment that would write limitations on social and charitable gambling directly into the constitution. (Ibid.)

The debate on legislative solutions included three elements. One was a bill to allow annual general elections, which would allow statewide ballot measures to be placed on the ballot every year. Otherwise SJR-5 could not be voted upon until November 1972. The second element was the design of implementing legislation if SJR-5 passed. The third element was the establishment of a state gambling commission to operate under the supervision of the Governor.

A forum held in Tacoma on Jan. 30, 1971, included comments from "elderly female bingo players who complained about the loss of their favorite recreation." One woman said, "Think of the doctor bills caused by women 60 or 70 years old who don't have anything to do but sit in a house with a retired husband. Women going to bingo are getting therapy far superior to what a doctor can give." (Robert Boxberger, TNT, Jan. 31, 1971). Rep. Booth Gardner noted that "bingo and cards are the only form of

recreation enjoyed by many elderly persons without the financial or physical means to participate in other forms....” (Ibid.)

Meanwhile, Sen. Stortini continued to raise his concerns. He is quoted in the Feb. 2, 1971 Tacoma News Tribune as saying, “Many organizations will find it very difficult to pay their rent and maintain their buildings. Many parking lots are losing revenue as well as the taxicab companies, restaurants and taverns. This means thousands of dollars off the Tacoma market, and affects every citizen directly or indirectly. There will be a demand to the legislature for funds that in the past have come from the people who live to play bingo.” (Ibid.)

Subsequent legislative hearings produced general agreement that “the legislature should act to permit non-profit organizations to operate bingo games and raffles” but could not agree on how best to accomplish this. The major disagreement was whether to strike the anti-lottery language completely from the state constitution (the Senate’s position), or to amend the anti-lottery constitutional language only to allow bingo and raffles operated by non-profit organizations (the House position, supported by Attorney General Gorton). (TNT, Feb. 10, 1971).

On Feb. 12, 1971, Mr. Gorton accused “professional gamblers” of “using people who want a return of bingo and raffles as sort of a front while they want a law that will allow all kinds of other things.” (TNT, Feb. 12, 1971). He went on to say that he believed that big-time gambling interests had the right to lobby in Olympia, but “should not hide behind efforts to legalize bingo and raffles.” (Ibid.)

A Feb. 14 article made it clear that legislators were feeling the heat about gambling. Bill Mertena, a reporter for the Tacoma News Tribune, noted, “But to hear most legislators, no matter what their philosophy on gambling is, they’d almost rather go home after the session and face constituents after having doubled the taxes on their homes than go home without a bingo bill.

“‘I get more mail from people asking when they are going to get to play bingo again than I do about tax reassessment,’ said one senator last week.”

Reporter Mertena noted that the pinball lobby had been keeping a lower-than-usual profile in Olympia this session, but further stated that, “On their [the pinball lobby’s] side, though, is apparently every private club member in the state over 40, and not a few under. That probably takes in most of them and represents thousands. Above all, they are organized, vocal, and the kind of nice, middle class conservatives that legislators instinctively want to please—the silent majority no longer silent. They are the kind who if they want bingo, are likely to get bingo. The real question is likely to be, whether they will get pinballs or even wide-open gambling along with it.”

Officials from the Elks again asserted that “if states had to fund through the legislatures programs such as those funded by Elks Lodges and other private organizations, they would probably have to levy new taxes or deprive existing programs of funds.”

Meanwhile the Legislature reached a compromise between those who wanted to repeal the constitutional prohibition of lotteries and those who wanted specific language in the Constitution allowing only certain forms of non-profit gambling. The compromise emerged from the House and continued the prohibition “except what may be authorized

by the legislature, by referendum or by initiative.” Then, tight implementing legislation would be written to permit charitable bingo, raffles, etc. (TNT, Feb. 18, 1971)

Further amendments by the House added the requirement that a 60% vote of the people or the Legislature would be required to permit lotteries. Amendments to specifically include in the Constitution bingo and raffles operated by non-profit organizations failed, as did an attempt to define and prohibit “professional gambling.” (TNT, Feb. 28, 1971)

Despite Governor Evans’ expressed misgivings that the proposed amendment “went too far,” the Legislature approved SJR-5 on March 3, 1971. It would be placed on the November 1972 statewide ballot.

Debate then intensified around the implementing legislation, under the assumption that SJR-5 would pass. Issues included local option, which games to allow, what the limits and penalties would be, and how gambling would be taxed. Proposals for the legislation included many details of financial limits on various gambling activities, limits on gross receipts for non-profit organizations, and local licensing and taxation items. Proponents of authorizing gambling wanted the implementing bill to become effective immediately so that social gambling could proceed and any court challenges would be enjoined pending the outcome of the vote on SJR-5. Jack Pyle, political writer for the Tacoma News Tribune, noted that this is “putting the cart before the horse.” He further noted that the constitutional amendment was needed “to permit many of the forms of gambling most people feel are innocent, recreational and which contribute a great deal to charitable and social purposes.” (TNT, March 3, 1971).

As the implementing bill (HB 291) passed the House and moved to the Senate, Governor Evans criticized it as too broad and threatened to veto parts of it. Gov. Evans singled out punchboards, pulltabs and cardrooms as aspects that he did not like. (Jack Pyle, TNT, March 4, 1971). Efforts to craft a workable compromise between the House and the Senate continued into April. By the end of April, an agreement had been reached that tightened up the provisions of the bill, in the hopes that line-item vetoes could be avoided.

The Senate passed their version on May 5 and the House/Senate conference version went to both houses on May 10. The resolution of differences between House and Senate versions was to “include all the elements of both the House and Senate versions, and leave the matter up to Evans.” (TNT, May 10, 1971). The final version included local options and bingo, raffles, grocery store drawings, county fair and PTA carnival games, one-coin pinballs, punchboard, dollar limit poker, pulltabs and cardrooms.

Then in a final act of confusion, the Legislature literally stopped its clock at 11:55 pm on the mandatory date of adjournment (60<sup>th</sup> day) while it finished action on a variety of bills including the gambling bill. This called into question the legality of any legislation passed after the actual stroke of midnight.

Eventually it was determined that all of the legislation that had passed was indeed valid and the bill moved on to the Governor’s desk for signature. Governor Evans used his item veto power to clean up what one of his staff people said was “the worst job of draftsmanship by the legislature this session—it’s just terrible.” (Steve Weiner, TNT, May 17, 1971).

Gov. Evans vetoed provisions that would have authorized card rooms, pinballs, punchboards, and pull tabs, noting that the bill “muddied the distinction” between professional games of chance and social gambling. (TNT, May 21, 1971). The News Tribune noted that “three forms of social gambling activity would be permitted under strict controls, by certified nonprofit and charitable organizations.” Gov. Evans also vetoed sections of the bill that tied legalizing of all gambling to the Constitutional amendment headed for the 1972 ballot.

**1972, Local officials approved some social gambling, SJR-5 passed.** Based on the passage of HB 291, some localities proceeded to register nonprofit and charitable bingo operators and taxed their proceeds at 5% of gross receipts.

The 1972 special session of the Legislature amended the 1971 law to accomplish several things. It added language exempting agricultural fairs referenced in other RCW’s from certain bingo restrictions, and it increased the limits on gross receipts for charitable and nonprofit organizations from \$5,000 to \$20,000 in a calendar year. It also clarified that the gross receipts limitation did not apply to prizes paid out or the actual cost of the prize. Added language about “games of physical skill” was vetoed by the Governor because it was too ambiguous.

In October, 1972, King County prosecutors asked the Thurston County Superior Court to find the legislation unconstitutional.

In the runup to the election, some local officials urged the formation of a state gaming commission as a way to regulate gambling effectively (TNT, October 12, 1972). And, the idea of creating a state lottery, to generate additional state revenues, began to arise with some regularity.

The November ballot in 1972 was crowded with key races and issues. The Presidential election pitted Richard Nixon against George McGovern and the Vietnam War was the hot topic. At the state level, all of the statewide offices were on the ballot, with a contentious rematch between Gov. Evans—seeking his third term—and the man he beat in 1964, former Governor Al Rosellini.

And, there were twenty-four statewide ballot measures, including eight Initiatives, seven Referenda, five House Joint Resolutions and three Senate Joint Resolutions. In addition to the constitutional amendment removing the prohibition against lotteries (SJR-5), there were bond issues to construct a multitude of state facilities (Washington Futures), a public disclosure law, two versions of shoreline management and litter control laws, privatization of liquor sales, a property tax limitation, the equal rights amendment, legalizing dog racing, and a variety of tax and election related issues. A voter needed real stamina to work through this ballot.

When the dust settled, the state Constitution was indeed amended, with seven of the eight proposed amendments passing. SJR-5, eliminating the prohibition against lotteries, passed 62-38, with nearly 1.3 million votes cast. In the day-after-election reporting, the SJR-5 win merited only the following mention, “legalization of lotteries;” the higher-profile ballot measures—Washington Futures, liquor privatization, public disclosure, litter, shoreline management—got the media coverage. (TNT, Nov. 8, 1972).

This was in sharp contrast to the positioning of this issue before the election. Robert Cummings, a writer for the Tacoma News Tribune, wrote a ten-part pre-election series on “the issues” on the Nov. 7 ballot. His first article (Oct. 24, 1972) asserted that “the most emotional” issues were the ones concerning gambling (dog racing and eliminating the prohibition on lotteries).

Mr. Cummings went on to note that opponents were arguing that both measures would bring “undesirable elements” into the state and “open the door to outside racketeers and criminals.” But proponents argued that the implementing measure for gambling would authorize nonprofit bingo and raffles but ban professional gambling. Any expansion of gambling would require a 60% vote in each house of the Legislature. And while a legislative vote to expand gambling would not automatically go to the people for a vote, it could be sent to the people via the referendum process. Mr. Cummings also noted that “some of the measure’s supporters...candidly see it as a step toward a state lottery, which they believe would help cure the state’s financial ills.”

The News Tribune editorial board then recommended a No vote on SJR-5 (October 30, 1972), but as part of a larger editorial comment on all of the proposed constitutional amendments, mentioning SJR-5 only as “SJR-5 (authorizing lotteries).”

After all the turmoil surrounding gambling and the constitutional prohibition of lotteries, the vote on SJR-5 was almost anti-climactic. In a post-election analytical piece (Dec. 1, 1972), Robert Cummings reflected that “modification of the anti-lottery provision, for instance, was impossible to get on the ballot a few years ago. As recently as 1965, a proposed constitutional amendment on this subject was indefinitely postponed within 30 minutes after it was first introduced. This was the same fate it had met for years, dating back as far as 1951.”

Sen. Damon Canfield (R-Sunnyside), fearing more gubernatorial vetoes of any gambling legislation once SJR-5 passed, asked the Attorney General if the Governor’s veto power could be applied to legislation that passed both houses with 60% or more of the vote. The Attorney General replied that the “veto power of the Governor is applicable to a bill authorizing lotteries passed by a sixty percent majority of the members of both houses of the legislature...unless such bill, upon passage, is, instead, submitted to the electors as a referendum....” [Attorney General Opinion, AGO\_1972\_No\_025, November, 30, 1972.] The Governor’s veto power—used extensively by Gov. Evans throughout his tenure—was alive and well, unless the Legislature referred every gambling bill passed to the people for a vote.

Post-election commentary focused on the idea of a state lottery and the limitations of the implementing legislation.

Development of implementing legislation immediately turned partisan, with Sen. Gordon Walgren (D-Bremerton) starting work on language in his Municipal Committee. Not to be outflanked, Gov. Evans, a Republican, appointed an ad hoc Committee on Gambling to make recommendations to him about the scope of implementing legislation. The Governor charged the ad hoc Committee with interpreting the voters’ intentions, but also made clear that its recommendations would not be binding on either the Governor or the Legislature.

**1973, Implementing legislation.** The first version of the House bill on this matter included legalizing punch cards, pull tabs, public card rooms, pinballs and drawings conducted as business promotions. The activities could only be offered where liquor was served, thus keeping persons under age 21 from gambling. Social card games and bingo would be allowed when sponsored by a bona fide charitable or nonprofit organization. Sponsors could not charge a fee for participating or take any profits. The bill also allowed cities and towns to tax gambling devices and bingo and to license card rooms.

The ad hoc Committee's report recommended bingo, lotteries, punchboards, pulltabs, sports pools, trade stimulants and raffles, both charitable and grocery store-type. For charitable and fraternal organizations, only those with open membership policies could participate. The Committee opposed the idea of a state lottery. Bingo and raffles were recommended for the charitable and non-profit sector but not for the private sector because they would be too hard to control. Punchboards, pulltabs, sports pools and card rooms would be legalized for commercial use. The Committee opposed extension of pinballs, slot machines, roulette or other casino games to private use because they were seen as too difficult to control.

The ad hoc Committee recommended that a state commission oversee the commercial aspects of gambling but not the non-profit aspects. Finally the Committee recommended that rather than "local option," communities could have "local veto" so that they could say they did not want a certain form of gambling in their communities. Local communities would not be allowed to regulate gambling within their jurisdictions but they would be allowed to prohibit gambling.

As hearings on proposed legislation were held, the largest issues were about control—how to control authorized gambling activities and how difficult it would be to control card rooms and pinballs. Some law enforcement officials indicated that they would prefer that the bills only authorize bingo and raffles (Jack Pyle, TNT, Feb. 12, 1973).

On March 17, 1973, the Senate Judiciary Committee addressed its version of the implementing legislation, setting up a special commission within the Department of Revenue to administer gambling, authorizing charitable bingo and raffles, punchboards (but only those purchased directly from the commission), card games only in private homes, and amusement-type pinballs such as those that were already legal.

In one fascinating exchange reported by Jack Pyle of the Tacoma News Tribune, Senator Damon Canfield (R-Sunnyside) "argued that some exemption be given to games at agricultural fairs and Sen. Fred Dore (D-Seattle) said that all this would do would be to provide a loophole whereby a person could rent a cow, set up gambling games, and call it agricultural fair activity." Cooler heads prevailed, as Sen. Pete Francis (D-Seattle) said, "the statute is clear in defining agricultural fairs, so this could not take place." (TNT, March 17, 1973).

Governor Evans expressed concern about the Senate version, raising particular discomfort about the inclusion of pinballs and card rooms. The Governor noted that the people had indicated by their vote in November that they wanted some changes in the gambling laws and "we can and should open up more than we have been able to do in the past." But he cautioned that the state should go slow and get experience in regulating gambling before opening up more. (Jack Pyle, TNT, April 2, 1973).

The Governor also questioned the local option provisions of the House version of the bill, saying “we could end up with a hodgepodge of enforcement that would be almost as impossible for us in a field that is subject to as many problems as gambling itself is.” (Jack Pyle, TNT, April 5, 1973).

On April 7, the banner headline on page one of the Tacoma paper screamed, “House OK’s Wide-Open Gambling Bill.” Jack Pyle noted “just about everything that went on under the defunct ‘tolerance policy’ was approved” by the House. Only pinballs were restricted, to the one-coin variety. Local option was all or nothing, not local choice. Various limits were placed on Reno Nights (non-profits and private clubs only), and raffles (limited to \$5000). A referendum provision was included.

Then, on April 7, the Senate removed the local option and referendum provisions in its deliberations. But a major amendment was offered, authorizing only charitable bingo and raffles, based on the work of Sen Walgren’s Municipal Committee with local law enforcement officials. Sen. Walgren said that law enforcement officials concluded that there “would be problems” with anything broader than this. The State Prosecuting Attorneys’ Association said their position was that “gambling should be limited to bingo and raffles only, conducted by bona fide charitable organizations.” Action on Sen. Walgren’s amendment was postponed until the impacts of other approved amendments could be assessed. (TNT, April 13, 1973). Senator Walgren’s amendment was ultimately defeated, 18-30.

Other amendments that had already been approved (the Senate considered 55 amendments and approved 40 of them) included carnival games at agricultural fairs, and authorization of Mah Jongg. Amendments to open up pinballs, to add local option and referendum provisions all failed. The majority of the debate was reported to be over the profits to be made and how to protect the individual gamblers from being duped or cheated.

Ultimately the Senate added the “local veto” provision to its version of the bill, in part (according of Jack Pyle) because the Prosecuting Attorneys’ Association, having lost its bid to limit gambling to bingo and raffles, had agreed to the local veto “in a more liberalized bill.” The April 14 headline (Tacoma News Tribune) read: “Senate ‘Local Veto’ Neuters House Gaming Bill.” Because the Senate took the House bill (HB 711), stripped it and replaced it with their own single amendment, the House was left to vote the amendment up or down. The House passed the bill on April 16, 1973 and sent it to the Governor.

Then the veto fight started. Legislators, anticipating that Gov. Evans might choose to use his item veto to reshape the bill, had warned the Governor not to veto it. Sen. Harry Lewis (R-Olympia) is quoted in the April 14 Tacoma News Tribune as saying that he would call the Governor and ask him not to veto any part of the legislation. Sen. Lewis went on to say, “We should recognize the rights of all three parts of the government system. I feel very strongly that this body has worked strenuously to work out this legislation that I believe the people asked for.” (Jack Pyle, TNT, April 14, 1973).

However, some law enforcement officials immediately took the opposite view. Jack Berry, former Pierce County Sheriff, said, “I hope he uses his veto pen with vigor. I don’t believe we should saddle law enforcement with the problems of trying to enforce that

kind of law.” Berry went on to say that a state lottery with bingo and raffles might not be too bad but that the other kinds of gambling included in the bill would be problematic. (Jack Pyle, TNT, April 20, 1973).

On April 26, Gov. Evans announced his item vetoes within the gambling bill, taking out the sections authorizing card rooms and social card games, including Mah Jongg. He reiterated the need for the new Gambling Commission to gain experience administering gambling before allowing additional activities. The Governor noted in his veto message (April 26, 1973) “it is clear from the last election that the people desire bingo and raffles.”

In September 1973, the Legislature addressed gambling again, in an effort to reinstate social card games and card rooms. HB 467, amending HB 711, passed the Legislature on September 15, 1973. Governor Evans, characterizing many provisions of the bill as the Legislature “failing to enact a responsible bill,” vetoed large sections of it. The Governor expressed considerable concern about the bill’s apparent authorization of professional gambling and vetoed all sections that appeared to do that.

In February 1974, the Legislature amended the new law through SHB 473. The Legislative Declaration (Section 1) was changed to add “card games;” the definition of a “bona fide charitable or nonprofit organization” was changed to allow the Commission additional discretion in determining an organization qualified to participate in gambling, and to add disaster relief organizations to the definition; to delete the language about an organization’s being officially tax exempt or tax deductible; to add fishing derbies and specific language about card games and social card games; to allow some situations where bona fide charitable and nonprofit organizations could conduct raffles without having to get a license; to clarify local licensing issues; to authorize the Commission to make rules about income from bingo, raffle and amusement games; and a number of more minor changes.

In general this legislation was a “clean-up” of the 1973 law and many of the changes had been requested by the newly formed Gambling Commission. However the Governor vetoed a number of items, including the deletion of the requirement that a charitable or nonprofit organization be officially tax-exempt. The Governor also used his item veto to limit the expansion of social card games,

The Legislature later overrode the vetoes of social card rooms [Chapter 155 of the 1974 Legislative Session.]

**Note:** Subsequent legislative changes are found in the subsections of this report dealing specifically legislative/regulatory histories of bingo, punchboards and pulltabs, and raffles.

**LEGAL / POLITICAL HISTORY OF CHARITABLE AND NON-PROFIT GAMBLING IN WASHINGTON STATE**

<b>DATES</b>	<b>LARGER CONTEXT</b>	<b>LEGISLATURE</b>	<b>WA SUPREME CT</b>	<b>ATTY GENERAL</b>	<b>FEDERAL GOVT</b>	<b>CONSTITUTION / VOTE OF PEOPLE</b>
<b>1854, 1881</b>		Territorial Legislature prohibits lotteries, 1854, carried forward in recodification, 1881				
<b>1880S through 1890s</b>	Lottery scandals nationally; West had either tolerated or legalized gambling up to this point	Provided statutory exception to Constitutional prohibition for "charitable purposes" (Chapter 130) (Possibly carried forward from Terr. Leg. statutes)			Strong federal anti-lottery laws passed. All state lotteries shut down. NM, AZ denied statehood unless they closed their casinos	1889, WA State Constitution prohibits lotteries (Art. II, § 24)
<b>1898</b>			1898, <i>Seattle v. Chin Let</i> , rules statutory exception for charitable purposes unconstitutional			
<b>1900-1910</b>	Horse racing outlawed in most states.	Horse racing prohibited Slot machines ("mechanical devices for gambling") prohibited				
<b>1910-1930</b>	Prohibition, World War I, the Roaring 20s					
<b>1930s</b>	Twenty-one states bring back racetracks, low stakes charity bingo spreads throughout nation					
<b>1933</b>		Pari-mutuel betting on horses authorized (Laws of 1933, Chapter 55)				
<b>1937</b>		Use of slot machines by private or non-profit clubs is authorized (Laws of 1937, Chapter 119)				

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DATES	LARGER CONTEXT	LEGISLATURE	WA SUPREME CT	ATTY GENERAL	FEDERAL GOVT	CONSTITUTION / VOTE OF PEOPLE
1952	<p>“Tolerance policies” toward gambling are prevalent in many Washington State cities and towns. Local officials license and/or tax some forms of local gambling.</p> <p>Nationally, nearly all states change their laws to allow low-stakes charity gambling and pari-mutuel betting on horse racing.</p>		Supreme Court rules that exemption for private or non-profit clubs is unconstitutional ( <i>State ex rel Evans v. Brotherhood of Friends</i> )			
1962	Seattle officially ends its tolerance policies.		Supreme Court rules that law enforcement officials cannot observe illegal activity without taking action against it and upholds the removal of the Snohomish Co. Sheriff from office for malfeasance for tolerating prostitution. ( <i>State ex rel Zempel v. Twitchell</i> )		U.S. Attorney for Western Washington notifies state that unless pinballs are legalized within WA State, the machines cannot be legally shipped to WA state in interstate commerce.	

DATES	LARGER CONTEXT	LEGISLATURE	WA SUPREME CT	ATTY GENERAL	FEDERAL GOVT	CONSTITUTION / VOTE OF PEOPLE
1963	New Hampshire inaugurates first state lottery, tied to horse races to avoid federal anti-lottery statutes	Reacting to <i>Twitchell</i> decision, and the U.S. Attorney's direction on pinballs, Legislature approves some forms of gambling (Laws of 1963, Chapter 37), legalizing games that required "skill and attention."				
	Following the passage of Chapter 37, confusion reigned regarding the need for the emergency clause, the constitutionality of the measure and the local option issue.	Governor Rosellini vetoes small portions of the bill but leaves the emergency clause to be decided by the courts	Supreme Court rules that the emergency clause is not valid and opens the door for a Referendum (Ref. 34)			A Tacoma physician spearheads the gathering of 84,000 signatures for Ref. 34. (48,000 needed)  Signature petitions are stolen from the Sec. State's vault; Sec State puts Ref 34 on ballot anyway
			Supreme Court rules that Ref. 34 can be placed on the 1964 ballot			
1964						Ref. 34 defeated 55-45, Nov. 1964. Gambling is still illegal in WA State.

<b>DATES</b>	<b>LARGER CONTEXT</b>	<b>LEGISLATURE</b>	<b>WA SUPREME CT</b>	<b>ATTY GENERAL</b>	<b>FEDERAL GOVT</b>	<b>CONSTITUTION / VOTE OF PEOPLE</b>
<b>1969</b>	Defeat of Ref. 34 by 55-45 margin makes it impossible to pass gambling-related legislation between 1964 and 1969			Announces that he will crack down on pinball machines and seek stronger enforcement of state anti-gambling laws. Supports HB 453. Notes that there will always be gambling and says that bingo and raffles should be permitted	IRS announces that a non-profit, tax-exempt social club did not imperil its non-profit status by collecting money from gambling devices even if they were illegal in the community where the organization is located.	
<b>1969</b>		HB 453 does not pass.		Atty Gen issues formal opinion that local licensing of gambling games and devices is in conflict with state law. Notes that state law also prohibits gambling by charitable, religious, fraternal or other organizations.		
<b>1970</b>		HB 50 introduced; would permit raffles and bingo in fraternal and charitable organizations and churches. Prohibited virtually every other form of gambling. House passes HB 50 87-9				"Carefully worded" Constitutional amendment urged by Gov. Evans
<b>1970</b>		Constitutional amendment introduced in Senate, fails.				

<b>DATES</b>	<b>LARGER CONTEXT</b>	<b>LEGISLATURE</b>	<b>WA SUPREME CT</b>	<b>ATTY GENERAL</b>	<b>FEDERAL GOVT</b>	<b>CONSTITUTION / VOTE OF PEOPLE</b>
<b>1970</b>		HB 50 fails to pass.		Refuses to write ballot title for Initiative because there is no provision for amending the Constitution via Initiative.		Effort to amend Constitution via Initiative fails
<b>1970</b>				Atty Gen Gorton files suit against ten pinball operators to prove that pinball machines fit the definition of "lottery"		
<b>1970</b>					FBI informs local officials that federal authorities will take action if local officials allow gambling contrary to state law.	
<b>1971</b>	Local law enforcement officials, reacting to the FBI warning, shut down all gambling, including charitable bingo, etc.  Church schools, taverns, and others affected speak up.					

DATES	LARGER CONTEXT	LEGISLATURE	WA SUPREME CT	ATTY GENERAL	FEDERAL GOVT	CONSTITUTION / VOTE OF PEOPLE
1971	Legislators getting great pressure from constituents to allow charitable and non-profit gambling and social clubs.	SJR-5 introduced; would amend the Constitution to remove the prohibition on lotteries. Proponents said it was specifically designed to bring back bingo and raffles to private clubs and charitable organizations, but would also allow other forms of gambling.				
1971		SJR-5 approved by the Legislature on March 3 and set for the 1972 statewide ballot.  Legislature then started on implementing legislation (HB 291) in anticipation of SJR-5's passage. The plan was for the implementing bill to become effective immediately so that some forms of gambling could resume...and that any court challenge would not run its course until after the vote on SJR-5.  HB 291 passes Leg.				

<b>DATES</b>	<b>LARGER CONTEXT</b>	<b>LEGISLATURE</b>	<b>WA SUPREME CT</b>	<b>ATTY GENERAL</b>	<b>FEDERAL GOVT</b>	<b>CONSTITUTION / VOTE OF PEOPLE</b>
<b>1971</b>		Governor vetoes card rooms, pinballs, punchboards and pull tabs; and sections of HB 291.				
<b>1972</b>	Based on the passage of HB 291, some localities register nonprofit and charitable bingo operators and tax their proceeds at 5% of gross receipts.					
<b>1972</b>	The statewide ballot includes Presidential, Gubernatorial and other statewide races, and twenty-four ballot measures (including shoreline management, litter control, public disclosure, privatization of liquor sales, Washington Futures, tax exemptions and limits, etc.)	Amended the 1971 law to add agricultural fairs, to clarify the definition of and increase the gross receipts limits. Other language adding "games of physical skill" vetoed by the Governor.				
<b>1972</b>						Voters pass SJR-5 by a 62-38 margin, surprising almost everyone with this margin.

DATES	LARGER CONTEXT	LEGISLATURE	WA SUPREME CT	ATTY GENERAL	FEDERAL GOVT	CONSTITUTION / VOTE OF PEOPLE
1972		<p>Senate Municipal Committee starts on implementing legislation.</p> <p>Governor appoints his own "Advisory Committee" to make recommendations about what types of gambling to authorize</p>		<p>AGO stating that the Governor will have the authority to veto legislation authorizing lotteries passed by 60% of the House and Senate unless the bill is referred to the people for a vote.</p>		
1973	<p>Governor's Advisory Committee recommends: bingo, lotteries, punchboards, pulltabs, sports pools trade stimulants and raffles, both charitable and grocery store-type. No pinballs, slot machines, roulette or other casino games.</p> <p>Bingo and raffles for charitable and non-profit sector only. Punchboards, pull tabs, sports pools and card rooms for commercial use only. Recommends state commission to oversee and monitor. Recommends local veto (not option)</p>					

<b>DATES</b>	<b>LARGER CONTEXT</b>	<b>LEGISLATURE</b>	<b>WA SUPREME CT</b>	<b>ATTY GENERAL</b>	<b>FEDERAL GOVT</b>	<b>CONSTITUTION / VOTE OF PEOPLE</b>
<b>1973</b>		Senate adds agricultural fairs, pinballs, cardrooms; House adds local option, allows social card games and bingo for charitable organizations.				
<b>1973 (April)</b>		HB 711 passes House, with restriction only on pinballs.				
<b>1973 (April)</b>		Senate strips House language from HB 711, substitutes its own total amendment. Effort to restrict gambling only to bingo and raffles by charitable and non-profit organizations fails (18-30). Includes local veto.				
<b>1973 (April)</b>		House passes Senate-amended HB 711, April 16, 1973.				
<b>1973 (April)</b>		Governor vetoes card rooms and social card games, including Mah Jongg, urges caution in expanding gambling further until the state has more experience.				

<b>DATES</b>	<b>LARGER CONTEXT</b>	<b>LEGISLATURE</b>	<b>WA SUPREME CT</b>	<b>ATTY GENERAL</b>	<b>FEDERAL GOVT</b>	<b>CONSTITUTION / VOTE OF PEOPLE</b>
<b>1973 (Sept)</b>		Passes HB 487, restoring social card games and card rooms, to the list of authorized gambling activities.				
<b>1973 (Sept)</b>		Gov. Evans vetoes most of the bill, removing social card games and card rooms.				
<b>1974</b>		HB 473 passes, include many "clean-up" items requested by the Gambling Commission. Allows more discretion in deciding what constitutes a charitable or non-profit organization (Governor vetoes this). Adds fishing derbies and social card games (Gov. vetoes card games) Legislature overrides veto of social card rooms.				

## APPENDIX B: ANALYSIS OF THE LEGISLATIVE DECLARATIONS RELATED TO CHARITABLE/NONPROFIT GAMBLING

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### BILLS TO AUTHORIZE GAMBLING, 1969-73, 1994

#### Abbreviations and terms used in this section:

**C/NP** = charitable and nonprofit  
**HB** = House Bill  
**SHB** = Substitute House Bill  
**EHB** = Engrossed House Bill (passed)  
**ESHB** = Engrossed Substitute House Bill (passed)  
**2SHB** = Second Substitute House Bill  
**EHCR** = Engrossed House Concurrent Resolution

**Overview.** The Commission asked that the legislative declaration regarding charitable and nonprofit (C/NP) gambling be researched as part of this project, including researching whether other drafts were considered, whether charitable and nonprofit organizations were discussed and whether any court cases provided additional interpretation.

Charitable and nonprofit organizations were always a part of the discussion of authorizing gambling in Washington State. Both the legislative history and declarations make this clear. For some advocates, C/NP gambling was the primary reason to authorize gambling. The types of C/NP gambling envisioned in the 1960s and 1970s were church and other social bingo and raffles.

However, the legislative history clearly indicates that the Legislature intended to authorize more than C/NP gambling. This is particularly clear in looking at the Senate's action on HB 711 in 1973. The Senate considered and defeated an amendment that would have limited authorized gambling only to C/NP gambling.

The 1973 (SHB 711) legislative declaration includes a reference to C/NP gambling but the reference is somewhat indirect and less clear than language in bills considered in previous years. The relationship between raising funds for C/NP organizations and the authorized gambling activities is not clearly stated in the 1973 legislative declaration.

Further, all of the early versions of the legislative declaration emphasize strict control, keeping the criminal element out of gambling, and prohibiting professional gambling. This emphasis is underscored by the 1994 addition to the legislative declaration, which reiterates the need for strict regulation and control and does not mention C/NP gambling.

**Conclusions.** From the analysis below, it appears that the Legislature consistently intended:

- to authorize charitable and nonprofit gambling, as part of a wider authorization of gambling;
- to support the concept of gambling as a social pastime and not restrict participation in social pastimes;

- to acknowledge (although not specifically in the legislative declaration) that some charitable and nonprofit organizations would utilize gambling to raise funds;
- to strictly limit and control gambling in general;
- to keep the criminal element out of gambling.

The most recent legislative declaration language focuses solely on strict limits and controls and keeping the criminal element out of gambling.

Thus it is not possible to conclude that the Legislature intended to favor or encourage charitable/nonprofit gambling over other forms of gambling, or that the Legislature intended to assure the success of charitable/nonprofit gambling.

**Analysis.** There were five pieces of legislation that contained legislative declarations related to the Gambling Act that passed in 1973 (see table comparing versions):

HB 453 (1969), which reflected Attorney General Gorton's beliefs about restricting and controlling gambling. Original House sponsors were Kopet, Bottiger, Chapin, Sprague, Murray, Pardini and Gladder. This bill failed.

HB 50 (1970), sponsored by Murray, Bottiger, Pardini, Adams, Gallagher, Bagnariol, Martinis and Merrill. Contained specific language differentiating between "professional gambling for profit and charitable fund-raising by bona fide charitable and nonprofit organizations." This bill failed.

EHB 291 (1971) passed in anticipation of SJR-5's passing in 1972. Sponsors not known. Bingo—and the risks of exploitation--were a significant focus; Passed.

ESHB 711 (1973), sponsored originally by Kuehnle, Bagnariol, Ceccerelli, Morrison and Gallagher. The declaration itself enumerated the gambling activities to be authorized. Passed.

2SHB 2228 (1994) sponsored originally by Reps. Heavey, Lisk, Springer, Schmidt, Van Luven and Roland. Passed.

**Professional gambling and organized crime.** All four early (1969-73) versions spoke specifically to the "close relationship" between professional gambling and organized crime, and made it clear that the Legislature intended to restrain people from making a profit from "gambling" (1969 and 1970) which then changed to "professional gambling" in 1971 and 1973.

The fifth version (1994) was very direct in stating that "the public policy of the State of Washington on gambling is to keep the criminal element out of gambling by limiting the nature and scope of gambling activities and by strict regulation and control."

**Not restrict participation in social pastimes that are not for profit.** The desire to avoid restricting participation in social pastimes was clear in all four early bills. A reference to "social pastimes that are more for amusement rather than for profit" showed up in 1971 and carried over to 1973. In 1973, reference to "activities" in addition to

social pastimes is inserted. The 1994 addition contained no reference to social pastimes.

**Reference to “bona fide charitable and nonprofit organizations.”** This reference first appeared in 1970, in the context of “differentiating clearly” between “professional gambling for profit and charitable fund-raising by bona fide charitable and nonprofit organizations.”

In 1971 the Legislature made it clear that the “raising of funds for the promotion of bona fide charitable, educational, scientific, health, religious, civic and patriotic causes” is “in the public interest.” This statement was then linked to the language about differentiating between gambling for profit and professional fund-raising by bona fide charitable and nonprofit organizations. Note, however, that the term “professional” was moved from describing gambling to describing fund-raising.

1973 showed a significant change, however. It continued the statement that, “raising funds for the promotion of bona fide charitable or nonprofit organizations is in the public interest, and added “as is participation in such activities and social pastimes as are authorized” in this chapter. This is equivalent to saying, “the sky is blue, as is this (blue) pencil.” Should the sky turn gray, the pencil would not also turn gray.

Note that the language differentiating between gambling for profit and fund-raising for charitable and nonprofit organizations was deleted in the 1973 Declaration.

The 1994 addition contained no reference to charitable and non-profit gambling.

**Bingo singled out.** Only in the 1971 legislation was bingo singled out as having been “the subject of exploitation by professional gamblers, promoters and commercial interests.” This may have referred to the corruption hearings that were occurring about this time in Seattle. This reference was not carried forward into the 1973 legislation. Bingo was not mentioned in the 1994 addition.

**List of approved gambling activities.** In both 1971 and 1973 the Legislature chose to list the gambling activities they intended to authorize. Here is the comparison:

1971	1973
Bingo	Bingo
Raffles	Raffles
Pinball machines	
Amusement games	Amusement games
Social card rooms	Social card rooms
Punch boards	Punch boards
Pull tabs	Pull tabs
	Mah Jongg
	Card rooms

In 1971 the Legislature said its policy was that “all phases of the supervision and regulation of...[these games] ...should be closely controlled.”

The 1973 legislation authorized these activities when they are conducted "...pursuant to the provisions of this chapter and any rules and regulations adopted pursuant thereto..."

The 1994 addition said that by "limiting the nature and scope of gambling activities" the State can keep the criminal element out of gambling.

**Construal and enforcement.** The 1969, 1970 and 1971 bills all called for the provisions of the act to be "liberally construed" and "enforced with a view to carrying out the above declaration of policy."

Interestingly the 1973 version of this clause was much different. It called for "All factors incident to the activities authorized in this chapter shall be closely controlled and the provisions of this chapter shall be liberally construed to achieve such end." In other words, the key focus should be "close control" and the law liberally construed to achieve close control.

In 1994, the language clearly focused on "strict regulation and control."

**Commission philosophy.** There was a period of time in the mid-1980s where the Commission envisioned itself both as a regulator and as a "facilitator or profitable operations" for C/NP organizations. In 1987 the Commission extended this concept by stating that its role was to assure that "charitable/nonprofit organizations are furnished a regulatory environment that will enable them the opportunity to raise the highest possible amount of funding for use to promote or further their purposes." (1987, Bingo in Washington State—1986—Past, Present and Future, page 14.). While these were noble sentiments, there is no basis for them in the legislative declarations.

**Further information.** Documents were not available to provide additional detail about the reasons for the legislative declaration language in 1969-73. However the 1994 language was the product of a Legislative Task Force on Gambling Policy and its report provides the following background:

In 1993, the Legislature passed EHCR 4403, in response to the expansion of gambling by Indian tribes, by neighboring states and by the federal government (cruise ships.). EHCR 4403 established a Legislative Task Force on Washington State Gambling Policy. The reasons for establishing the Task Force are stated as follows:

- Whereas, the State's public policy has been to prevent organized crime from infiltrating legalized gambling;
- Whereas, increased competition for the gambling dollar will result in pressure to legislate increases in the nature and scope of gambling currently authorized in the State; and
- Whereas, the State's public policy on gambling, in many respects, has not been clearly defined....

The assigned work of the Task Force included as item #3 the need for more clearly defining the State's public policy on gambling.

The Task Force consisted of legislators and representatives from the Governor's Office. The Gambling Commission, Horse Racing Commission and Lottery Commission all had liaison, non-voting members.

The Task Force Report included a wide-ranging summary of a number of key issues related to gambling in Washington State at that time. The report notes that incremental expansions of gambling “designed to level the playing field” could result in explosive growth in overall gambling. Based on their conclusion that “the pressure to expand gambling in Washington State will continue to mount,” the Task Force recommended adding language to RCW 9.46.010 clarifying the State’s overall policy. The recommended language came from Washington State’s IGRA (Indian Gaming Regulatory Act) Negotiating Team, assigned to negotiate gambling compacts with Washington’s Indian Tribes consistent with IGRA. The Task Force noted that the negotiating team had chosen this language “based upon recurring themes throughout state gambling statutes” (Bingo Task Force report, 1993, page 31).

In 1994, the Legislature enacted 2SHB 2228, which codified the Task Force’s recommendations as follows:

*The public policy of the State of Washington on gambling is to keep the criminal element out of gambling by limiting the nature and scope of gambling activities and by strict regulation and control.*

This statement was added to RCW 9.46.010 Legislative Declaration. The remaining portion of the Legislative Declaration, from the 1973 law, was retained.

The Legislative Task Force report acknowledged that charitable and nonprofit gambling generates revenue for charitable purposes in a “voluntary and relatively painless” way (page iv). Requests from C/NP licensees to “level the playing field” as competition increased were described as part of the incremental changes that could result in rapid expansion of gambling. The Task Force noted that the Legislature should “continue to explore ways for charities to raise more money more efficiently through gambling activities” (page viii). However the report also acknowledged that the market could be reaching the saturation point (page 28).

While the Task Force acknowledged the charitable/nonprofit gambling sector in its work, its primary focus was on developing policies that would allow the State of Washington to handle effectively the pressure to expand gambling, primarily in the commercial sector.

Paragraph	HB 453 (1969) A.G. Gorton proposed (failed)	HB 50 (1970) (failed)	EHB 291 (1971)	SHB 711 (1973)
One	<p>It is hereby declared to be the policy of the legislature, recognizing the close relationship between professional gambling and organized crime, to restrain all persons from seeking profit from gambling activities in this state; to restrain all persons from patronizing such activities when conducted for the profit of any person; to safeguard the public against the evils induced by common gamblers and common gambling houses...</p>	<p>It is hereby declared to be the policy of the legislature, recognizing the close relationship between professional gambling and organized crime, to restrain all persons from seeking profit from gambling activities in this state; to restrain all persons from patronizing such activities when conducted for the profit of any person; to safeguard the public against the evils induced by common gamblers and common gambling houses...</p>	<p>It is hereby declared to be the policy of the legislature, recognizing the close relationship between professional gambling and organized crime, to restrain all persons from seeking profit from professional gambling activities in this state; to restrain all persons from patronizing such professional gambling activities; to safeguard the public against the evils induced by common gamblers and common gambling houses engaged in professional gambling...</p>	<p>It is hereby declared to be the policy of the legislature, recognizing the close relationship between professional gambling and organized crime, to restrain all persons from seeking profit from professional gambling activities in this state; to restrain all persons from patronizing such professional gambling activities; to safeguard the public against the evils induced by common gamblers and common gambling houses engaged in professional gambling...</p>
One	<p>...and at the same time, to preserve the freedom of the press and to avoid restricting participation by individuals in sports and social pastimes which are not for profit, do not affect the public, and do not breach the peace.</p>	<p>...and at the same time, to preserve the freedom of the press, to avoid restricting participation by individuals in sports and social pastimes which are not for profit, do not affect the public, and do not breach the peace...</p>	<p>...and at the same time, to preserve the freedom of the press and to avoid restricting participation by individuals in sports and social pastimes, which social pastimes are more for amusement rather than for profit, do not maliciously affect the public, and do not breach the peace.</p>	<p>...and at the same time, both to preserve the freedom of the press and to avoid restricting participation by individuals in activities and social pastimes, which activities and social pastimes are more for amusement rather than for profit, do not maliciously affect the public, and do not breach the peace.</p>

Paragraph	HB 453 (1969) (Gorton)	HB 50 (1970)	EHB 291 (1971)	SHB 711 (1973)
Two	<i>No comparable language.</i>	...and differentiate clearly between professional gambling for profit and charitable fund-raising by bona fide charitable and nonprofit organizations.	The legislature hereby declares that the raising of funds for the promotion of bona fide charitable, educational, scientific, health, religious, civic and patriotic causes and undertakings is in the public interest and that it must differentiate clearly between gambling for profit and professional fund-raising by bona fide charitable and nonprofit organizations.	The legislature further declares that the raising of funds for the promotion of bona fide charitable or nonprofit organizations is in the public interest as is participation in such activities and social pastimes as are hereinafter in this chapter authorized.
Three	<i>No comparable language.</i>	<i>No comparable language.</i>	The legislature further finds that, as conducted prior to the enactment of this 1971 amendatory act, bingo was the subject of exploitation by professional gamblers, promoters and commercial interests.	<i>No comparable language.</i>
Four	<i>No comparable language.</i>	<i>No comparable language.</i>	It is hereby declared to be the policy of the legislature that all phases of the supervision and regulation of bingo and of the conduct of bingo games, raffles, pinball machines and other similar mechanical amusement devices, amusement games, social card rooms, punch boards and pull tabs, should be closely controlled.	The legislature further declares that the conducting of bingo, raffles and amusement games and the operation of punch boards, pull tabs, card rooms, Mah Jongg, social card rooms and other social pastimes, when conducted pursuant to the provisions of this chapter and any rules and regulations adopted pursuant thereto, are hereby authorized, as are only such lotteries for which no valuable consideration has been paid or agreed to be paid as hereinafter in this chapter provided.
Five	All provisions of this act shall be liberally construed to achieve these ends, and administered and enforced with a view to carrying out the above declaration of policy.	All provisions of this act shall be liberally construed to achieve these ends, and administered and enforced with a view to carrying out the above declaration of policy.	All of the provisions of this 1971 amendatory act shall be liberally construed to achieve these ends, and administered and enforced with a view to carrying out the above declaration of policy.	All factors incident to the activities authorized in this chapter shall be closely controlled, and the provisions of this chapter shall be liberally construed to achieve such end.

**1994 Addition to the Legislative Declaration.** The following language was added to the beginning of RCW 9.46.010, Legislative Declaration, in 1994, through 2SHB 2228:

The public policy of the State of Washington on gambling is to keep the criminal element out of gambling by limiting the nature and scope of gambling activities and by strict regulation and control.

The remainder of the language, as shown below, was retained:

It is hereby declared to be policy of the legislature, recognizing the close relationship between professional gambling and organized crime, to restrain all persons from seeking profit from professional gambling activities in this state; to restrain all persons from patronizing such professional gambling activities; to safeguard the public against the evils induced by common gamblers and common gambling houses engaged in professional gambling and at the same time, both to preserve the freedom of the press and to avoid restricting participation by individuals in activities and social pastimes, which activities and social pastimes are more for amusement rather than for profit, do not maliciously affect the public, and do not breach the peace.

The legislature further declares that the raising of funds for the promotion of bona fide charitable or nonprofit organizations is in the public interest as is participation in such activities and social pastimes as are hereinafter in this chapter authorized.

The legislature further declares that the conducting of bingo, raffles and amusement games and the operation of punch boards, pull tabs, card rooms, Mah Jongg, social card rooms and other social pastimes, when conducted pursuant to the provisions of this chapter and any rules and regulations adopted pursuant thereto, are hereby authorized, as are only such lotteries for which no valuable consideration has been paid or agreed to be paid as hereinafter in this chapter provided.

All factors incident to the activities authorized in this chapter shall be closely controlled, and the provisions of this chapter shall be liberally construed to achieve such end.

## **APPENDIX C: SUPPLEMENTAL DATA ANALYSIS: READER'S GUIDE TO THE DATA IN THIS APPENDIX AND THE INDICATORS USED**

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This Appendix includes two types of data:

- Detailed data tables for the Stated Purpose and Top 10/20 analyses found in the body of the report
- Analysis of Bingo, PB/PT and Raffles by size of licensee (grouped into Pools)

All data are drawn from the Commission's database and are calendar year (CY) data.

### **Guide to terminology used:**

**Gambling activities:** Major activities analyzed in this report were Bingo, Punchboards/Pulltabs (PB/PT) and Raffles. Other C/NP gambling activities include amusement games, fund-raising events, and social card rooms

**Pool:** A grouping of licensees based on size. The dividing lines between the groups are different for each gambling activity, based on how the licensees cluster. There are four Pools in each activity: Small, Medium, Large and Extra-Large.

**Stated purpose:** The charitable or nonprofit purpose identified by the licensee in its application for a gambling activity license.

**Top 20/10 licensees:** The twenty largest licensees, by Gross Receipts, in Bingo and PB/PT for each year between 1993 and 2003. The ten largest licensees, by Gross Receipts, in Raffles for each year between 1993 and 2003. The Top 20 or 10 is for the year indicated, so the licensees on the list can change from year to year.

### **Key indicators:**

**Best Year:** The year in which the specific indicator is at its highest level—for example, the year in which gross receipts or the number of licensees is highest. Many of the comparisons done are between the Best Year and 2003, to give a picture of how much change has occurred since the Best Year. In some cases, 2003 is the Best Year.

Looking at whether the Best Years cluster into certain time periods (or not) gives an additional picture of how the sector and the activities within it have been affected by Commission actions, growth of competition, etc.

**Size: Total Gross Receipts:** Total gross receipts indicate whether the C/NP sector, and the gambling activities within it, are growing or declining.

**Size: Average Gross Receipts or Gross Receipts per Licensee.** The gross receipts in an activity for any given year divided by the number of licensees in that year. This indicator measures the size of the games and whether they are growing or declining. Because the number of licensees in a Pool or stated purpose changes from year to year, the average GR gives a better picture of growth or decline than only looking at the total.

**Benefit to the C/NP Purpose: Total Net Income.** Net income is gross receipts less prize payouts and expenses of the gambling operations. It is the total amount available to apply to the charitable or nonprofit purpose.

Total net income measures whether the amount of money being generated by gambling activities for C/NP purposes is increasing or decreasing.

**Benefit to the C/NP Purpose: Average Net Income or Net Income per Licensee.** This is the total net income for an activity in any given year divided by the number of licensees in that year. This indicator measures whether the amount of net income per licensee is increasing or decreasing. Because the number of licensees in a Pool or stated purpose changes from year to year, the average GR gives a better picture of growth or decline than only looking at the total.

**Volume vs. Profit: Net Income as a percentage of Gross Receipts.** This indicator divides net income by gross receipts to look at the relationship between growth or decline in volume (GR) and whether higher volume produces more net income. Here, the trend from year to year is the key measure.

**Cost to Raise a Dollar of Net Income (CTR):** Expenses of the gambling operation are divided by net income for each year. This indicator was chosen for two reasons. First, it gives a picture of how much money is being spent to raise \$1.00 of net income for the C/NP purpose. Second, it provides a comparison to other non-gambling charitable and nonprofit fundraising activities.

The Cost to Raise indicator was developed as a way to compare to other forms of nonprofit fundraising, where the cost to raise a dollar of private support should not exceed 35 cents (Better Business Bureau, Wise Giving Alliance, 2003).

Trends in CTR are useful because they show if expenses are rising faster than net income. A rapid rise in CTR for an individual licensee appears to be an indicator of potential financial problems in the gambling operation.

**ANALYSIS OF LICENSEES AND FINANCIAL DATA**  
**BY POOL (SIZE)**

## APPENDIX C: ANALYSIS OF POOL/SIZE OF LICENSEE INFORMATION

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**Purpose and Background.** The purpose of this analysis was to determine trends in Bingo, PB/PT and Raffles for C/NP licensees in different size groupings called Pools. The years examined include 1987-2003. Comparisons were made for each Pool between its “Best Year”—the year in which the indicator was the highest—and 2003, for number of licensees, Gross Receipts, Net Income, and CTR. All years are calendar years.

### Terms and abbreviations used in this section:

**C/NP** = charitable/nonprofit

**Pool** = cluster of licensees into size groupings (groupings are different for each activity)

**Activity** = the type of C/NP gambling, such as bingo, or raffles

**PB/PT** = Punchboard/Pulltabs

**GR** = Gross Receipts

**NI** = Net Income

**CTR** = Cost to raise a dollar (of net income)

**Best Year** = the year in which there was the highest number of licensees, the highest gross receipts, the highest net income (may be a different year for each)

Licensees were put into four “pools” based on logical breaks in size. WSGC staff plotted all licensees by size and identified the four distinctive groupings for each gambling activity.

**Bingo:** Note that the Pool minimums and maximums are different for Bingo than for PB/PT or Raffles.

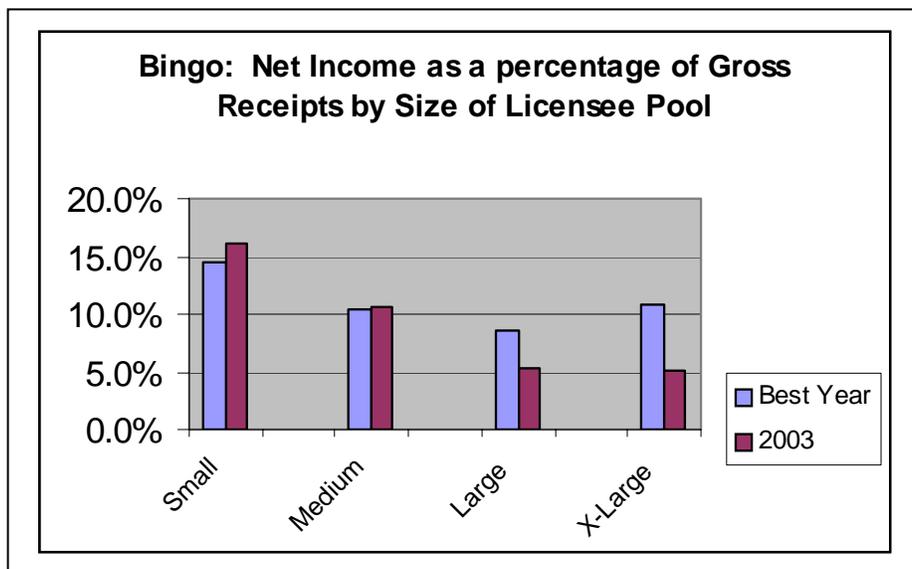
Pool One (Small):	Up to \$25,000 in gross receipts
Pool Two (Medium):	\$25,001 - \$500,000
Pool Three (Large)	\$500,001 - \$3.5 million
Pool Four (Extra-Large):	\$3.5 million - \$10 million

**Number of licensees.** The number of licensees declined in every pool. The Medium and Large Pools declined the most, with decreases of well over half their licensees between their best years and 2003. The Small Pool, the smallest licensees, declined the least, at 37%. The number of Extra-Large licensees declined by 54%. In general, licensees have been getting out of bingo, with the mid-sized operators showing the greatest decline.

**Gross receipts.** Gross receipts declined in every Pool as well. In the Medium and Large Pools (2 and 3), GR declined by over 60%. The smallest operators (Small Pool) saw a decline of 44%. Only the Extra-Large licensees held fairly constant in GR, with a slight decline of 3.8%. The higher decline in GR in the mid-sized Pools is probably due to the decrease in the number of licensees.

**Net income.** All Pools showed a serious decline in net income. The biggest drop was in the Large Pool, with a decline of 76%. The Medium Pool was next, with a decline of 60%. The Extra Large Pool saw a decline of 55% in net income. The Small Pool dropped in net income by 37%.

Even though the Extra Large licensees were able to hold their gross receipts fairly steady, they experienced a significant drop in net income. This suggests that a higher volume of gross receipts does not necessarily produce higher net income. The Extra-Large Pool has the smallest ratio of net income to gross receipts in 2003, at 5.1% (half of what it was in the best year of 1992--10.8%). This means that only 5 cents of net income is generated from \$1.00 in gross receipts. The smaller licensees in the Small and Medium Pools saw a much higher percentage of their gross receipts end up as net income.



The average net income (net income per licensee) for Extra-Large licensees was \$629,323 in their best year of 1992; but by 2003 their average net income had dropped to \$257,438, a reduction of 59%. Average net income in the other three Pools declined as well, but by much less.

Net income as a percentage of gross receipts—or how much of gross receipts ends up as net income--increased slightly in the Small and Medium Pools. The Large Pool saw a decline of 3.2 percentage points to 5.4%, and the Extra Large Pool declined by 5.7 percentage points, from 10.8% to 5.1%.

**Cost to raise a dollar of net income.** The cost to raise a dollar of net income has increased the most for the Large and Extra Large Pools. The CTR for the Medium Pool increased the least. This increase most likely reflects the efforts made by the larger licensees to improve the facilities and operation of their games to increase their customer base in the face of increased competition from commercial and Indian gambling. However these higher expenditures to improve operations have reduced net income available for their stated purpose.

**Best years.** Note that the best years—the years with the highest total for the indicator—are all clustered either in the 1987-88 time period, or in the 1991-92-93-95 time period. This indicates that actions taken by the Commission to assist licensees in 1995, 1999, 2001 and 2004 may have helped licensees with compliance but did not stem the decline in net income available for the C/NP purpose. This conclusion was confirmed by a separate analysis of the impact of the net income/net return/adjusted cash flow rules changes, which is described in the Data chapter of the main report.

**Punchboards/Pulltabs (PB/PT):** (Note that the Pool minimums and maximums are different for PB/PT than for Bingo and Raffles)

Pool One (Small):	Up to \$25,000 in gross receipts
Pool Two (Medium):	\$25,001 - \$75,000
Pool Three (Large)	\$75,001 - \$1.75 million
Pool Four (Extra-Large):	\$1.75 million - \$10 million

**Number of licensees.** The number of licensees has declined in the smaller three Pools). The number of licensees has increased from 1 in 1987 to 7 in 2003 in the Extra-Large Pool.

**Gross receipts.** Gross receipts have dropped for the Small and Medium Pools from their best years to 2003, by 54% and 24% respectively. This somewhat mirrors the drop in the number of licensees in those Pools. Gross Receipts for the Large Pool dropped 33%, also mirroring the drop in licensees. The Extra-Large Pool showed 2003 as their best year, with a 42% increase from 2002. The closest this Pool came to this level of gross receipts in the past was in 1997, with eight licensees. It appears that licensees are moving up into the Extra-Large Pool and expanding their PB/PT activity.

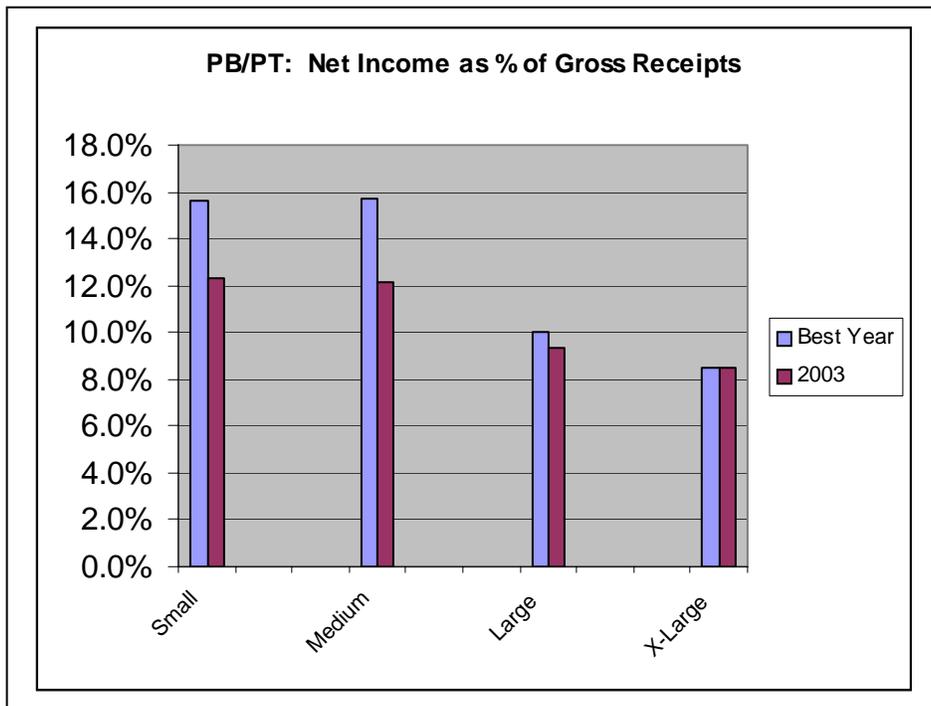
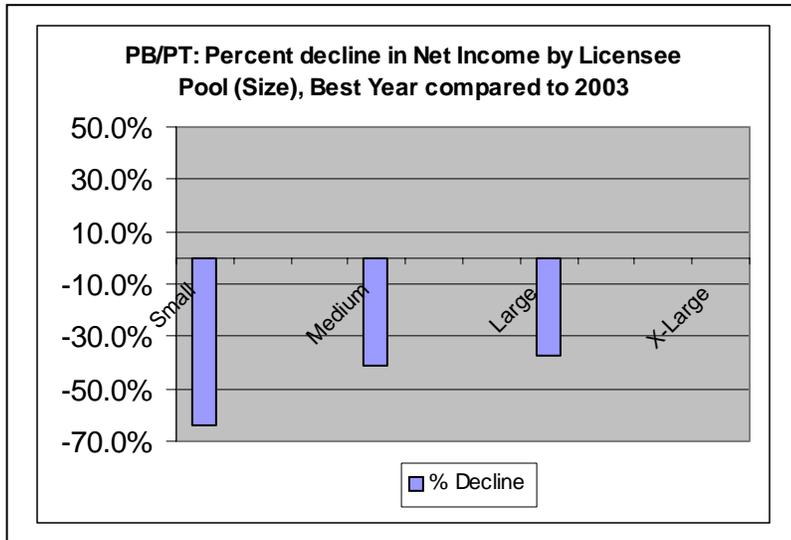
Average gross receipts have declined slightly since the best year for the Small, Medium and Large Pools. Average gross receipts in the Extra-Large Pool have grown steadily since 1994.

**Net income.** Net income has declined significantly in the Small (64%) and Medium (41%) Pools, down more sharply than gross receipts. The Large Pool saw a decrease of 37% in Net Income. Net income increased dramatically in the Extra-Large Pool with a 59% increase from 2002 to 2003. For the Extra-Large Pool, net income from PB/PT is increasing faster than gross receipts.

Average net income was very modest in the Small Pool, dropping from \$2,068 in the best year of 1987 to \$1,389 in 2003. The drop in the Medium Pool was from \$8,641 (best year = 1993) to \$5,731 in 2003. Average net income in the Extra-Large Pool leaped up to \$265,693 in 2003 after hovering in the \$180,000 range for most of the 1990s.

Net income as a percentage of gross receipts—or how much of gross receipts ends up as net income--declined in every Pool except the Extra-Large Pool. The decline was 3.3 percentage points in the Small Pool 3.6 percentage points in the Medium Pool and 0.6 percentage point in the Large Pool. Even with this decline, the overall percentage of NI to GR was higher in all three of these Pools in 2003 than it was in the Extra-Large Pool. This means that all three of the smaller Pools are more efficient in turning a dollar of gross receipts into net income.

The Extra-Large Pool's net income as a percentage of gross receipts ranges from a high of 10.9% in 1988 to a low of 4.7% in 2001 before increasing to 7.0% in 2003.



**Cost to raise a dollar of net income.** The initial assumption about PB/PT was that the cost to operate this activity was very low, other than the cost of the games. In actual reported expenses, this assumption turns out to be incorrect and suggests further research about PB/PT expenses (especially the Other category) and methods used for allocating expenses among various gambling activities.

In the Small and Medium Pools, the CTR increased from around \$1.13 in the best year of 1987 to the \$1.80s in 2003. The Large Pool's CTR is slightly higher than the Extra-Large Pool's, for both the best year and 2003, probably reflecting slightly lower economies of scale in the Large Pool licensee group.

Because 2003 is the best year for the Extra-Large Pool, it is important to look at previous years for a sense of the trend. The \$2.02 reported in 2003 was much lower than the previous ten years, where the CTR ranged from \$4.52 in 1995 to \$2.85 in 1998. It is not clear if this is a reporting anomaly or if it represents a significant decrease in expenses.

**Best years.** For the Small Pool, 1987 was its best year. For the Medium Pool the best years were 1993 (NI), 1996 (GR) and 1998 for number of licensees. For the Extra-Large Pool there was one more licensee through much of the 1990s but the best financial year was 2003, suggesting that the largest licensees have put much more emphasis on growing their PB/PT business in the past 18 months.

**Raffles:** Note that the maximums and minimums for the Pools are different for Raffles than for Bingo and PB/PT.

Pool One (Small):	Up to \$25,000 in gross receipts
Pool Two (Medium):	\$25,001 - \$50,000
Pool Three (Large):	\$50,001 - \$75,000
Pool Four (Extra-Large):	Over 75,000

**Number of licensees.** Raffles have the largest number of licensees of any C/NP gambling activities. Every Pool had increases in the number of licensees from 1987 to the present. The Small Pool increased by 154 licensees (44.8% over 1987); Medium increased by 32 licensees (213%), Large was up ten licensees (250%) and Extra-Large increased by six licensees (150%). Raffles are the current growth sector in C/NP gambling.

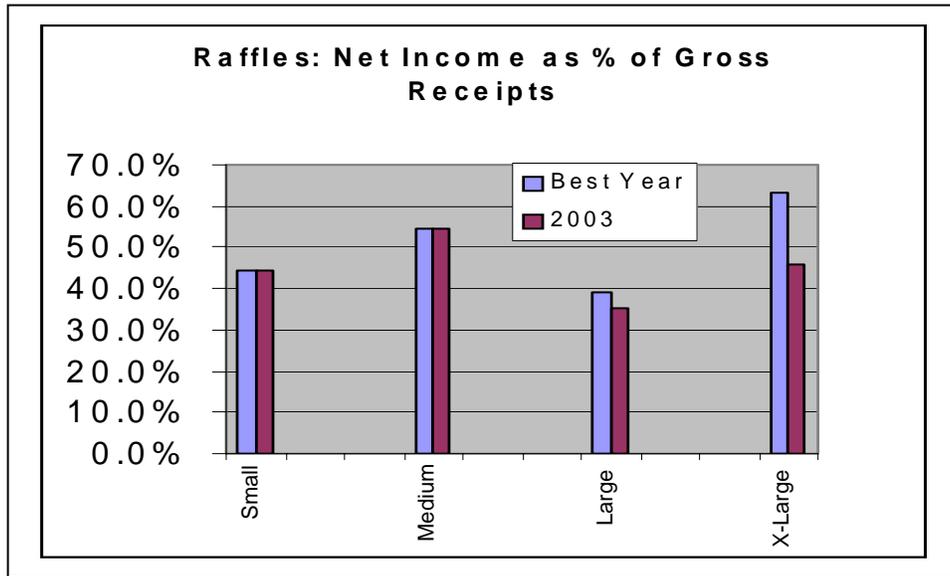
**Gross receipts.** 2003 was the best year for gross receipts for the Small, Medium and Large Pools. The Extra-Large Pool had its best year in 1998, and while 2003 is down 29% for Extra-Large in total GR dollars, it is down only \$1,700 per licensee on average.

**Net income.** Best net income occurred in 2003 for both Small and Medium Pools. The Large Pool had its best year in 1997 and had declined a little over 9% by 2003. The Extra-Large Pool experienced its best year in 1998 and had seen a decline of 49% by 2003.

Average net income steadily increased in the Small and Medium Pools, but represented modest amounts of cash, topping out in 2003 for Small at \$2,701 and at \$19,458 for Medium. Both the Large and Extra-Large Pools showed decreases in average net income, from \$34,000 in 1997 to 22,126 in 2003 for Large, and from \$95,000 in 1998 to \$68,000 in 2003 for Extra-Large.

Net income as a percentage of gross receipts—or how efficient the licensee is in turning gross receipts into net income--was by far the highest in Raffles, compared to the other gambling activities. While the Bingo and PB/PT NI/GR percentages hovered in the single digits or teens, the net income percentages in Raffles were orders of magnitude higher.

In the Small Pool net income was 44% of gross receipts and in the Medium Pool it was 54%. In the Large Pool it dropped to 35% in 2003 from 39% in the best year of 1997. In the Extra-Large Pool the percentage dropped from 63% in the best year of 1998 to 46% in 2003. What this means is that the largest Raffles licensees are either offering larger prizes or incurring more expenses for their raffles, while smaller Raffles licensees are keeping expenses lower and seeing increases in net income relative to gross receipts.



**Cost to raise a dollar of net income.** Because Raffles make use of many volunteers and often have discounted or donated prizes, the CTR is very low, running at 40 cents or less for all Pools. The CTR has increased for the Large and Extra-Large Pools but is still nominal, at 40 cents for Large and 34 cents for Extra-Large in 2003.

**Best years.** The best years for Raffles were 1998 (for the Extra-Large Pool, 2003 for the Small and Medium Pools, and 2003 for the Large Pool except for net income where 1997 was the best year. This indicates that Raffles are growing in size and yield for the C/NP purpose. This is also consistent with the fact that total Raffle net income is now 50% of total Bingo net income.

**BINGO SUMMARY BY SIZE (POOL): KEY INDICATORS, 1987-2003**

POOL	Bst #lic&yr	2003 lic	Bst GR&yr	AvgBst GR	2003 GR	Avg03GR	BstNI&yr	AvgBstNI	2003 NI	Avg03NI	CTRBst	CTR03	Chg GR	Chg NI	CTR chg	NI/GRBst	NI/GR03
<b>Small Pool</b> Up to 25,000	175 1987-88	119	1,527,222 1988	8,727	856,382	7,196	221,256 1991	1,427	138,585	1,165	\$0.37	\$0.62	-43.9%	-37.4%	67.6%	14.5%	16.2%
<b>Medium Pool</b> 25,001-500,000	294 1987	136	35,911,469 1987	179,250	14,068,666	103,446	3,722,527 1991	14,047	1,496,019	11,000	\$1.06	\$1.29	-60.8%	-59.8%	21.7%	10.4%	10.6%
<b>Large Pool</b> 500,001-3.5m	75 1993	24	125,349,945 1993	1,671,332	47,104,696	1,962,696	10,786,652 1991	109,459	2,557,073	106,545	\$1.73	\$4.28	-62.4%	-76.3%	147.4%	8.6%	5.4%
<b>Extra-Large Pool</b> 3.5m-10m	12 1995	10	52,652,246 1,995	4,387,687	50,663,418	5,066,342	5,663,915 1992	629,323	2,574,376	257,438	\$1.41	\$4.16	-3.8%	-54.5%	195.0%	10.8%	5.1%

**PUNCHBOARD/PULLTAB SUMMARY BY SIZE (POOL): KEY INDICATORS, 1987-2003**

POOL	Bst #lic&yr	2003 lic	Pk Bst&yr	AvgBst GR	2003 GR	Avg03GR	BstNI&yr	AvgBstNI	2003 NI	Avg03NI	CTRBst	CTR03	Chg GR	Chg NI	CTR chg	NI/GRBst	NI/GR03
<b>Small Pool</b> Up to 25,000	78 1987	42	1,031,267 1987	13,221	474,346	11,294	161,277 1987	2,068	58,343	1,389	\$1.12	\$1.88	-54.0%	-63.8%	67.9%	15.6%	12.3%
<b>Medium Pool</b> 25,001-75,000	92 1998	70	4,354,406 1996	50,051	3,312,652	47,324	682,616 1993	8,641	401,144	5,731	\$1.14	\$1.83	-23.9%	-41.2%	60.5%	15.7%	12.1%
<b>Large Pool</b> 75,001-1,750,000	270 1994	196	91,408,615 1992	339,809	61,049,863	311,479	9,176,408 1992	34,113	5,722,034	29,194	\$2.25	\$2.10	-33.2%	-37.6%	-6.7%	10.0%	9.4%
<b>Extra-Large Pool</b> 1,750,001 and up	8 12,94,95,97	7	21,828,538 2,003	3,118,362	21,828,538	3,118,363	1,859,851 2003	265,693	1,859,851	265,693	\$2.02	\$2.02	0.0%	0.0%	0.0%	8.5%	8.5%

119

This chart compares the Best Year to 2003 within each Pool for number of licensees, Gross Receipts, Net Income, Cost to Raise (CTR) a dollar of Net Income, and percent of Gross Receipts that ends up as Net Income. Note that the actual Best Year can differ by indicator. Note also that the Bingo Pools are sized differently than the PB/PT Pools.

**RAFFLES SUMMARY BY SIZE (POOL): KEY INDICATORS, 1987-2003**

POOL	Bst #lic&yr	2003 lic	Bst GR&yr	AvgBst GR	2003 GR	Avg03GR	BstNI&yr	AvgBstNI	2003 NI	Avg03NI	CTRBst	CTR03	Chg GR	Chg NI	CTR chg	NI/GR Bst	NI/GR03
<b>Small Pool</b> Up to 25,000	497 2003	497	3,025,184 2003	6,087	3,025,184	6,087	1,342,408 2003	2,701	1,342,408	2,701	\$0.23	\$0.23	0.0%	0.0%	0.0%	44.4%	44.4%
<b>Medium Pool</b> 25,001-500,000	47 2003	47	1,683,328 2003	35,815	1,683,328	35,815	914,530 2003	19,458	914,530	19,458	\$0.20	\$0.20	0.0%	0.0%	0.0%	54.3%	54.3%
<b>Large Pool</b> 500,001-3.5m	14 2003	14	875,359 2003	62,526	875,359	62,526	341,197 1997	34,120	309,757	22,126	\$0.18	\$0.40	0.0%	-9.2%	122.2%	39.0%	35.4%
<b>Extra-Large Pool</b> 3.5m-10m	14 1998	10	2,111,553 1998	150,825	1,491,268	149,127	1,335,273 1998	95,377	680,903	68,090	\$0.16	\$0.34	-29.4%	-49.0%	112.5%	63.2%	45.7%

This chart compares the Best Year to 2003 within each Pool for number of licensees, Gross Receipts, Net Income, Cost to Raise (CTR) a dollar of Net Income, and percent of Gross Receipts that ends up as Net Income. Note that the actual Best Year can differ by indicator. Note also that the Raffle Pools are sized differently than the Bingo and PB/PT Pools.

## **DETAILED DATA TABLES FOR:**

- **STATED PURPOSE**
- **TOP 20/10 LICENSEES**

**BINGO SUMMARY STATED PURPOSE SECTOR: KEY INDICATORS, 1987-2003**

SECTOR	Bst #lic&yr	2003 lic	Bst GR&yr	AvgBst GR	2003 GR	Avg03GR	BstNI&yr	AvgBstNI	2003 NI	Avg03NI	CTRBst	CTR03	Chg NI	CTR chg
<b>Agricultural</b>	14 1994-96	10	1,694,689 1995	121,049	1,242,799	124,280	171,214 2001	15,564	158,540	15,854	\$1.63	\$1.39	1.8%	-14.7%
<b>Athletic</b>	16 1992-94	6	25,094,993 1997	179,250	12,819,612	2,136,602	3,392,062 1994	212,004	846,389	141,065	\$2.06	\$4.12	-50.3%	100.0%
<b>Charitable</b>	86 1994	59	79,855,913 1994	928,557	41,512,446	703,601	8,318,866 1991	109,459	2,376,330	40,277	\$1.61	\$3.73	-171.8%	131.7%
<b>Civic</b>	44 1990-91	21	12,168,904 1992	296,802	8,864,134	422,102	1,136,369 1988	29,904	308,254	14,679	\$1.38	\$5.29	-103.7%	283.3%
<b>Educational</b>	31 2001	29	25,010,073 1996	1,250,504	17,665,925	609,170	2,345,114 1997	130,284	859,978	29,654	\$1.83	\$4.23	-339.3%	131.1%
<b>Fraternal</b>	190 1990	113	26,757,941 1992	152,903	9,578,542	84,766	3,025,374 1991	16,532	994,441	8,800	\$1.17	\$1.34	-87.9%	14.5%
<b>Patriotic</b>	89 1987	48	16,144,109 1992	212,422	15,832,307	329,840	1,709,409 1991	21,638	1,136,465	23,676	\$1.43	\$2.36	8.6%	65.0%
<b>Religious</b>	34 1987	6	5,417,336 1993	246,243	8,097	1,350	409,159 1987	12,034	3,074	512	\$1.26	\$0.05	-2248.9%	-96.0%
<b>Social</b>	67 1987,90	49	4,133,669 1987	61,696	835,495	17,051	337,607 1987	5,039	82,582	1,685	\$1.85	\$0.84	-199.0%	-54.6%
<b>Other</b>	47 1987	0	2,767,706 1987	58,887	0	0	114,220 1987	2,430	0	0	\$3.73	N/A		N/A

This chart compares the Best Year to 2003 within each stated purpose for number of licensees, Gross Receipts, Net Income and Cost to Raise (CTR) a dollar of Net Income. Note that the actual Best Year can differ by indicator.

**PUNCHBOARD PULLTAB SUMMARY STATED PURPOSE SECTOR: KEY INDICATORS, 1987-2003**

SECTOR	Bst #lic&yr	2003 lic	Bst GR&yr	AvgBst GR	2003 GR	Avg03GR	BstNI&yr	AvgBstNI	2003 NI	Avg03NI	CTRBst	CTR03	Chg NI	CTR chg
<b>Agricultural</b>	4 1991-2000	3	949,945 1992	237,486	477,035	159,012	100,678 1992	25,169	31,576	10,525	\$2.07	\$3.70	-139.1%	78.7%
<b>Athletic</b>	15 1992-94	6	18,199,906 1997	1,399,993	12,201,610	2,033,602	1,277,638 1993	85,176	911,856	151,976	\$3.03	\$2.43	44.0%	-19.8%
<b>Charitable</b>	60 1994	36	34,145,650 1993	578,740	16,660,201	462,783	2,892,232 1992	49,866	1,268,910	35,248	\$2.74	\$2.70	-41.5%	-1.5%
<b>Civic</b>	16 1993, 95	7	4,236,844 1993	264,802	3,511,144	501,592	328,823 1993	20,551	195,006	27,858	\$3.24	\$3.66	26.2%	13.0%
<b>Educational</b>	12 1990,95	5	10,057,814 1996	914,346	6,680,073	1,336,015	766,219 1994	69,656	679,421	135,884	\$2.96	\$1.67	48.7%	-43.6%
<b>Fraternal</b>	192 1994	173	34,500,781 1992	183,415	29,015,149	167,718	4,323,618 1992	22,998	3,116,472	18,014	\$1.62	\$1.78	-27.7%	9.9%
<b>Patriotic</b>	97 1993,96	86	17,562,444 1998	188,843	17,081,838	198,626	1,850,984 1992	19,903	1,731,709	20,136	\$1.87	\$1.87	1.2%	0.0%
<b>Religious</b>	12 1987	0	1,424,920 1994	158,324	0	#DIV/0!	142,107 1993	17,763	0	-	\$2.14	N/A	N/A	N/A
<b>Social</b>	17 1991	7	1,038,349 2003	148,335	1,038,349	148,336	128,797 1998	12,880	125,289	17,898	\$1.58	\$1.47	28.0%	-7.0%
<b>Other</b>	21 1987	0	694,589 1987	33,076	0	0	57,345 1987	2,731	0	0	\$2.84	N/A	N/A	N/A

123

This chart compares the Best Year to 2003 within each stated purpose for number of licensees, Gross Receipts, Net Income and Cost to Raise (CTR) a dollar of Net Income. Note that the actual Best Year can differ by indicator.

**RAFFLES SUMMARY STATED PURPOSE SECTOR: KEY INDICATORS, 1987-2003**

SECTOR	Bst #lic&yr	2003 lic	Bst GR&yr	AvgBst GR	2003 GR	Avg03GR	BstNI&yr	AvgBstNI	2003 NI	Avg03NI	CTRBst	CTR03	Chg GR	Chg NI	CTR chg
<b>Agricultural</b>	7 1996	3	50,970 1990	12,743	13,041	4,347	26,766 1990	6,692	5,627	1,876	\$0.45	\$0.93	-74.4%	-72.0%	106.7%
<b>Athletic</b>	31 2002	29	495,216 1998	9,840	363,821	12,546	273,306 1998	9,110	176,756	6,095	\$0.18	\$0.26	-26.5%	-49.5%	44.4%
<b>Charitable</b>	171 2003	171	2,362,915 2001	14,676	2,335,187	13,656	1,239,778 2002	7,749	1,199,167	7,013	\$0.27	\$0.27	-1.2%	-10.5%	0.0%
<b>Civic</b>	49 2003	49	731,318 1998	20,314	694,115	14,166	349,479 1997	8,127	220,985	4,510	\$0.26	\$0.46	-5.1%	-80.2%	76.9%
<b>Educational</b>	118 2003	118	1,617,847 2003	13,711	1,617,847	13,711	826,571 2001	7,188	757,180	6,417	\$0.18	\$0.20	0.0%	-12.0%	11.1%
<b>Fraternal</b>	182 2003	182	1,199,934 2001	6,896	859,909	4,725	408,359 2001	2,347	365,542	2,008	\$0.37	\$0.30	-28.3%	-16.9%	-18.9%
<b>Patriotic</b>	51 2000	45	296,979 1996	6,750	283,154	6,292	113,328 1992	3,148	87,275	1,939	\$0.54	\$0.21	-4.7%	-62.3%	-61.1%
<b>Religious</b>	53 1998	50	646,258 1998	12,194	438,835	8,777	385,101 1998	7,266	278,594	5,572	\$0.17	\$0.16	-32.1%	-30.4%	-5.9%
<b>Social</b>	46 2002,02	45	295,048 1999	7,025	253,654	5,637	91,998 2002	2,000	77,300	1,718	\$0.29	\$0.36	-14.0%	-16.4%	24.1%
<b>Other</b>	66 1987	7	406,737 1988	6,894	129,951	18,564	198,564 1988	3,365	51,962	7,423	\$0.30	\$0.30	-68.1%	54.7%	0.0%

This chart compares the Best Year to 2003 within each stated purpose for number of licensees, Gross Receipts, Net Income and Cost to Raise (CTR) a dollar of Net Income. Note that the actual Best Year can differ by indicator.

**BINGO TOP TWENTY--"MARKET SHARE" FROM 1993 TO 2003**

YEAR	Share of Lic	Share of GR	Share of NI	Top GR	20th GR	Top NI	20th NI	CTR GR	CTR NI	CTR comp	Gap1/20 GR	Gap1/20NI
1993	3.93%	37.68%	53.29%	6,589,421	2,814,655	1,002,490	323,155	\$1.66	\$1.47	88.6%	2.34	3.10
1994	3.97%	37.30%	52.16%	6,348,450	2,815,724	932,699	285,111	\$2.07	\$1.64	79.2%	2.25	3.27
1995	4.15%	39.08%	54.60%	6,305,663	2,903,087	791,738	225,238	\$2.32	\$1.75	75.4%	2.17	3.52
1996	4.39%	40.83%	58.09%	5,800,222	2,895,424	757,931	206,337	\$2.36	\$1.87	79.2%	2.00	3.67
1997	4.57%	43.16%	55.31%	6,307,207	2,914,739	843,680	252,986	\$2.11	\$1.76	83.4%	2.16	3.33
1998	5.06%	44.40%	55.30%	5,778,469	2,856,223	831,036	202,224	\$2.60	\$2.01	77.3%	2.02	4.11
1999	5.23%	46.94%	60.53%	5,486,628	2,742,484	646,106	171,975	\$2.84	\$2.26	79.6%	2.00	3.76
2000	5.00%	47.33%	63.69%	5,295,773	2,702,605	572,761	166,126	\$3.16	\$2.31	73.1%	1.96	3.45
2001	5.26%	50.40%	64.12%	5,057,535	2,573,879	601,769	132,316	\$3.13	\$2.48	79.2%	1.96	4.55
2002	5.60%	56.70%	67.76%	5,462,678	2,454,856	454,561	91,752	\$4.04	\$2.54	62.9%	2.23	4.95
2003	5.86%	70.39%	71.42%	7,632,250	2,372,969	726,533	82,918	\$3.65	\$2.81	77.0%	3.22	8.76
Chg93-03	49.1%	86.8%	34.0%	15.8%	-15.7%	-27.5%	-74.3%	119.9%	91.2%			

**PUNCHBOARD/PULLTAB TOP TWENTY--"MARKET SHARE" FROM 1993 TO 2003**

YEAR	Share of Lic	Share of GR	Share of NI	Top GR	20th GR	Top NI	20th NI	CTR GR	CTR NI	CTR comp	Gap1/20GR	Gap1/20NI
1993	4.84%	30.11%	28.07%	3,871,697	1,118,803	338,566	102,627	\$3.37	\$2.01	59.6%	3.46	3.30
1994	4.81%	30.41%	28.20%	3,763,488	1,094,640	293,369	94,827	\$3.32	\$2.25	67.8%	3.44	3.09
1995	4.88%	31.66%	29.05%	3,691,855	1,161,240	299,366	90,398	\$3.98	\$2.27	57.0%	3.18	3.31
1996	4.96%	32.02%	28.68%	3,412,349	1,193,772	262,009	83,214	\$4.80	\$2.51	52.3%	2.86	3.15
1997	5.04%	33.66%	29.52%	3,771,488	1,192,077	290,078	78,788	\$3.79	\$2.61	68.9%	3.16	3.68
1998	5.28%	34.65%	30.69%	3,593,273	1,110,224	305,214	81,225	\$3.19	\$2.46	77.1%	3.24	3.76
1999	5.32%	34.63%	30.49%	3,373,575	953,318	295,956	75,512	\$3.85	\$2.44	63.4%	3.54	3.92
2000	5.48%	33.96%	32.42%	3,617,211	991,135	315,055	71,291	\$3.52	\$2.29	65.1%	3.65	4.42
2001	5.60%	34.22%	34.15%	4,531,879	900,706	264,381	68,797	\$3.90	\$2.23	57.2%	5.03	3.84
2002	5.80%	36.58%	33.75%	5,483,564	859,732	289,320	74,367	\$3.24	\$2.45	75.6%	6.38	3.89
2003	6.19%	41.94%	39.35%	7,523,332	806,949	583,876	77,380	\$2.39	\$1.89	79.1%	9.32	7.55
Chg93-03	27.9%	39.3%	40.2%	94.3%	-27.9%	72.5%	-24.6%	-29.1%	-6.0%			

This is a summary of the Top 20 Bingo and PB/PT licensees by Gross Receipts for each year, including % of total licensees, total Gross Receipts, total Net Income and Cost to Raise (CTR) a dollar of net income. Note that the Top 20 is for each year indicated, so that the licensees on the list can vary from year to year depending on their level of Gross Receipts.

**RAFFLE TOP TEN--"MARKET SHARE" FROM 1993 TO 2003**

YEAR	Share of Lic	Share of GR	Share of NI	Top GR	20th GR	Top NI	20th NI	CTR GR	CTR NI	CTR Comp	Gap1/20GR	Gap1/20NI
1993	2.10%	29.29%	37.24%	206,935	75,756	174,051	38,968	\$0.18	\$0.12	66.7%	2.73	4.47
1994	1.93%	27.16%	32.89%	229,845	84,940	191,714	52,914	\$0.18	\$0.18	100.0%	2.71	3.62
1995	1.77%	26.15%	34.71%	242,691	63,992	201,447	41,729	\$0.14	\$0.15	107.1%	3.79	4.83
1996	1.67%	26.67%	34.18%	249,610	98,442	205,750	47,260	\$0.16	\$0.14	87.5%	2.54	4.35
1997	1.61%	25.24%	32.48%	265,582	98,757	193,928	60,645	\$0.14	\$0.12	85.7%	2.69	3.20
1998	1.61%	27.03%	34.54%	324,851	108,017	198,057	68,161	\$0.12	\$0.12	100.0%	3.01	2.91
1999	1.57%	24.62%	29.72%	330,624	100,309	175,209	48,987	\$0.20	\$0.15	75.0%	3.30	3.58
2000	1.45%	24.49%	32.39%	360,055	104,177	190,036	51,643	\$0.20	\$0.12	60.0%	3.46	3.68
2001	1.48%	27.09%	31.41%	394,508	86,364	199,244	52,854	\$0.24	\$0.18	75.0%	4.57	3.77
2002	1.46%	21.61%	26.34%	332,596	78,980	208,594	45,836	\$0.19	\$0.12	63.2%	4.21	4.55
2003	1.42%	21.09%	25.94%	410,718	75,018	204,254	40,233	\$0.34	\$0.15	44.1%	5.47	5.08
Chg93-03	-32.4%	-28.0%	-30.3%	98.5%	-1.0%	17.4%	3.2%	88.9%	25.0%			

This is a summary of the Top 10 Raffles licensees by Gross Receipts for each year, including % of total licensees, total Gross Receipts, total Net Income and Cost to Raise (CTR) a dollar of net income. Note that the Top 10 is for each year indicated, so that the licensees on the list can vary from year to year depending on their level of Gross Receipts.

## **APPENDIX D: PUNCHBOARDS/PULLTABS AND RAFFLES REGULATORY HISTORY AND TIMELINES**

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The regulatory histories of Punchboards/Pulltabs (PB/PT) and Raffles are outlined here in narrative and timeline form.

## **PUNCHBOARD/PULLTAB (PB/PT) REGULATORY HISTORY AND NARRATIVE**

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Punchboards and pulltabs (PB/PT) are significantly different from bingo and raffles in a number of ways. Yet charitable and non-profit PB/PT generated more net income in CY 2003 (\$8,043,236) than Bingo did (\$6,069,935). In fact, charitable and nonprofit PB/PT gross receipts were nearly three quarters of bingo gross receipts in 2003.

Regulation of PB/PT has had a somewhat different focus, because approximately 75% of PB/PT activity takes place in commercial environments and serves as a commercial stimulant. The Gambling Commission noted in its 1973 Annual Report that it was moving slowly and deliberately in its regulation of PB/PT (as opposed to the immediate licensing of bingo and raffle activities) due to the Legislature's "much more general authorization for the use of punchboards and pulltabs." The Commission felt that there could be more potential problem areas with PB and PT than with bingo and raffles.

In doing this study, it was initially assumed that expenses are minimal for PB and PT, beyond the prizes paid out and the cost of the games, because the activity associated with selling PB/PT does not require much staffing or much space. This is unlike bingo, where a significant investment of staff/volunteer effort and large facility costs will drive expenses up. However, in looking more closely at the expense numbers, the expenses attributed to (or more accurately, allocated to) PB/PT were as high as those associated with bingo. In a number of cases, PB/PT expenses were higher than those for bingo. This raises the question of how licensees allocate costs within their gambling operations and whether the true costs of each gambling activity are identified.

A number of local jurisdictions (including Seattle, Redmond, Mercer Island and several smaller cities/towns) prohibit PB/PT under the local option language of the gambling statute, so the market is slightly constrained by these prohibitions.

**Statutory issues.** The RCW sets the **maximum price for a "chance"** for PB/PT. The initial legislation, HB 711, set the price of a chance at 25¢. This price remained in place until 1984, when the Legislature increased it to 50¢. In 1997, the price of a chance was increased again, this time to \$1.00. It is not clear what precipitated the effort to make the increase in 1984, as PB/PT gross receipts were growing rapidly at that time.

However, the impetus for the 1997 increase may have been a decline in charitable/nonprofit PB/PT gross receipts that had been occurring since 1994. The 1997 change did not, however, produce a turnaround in gross receipts; they continued to decline through 2003. The drop from 1993 to 2003 was from \$116,811,028 to \$88,247,180, a 25% drop.

The other major statutory issues related to PB/PT are around **license fees and taxes**. The initial license fee scheme focused on individual premises, regardless of volume of PB/PT business. Unlike bingo and raffles, initially PB/PT operators were not sorted into classes of licenses. The documents available for this report did not provide enough information to specify when the Commission did move to a class structure for PB/PT. In 1986, the Commission instituted a modified license fee schedule, creating a new class for "beginner" licensees who wanted to see if PB/PT would be profitable for them, and two new classes at the high end for those whose gross receipts were very high. In all the Commission increased the classes from six to eleven.

HB 711, the authorizing legislation, set up the taxing scheme for PB/PT devices based on gross income of the business where the PB/PT devices were displayed. In 1976, the Legislature approved a special tax on coin-operated gaming devices that was tied to the federal tax on such devices. This tax quickly became a major source of revenue for the Commission. In the early 1980s when the federal legislation expired, the PT device tax was repealed, and the Commission's budget was drastically affected.

The ultimate resolution came with SB 4286, in which the Legislature repealed the PB/PT fee-per-machine license fee, and replaced it with permission for the Commission to enact via rule a variable fee structure based on sales volume.

**Regulatory issues.** The major regulatory issues for PB/PT appear to be ongoing regulation of manufacturers and distributors, prize limits, the structure of the games, and the nature of the devices that dispense PT's.

Because the illegal or fraudulent activity related to PB/PT can occur in how the devices are set up initially, the Commission determined early on (1974) that it would need to license manufacturers and distributors and their representatives. The licensing authority was provided to the Commission by the Legislature in September 1973 and has been in place since then.

The initial legislation also required that any prize won over \$5.00 had to be recorded and available for public inspection for at least 90 days thereafter. The \$5.00 recorded prize amount was increased to \$20.00 by the Legislature in 1984 and in 1998, the Legislature gave the Commission the responsibility to set the recorded prize figure.

From the documents available for this study, it appears that the Legislature never set a prize limit for PB/PT, but rather left that task to the Commission. The Commission has increased the prize limits quite steadily since 1984.

In 1996, the Commission approved a number of changes to the structure/nature of PT games, including progressive jackpots, bonus or "step-up" games, and bonus PT with carry-over jackpots. Given that these changes occurred after two years of declining gross receipts, it appears that the goal was to offer a wider variety of ways to play PT's and thus increase the attractiveness of PT's to the gambling public.

The other key area of regulation appears to be around the actual devices that dispense the pulltabs. In 1974, the Commission adopted rules that required that all PT devices comply with Commission rules. In 1975, the Commission adopted a series of rules requiring Commission approval of dispensers prior to sale, packaging, and assembly. The 1976 Commission report describes this regulatory work as "adopted rule changing the minimum standards for pull tab dispensing devices and that required approval by the Commission of pull tab dispensing devices."

It appears that the Commission updated the PT/PB regulations in the mid-1980s. The Commission required bar-coded ID stamps for tracking the devices in 1986. For several years in the mid-1980s, the Commission considered proposals to allow electronic pulltabs and to allow continuous play marketing. In both cases, licensees had mixed reactions and some declined to participate in the tests that the Commission conducted

(or offered to conduct). In both cases, the tests that were carried out showed inconclusive results and the ideas were dropped.

There do not appear to have been any additional device-related rules since then.

**STATUTORY AND REGULATORY TIMELINE: PUNCHBOARDS AND PULLTABS**

<b>YEAR</b>	<b>RCW</b>	<b>WAC</b>	<b>CONTEXT</b>
<b>1973</b>	HB 711 authorizes PB/PT, sets 25¢ single chance limit; \$5.00 prize record requirement; allows tax on business gross income.	License fees set by single premises, no license classes by size.  Manufacturers, distributors and their reps are to be licensed.	Authorizing legislation (PB/PT chance was in the taxation section due to specific taxation of businesses with PB/PT. Taxation was initially based on gross income of the business displaying the PB/PT. All prizes over \$5.00 required to be recorded and available to the public for 90 days.  Local jurisdictions have the option to prohibit PB/PT and some did.
<b>1973</b>	HB 487 added authority to license manufacturers and distributors		Commission requested this, noting that control of the supply chain would be key to protecting the public.
<b>1974</b>	HB 473 set max tax of PB/PT to not exceed 5% of gross receipts specifically from PB/PT.		Corrected initial tax requirement applying to the business's entire gross income.
<b>1975</b>		Rules change for minimum standards for PT dispensing devices, require approval of PT dispensing devices.	Change required that player be able to see the number of chances available and remaining. Rules protected the players and helped them make more informed decisions.
<b>1981</b>	ESSB 3307 re-established the tax on coin-operated gambling devices (PT)		Bill requested by Commission to retain revenue after change in federal law regarding such taxes.
<b>1983</b>			First increase in charge for single chance proposed—from 25¢ to \$1.00—failed.
<b>1984</b>	SB 4286 repealed tax on coin-operated gambling devices, shifted to a volume-based tax		Effort was to make the tax amount appropriate for the volume of business being done. Effort to increase single chance price failed again.

YEAR	RCW	WAC	CONTEXT
1984	SB 3066 increased single chance from 25¢ to 50¢, required recording of winners over \$20.		
1985		Prize limits increased from \$100 to \$200 in cash, \$300 in merchandise.  Modified PB/PT fee schedule, sets up new classes (one for very small groups just starting, and higher-end classes for the largest games). Classes expand from 6 to 11.	Electronic PB and continuous play marketing systems considered and tested; results inconclusive; licensees had mixed reactions.  License fee process revised to allow payment during year rather than one annual lump sum.  1985 WSGC Annual Report showed C/NP PB/PT separately for the first time.
1987			Commission noted in its Annual Report that PB are steadily declining but PT are up.
1992			PB increased slightly in 1992.
1994		Prizes increased again, to \$500 for both cash or merchandise.	
1995			Both PB and PT showed no growth in 1995.
1996		Change in the flare deletion requirement probably due to admin. cost. Change in game structure.	Progressive jackpots, step-up games, bonus PT added. Change in flare deletion requirement makes it less cumbersome for licensees.

<b>YEAR</b>	<b>RCW</b>	<b>WAC</b>	<b>CONTEXT</b>
<b>1997</b>	SB 5034 increases single chance to \$1.00; maximum tax lowered. Commission authorized to set prize recording limits.		Likely in response to flat receipts.
<b>1998</b>		Maximum prize increased to \$750	New video training for PB/PT licensees.
<b>2000</b>		C/NP PB/PT operators can sell to commercial card room patrons adjacent to the C/NP location.	PB/PT gross receipts decline.
<b>2001-03</b>			PB/PT gross receipts decline.

## RAFFLES: REGULATORY HISTORY AND NARRATIVE

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Raffles do not draw a great deal of attention in the overall portfolio of charitable and nonprofit gambling in Washington State. In some of the Commission's annual reports, the statistics for raffles are combined into an "Other" category and the details are lost. Raffles generate modest amounts of money per licensee, especially relative to the other activities. However, over time, Raffles have become a far larger part of C/NP gambling.

However, raffles do have several distinguishing features:

- Net income (gross receipts less prizes and expenses) from Raffles in CY 2003 totaled \$3,242,590, which is 48% of Bingo's net income and 40% of C/NP punchboard and pulltab net income. In terms of dollars available for the C/NP purpose, Raffles are not so small any more.
- Raffles have been remarkably persistent as a form of fundraising for charitable and nonprofit organizations, with licensees numbering in the 370-520 range throughout the thirty years of legalized gambling.
- Raffles are the only C/NP activity where the number of licensees is steadily rising (from 486 in 1993 to 705 in 2003, a 45% increase).
- The percentage of gross receipts from raffles that is applied to the charitable or nonprofit purpose consistently hovers around 50%, which is a substantially higher percentage than any other form of charitable and nonprofit gambling returns.
- Gross receipts show steady growth, from \$700,000 in 1975 to \$7.1 million in 2003.

In many ways, raffles reflect the initial purpose of the Legislature in authorizing C/NP gambling—to allow small-scale "good cause" gambling. Raffles are limited in time and scope, they can be run by volunteers, they tend to focus on members and their friends, and they return a significant portion of their proceeds to the charitable/nonprofit purpose. The smallest raffles are no longer licensed at all.

The factors that have driven growth in proceeds from raffles include:

- Statutory actions to **increase the maximum single raffle ticket price** (from \$1.00 to \$5.00 in 1984, and from \$5.00 to \$25.00 in 1995). In both cases, there are immediate, double-digit increases in the growth of gross receipts, prizes paid and net receipts. In both cases, there had been an absolute decline in gross receipts in the year preceding the increase in ticket price.
- Regulatory actions in 1989 to allow **alternate forms of drawings** (the so-called "duck races"), thereby creating new ways to engage people in purchasing raffle chances. In 1991, there was a double-digit increase in gross and net receipts, probably as licensees implemented new drawings.

There was an apparent additional spike in growth in 2003, but the growth is in net receipts, not gross receipts. The prizes paid amount actually declines, thus driving the increase in net receipts. It is not clear from the documents available what the possible causes of this growth are.

The average net income per licensee is small: averaging in the \$5000 to \$6000 range for the past ten years. The average is low because most (88%) of licensees are in the Small Pool—up to \$25,000 in gross receipts. However the larger Raffle licensees generated average net income of \$19,500 in the Medium Pool, \$22,000 in the Large Pool and \$68,000 in the Extra-Large Pool.

**RAFFLES—STATUTORY AND REGULATORY TIMELINE**

<b>YEAR</b>	<b>RCW</b>	<b>WAC</b>	<b>COMMENTS</b>
<b>1973</b>	HB 711 authorizes raffles for charitable and nonprofit organizations. Sets maximum raffle ticket price at \$1.00. Raffles must be run by a member of the C/NP organization.		217 licenses issued in first two months. Raffles identified by the Commission as providing the “least enforcement problems.”
<b>1974</b>		Commission sets licensing classes A-F.	Breaks out licensees by size of gross/net receipts.
<b>1976</b>		Commission eliminates license requirement for Class A and B raffles.	Frees up raffles under \$5000 gross receipts from licensure.
<b>1980-83</b>		Rules review results in reduced reporting requirements for all classes of raffle licensees. Introduces standard accounting system for raffles.	
<b>1985</b>	SB 3471/HB 402 increase maximum raffle ticket price from \$1.00 to \$5.00.		
<b>1989</b>		Commission allows alternative “drawing formats” (i.e., duck races).	Gross receipts, prizes paid, net income all increase between 1989 and 1991, then drop in 1992.

<b>YEAR</b>	<b>RCW</b>	<b>WAC</b>	<b>COMMENTS</b>
<b>1995</b>	Statutory increase in maximum raffle ticket price from \$5.00 to \$25.00.		
<b>1996</b>		Commission allows raffle income to be counted as part of bingo operation for co-licensees.	Attempt to improve cash position of bingo licensees who also did raffles.
<b>1997</b>		Commission allows supervised non-members to sell raffle tickets.	
<b>1999</b>	Tax on gross raffle receipts minus prizes reduced from 10% to 5%		.
<b>2000</b>			Raffle training now available on the Internet for convenience of prospective licensees
<b>2000</b>	Credit unions authorized to conduct unlicensed raffles under certain circumstances		

**APPENDIX E: ANALYSIS OF THE IMPACT OF NET INCOME, NET RETURN,  
ADJUSTED CASH FLOW RULE CHANGES  
DETAILED SUPPORTING TABLES**

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This Appendix includes two sets of detailed information related to efforts made by the Commission to regulate net income/net return/adjusted cash flow for Bingo licensees.

**Detailed tables showing the actual financial and percentage requirements associated with each rule change.** These tables show license class, gross receipts, prize payout limits where applicable, and net income/return/adjusted cash flow minimum requirements (5 pages).

**Table showing detailed analysis of impact of Bingo compliance rule changes.** These tables take the “typical licensee” for each Pool (size) and show how the various versions of the compliance rule affect required net income/return/adjusted cash flow (4 pages).

Washington State Gambling Commission  
 Significant Changes in Rules  
 Regarding Bingo Compliance

Year		1999		
License Class		Annual Gross Receipts	Calendar Year Prize Payout Limits	Annual Minimum Net Return *
A	Up to	\$15,000	No limits	No limits
B	\$15,001	\$50,000	No limits	No limits
C	\$50,001	\$100,000	No limits	No limits
D	\$100,001	\$250,000	No limits	No limits
E	\$250,001	\$500,000	Max 85%	2%
F	\$500,001	\$1,000,000	Max 84%	4%
G	\$1,000,001	\$1,500,000	Max 82%	6%
H	\$1,500,001	\$2,000,000	Max 80%	8%
I	\$2,000,001	\$2,500,000	Max 78%	10%
J	\$2,500,001	\$3,000,000	Max 76%	12%
K	\$3,000,001	\$3,500,000	Max 74%	14%
L	\$3,500,001	\$4,000,000	Max 72%	15%
M	\$4,000,001	\$4,500,000	Max 72%	16%
N	\$4,500,001	\$5,000,000	Max 72%	16%
O	\$5,000,001	\$5,500,000	Max 72%	16%
P	\$5,500,001	\$6,000,000	Max 72%	16%
Q	Over	\$6,000,000	Max 72%	16%

\* Includes sales of food, drink, other, plus PBPT. Local taxes not included.  
 If within 5% of requirements, ok.

Year		2001	
Bingo & PBPT Gross Receipts		Base Amount	Plus % Over Base
Up to	\$375,000	\$1	0
\$375,001	\$625,000	\$1	3%
\$625,001	\$875,000	\$7,500	4%
\$875,001	\$1,125,000	\$17,500	5%
\$1,125,001	and Over	\$30,000	6%

Washington State Gambling Commission  
 Significant Changes in Rules  
 Regarding Bingo Compliance

Year 1996				
License Class		Annual Gross Receipts	Calendar Year Prize Payout Limits	Annual Minimum Net Return *
A ^	Up to	\$15,000	No limits	No limits
B ^	\$15,001	\$50,000	No limits	No limits
C	\$50,001	\$100,000	No limits	No limits
D ^	\$100,001	\$250,000	No limits	No limits
E ^	\$250,001	\$500,000	Max 85%	2%
F	\$500,001	\$1,000,000	Max 84%	4%
G	\$1,000,001	\$1,500,000	Max 82%	6%
H	\$1,500,001	\$2,000,000	Max 80%	8%
I	\$2,000,001	\$2,500,000	Max 78%	10%
J	\$2,500,001	\$3,000,000	Max 76%	12%
K	\$3,000,001	\$3,500,000	Max 74%	14%
L	\$3,500,001	\$4,000,000	Max 72%	15%
M	\$4,000,001	\$4,500,000	Max 72%	16%
N	\$4,500,001	\$5,000,000	Max 72%	16%
O	\$5,000,001	\$5,500,000	Max 72%	16%
P	\$5,500,001	\$6,000,000	Max 72%	16%
Q	Over	\$6,000,000	Max 72%	16%

\* Includes sales of food, drink, other, plus PBPT. Local taxes not included.  
 ^ Classes range has changed.

Washington State Gambling Commission  
 Significant Changes in Rules  
 Regarding Bingo Compliance

Year 1990					
License Class		Annual Gross Receipts	Calendar Year Prize Payout Limits	Calendar Year Adjusted Net Income Minimum Requirements-Bingo *	Calendar Year Adjusted Net Income Minimum Requirements-Bingo & PBPT **
A	Up to	\$10,000	No limits	None	None
B	\$10,001	\$50,000	No limits	None	None
C	\$50,001	\$100,000	No limits	None	None
D	\$100,001	\$300,000	Max 85%	At least 2%	At least 3%
E	\$300,001	\$500,000	Max 84%	At least 3%	At least 4%
F	\$500,001	\$1,000,000	Max 83%	At least 4.5%	At least 5.5%
G	\$1,000,001	\$1,500,000	Max 80%	At least 6%	At least 8%
H	\$1,500,001	\$2,000,000	Max 78%	At least 8%	At least 10%
I	\$2,000,001	\$2,500,000	Max 76%	At least 10%	At least 12%
J	\$2,500,001	\$3,000,000	Max 74%	At least 12%	At least 14%
K	\$3,000,001	\$3,500,000	Max 72%	At least 13.5%	At least 16%
L	\$3,500,001	\$4,000,000	Max 70%	At least 14.5%	At least 17%
M	Over	\$4,000,000	Max 70%	At least 15.5%	At least 18%

\*Includes sales of food, drink, and other. Local taxes not included.  
 \*\* Includes sales of food, drink, other, plus PBPT. Local taxes not included.

Year 1993					
License Class		Annual Gross Receipts	Calendar Year Prize Payout Limits	Calendar Year Adjusted Net Income Minimum Requirements-Bingo *	Calendar Year Adjusted Net Income Minimum Requirements-Bingo & PBPT **
A	Up to	\$10,000	No limits	None	None
B	\$10,001	\$50,000	No limits	None	None
C	\$50,001	\$100,000	No limits	None	None
D	\$100,001	\$300,000	Max 85%	At least 1%	At least 2%
E	\$300,001	\$500,000	Max 84%	At least 2%	At least 3%
F	\$500,001	\$1,000,000	Max 83%	At least 3.5%	At least 4.5%
G	\$1,000,001	\$1,500,000	Max 80%	At least 5%	At least 7%
H	\$1,500,001	\$2,000,000	Max 78%	At least 7%	At least 9%
I	\$2,000,001	\$2,500,000	Max 76%	At least 9%	At least 11%
J	\$2,500,001	\$3,000,000	Max 74%	At least 11%	At least 13%
K	\$3,000,001	\$3,500,000	Max 72%	At least 12.5%	At least 15%
L	\$3,500,001	\$4,000,000	Max 70%	At least 13.5%	At least 16%
M	Over	\$4,000,000	Max 70%	At least 14.5%	At least 17%

\*Includes sales of food, drink, and other. Local taxes not included.  
 \*\* Includes sales of food, drink, other, plus PBPT. Local taxes not included.

Washington State Gambling Commission  
 Significant Changes in Rules  
 Regarding Bingo Compliance

Year 1988				
License Class		Annual Gross Receipts	Calendar Year	Calendar Year
			Prize Payout Limits	Adjusted Net Income Minimum Requirements
A	Up to	\$10,000	No limits	None
B	\$10,001	\$50,000	No limits	None
C	\$50,001	\$100,000	No limits	None
D	\$100,001	\$300,000	No limits	None
E	\$300,001	\$500,000	No limits	None
F	\$500,001	\$1,000,000	83.0 - 80.0%	4 - 5%
G	\$1,000,001	\$1,500,000	80.0 - 78.0%	5 - 7%
H	\$1,500,001	\$2,000,000	78.0 - 76.0%	7 - 9%
I	\$2,000,001	\$2,500,000	76.0 - 74.0%	9 - 11%
J	\$2,500,001	\$3,000,000	74.0 - 72.0%	11 - 13%
K	\$3,000,001	\$3,500,000	72.0 - 70.0%	13 - 14%

Excess to other charity

Year 1989				
License Class		Annual Gross Receipts	Calendar Year	Calendar Year
			Prize Payout Limits	Adjusted Net Income Minimum Requirements
A	Up to	\$10,000	No limits	None
B	\$10,001	\$50,000	No limits	None
C	\$50,001	\$100,000	No limits	None
D	\$100,001	\$300,000	Max 85%	At least 2%
E	\$300,001	\$500,000	Max 84%	At least 3%
F	\$500,001	\$1,000,000	Max 83%	At least 4.5%
G	\$1,000,001	\$1,500,000	Max 80%	At least 6%
H	\$1,500,001	\$2,000,000	Max 78%	At least 8%
I	\$2,000,001	\$2,500,000	Max 76%	At least 10%
J	\$2,500,001	\$3,000,000	Max 74%	At least 12%
K	\$3,000,001	\$3,500,000	Max 72%	At least 13.5%
L	\$3,500,001	\$4,000,000	Max 70%	At least 14.5%
M	Over	\$4,000,000	Max 70%	At least 15.5%

Washington State Gambling Commission  
 Significant Changes in Rules  
 Regarding Bingo Compliance

Year		1983		
License Class		Annual Gross Receipts	Prize Payout Limits	Adjusted Net Income Minimum Requirements
A	Up to	\$10,000	No limits	None
B	\$10,001	\$50,000	No limits	None
C	\$50,001	\$100,000	No limits	None
D	\$100,001	\$300,000	No limits	None
E	\$300,001	\$500,000	No limits	None
F	\$500,001	\$1,000,000	80%	5%
G	\$1,000,001	\$1,500,000	78%	7%
H	\$1,500,001	\$2,000,000	76%	9%
I	\$2,000,001	\$2,500,000	74%	11%
J	\$2,500,001	\$3,000,000	72%	13%
K	\$3,000,001	\$3,500,000	70%	15%

Year		1985		
License Class		Annual Gross Receipts	Calendar Year Prize Payout Limits	Calendar Year Adjusted Net Income Minimum Requirements
A	Up to	\$10,000	No limits	None
B	\$10,001	\$50,000	No limits	None
C	\$50,001	\$100,000	No limits	None
D	\$100,001	\$300,000	No limits	None
E	\$300,001	\$500,000	No limits	None
F	\$500,001	\$1,000,000	83.0 - 80.0%	4 - 5%
G	\$1,000,001	\$1,500,000	80.0 - 78.0%	5 - 7%
H	\$1,500,001	\$2,000,000	78.0 - 76.0%	7 - 9%
I	\$2,000,001	\$2,500,000	76.0 - 74.0%	9 - 11%
J	\$2,500,001	\$3,000,000	74.0 - 72.0%	11 - 13%
K	\$3,000,001	\$3,500,000	72.0 - 70.0%	13 - 14%

Washington State Gambling Commission  
Analysis of Impact For  
Bingo Compliance Rules

Standard Year	Pool Small 2004	Pool Medium 1992	Pool Large 1995	Pool Extra-Large 1998
<b>Fact Statements for Each Set:</b>				
License Class	A	D	H	L
Gross Receipts-Bingo	\$5,254	\$82,183	\$1,617,892	\$4,304,336
Gross Receipts-Punchboard/Pull-tabs (PBPT)	\$0	\$368,461	\$639,057	\$1,449,745
Net Receipts-Bingo	\$1,058	\$13,677	\$350,975	\$1,391,480
Retail Sales	\$338	\$1,818	\$692	-\$22,844
Drawing Sales	\$0	\$0	\$0	\$0
Amusement Game Sales	\$0	\$0	\$0	\$0
Depreciation Expense-Equipment & Building	\$0	\$0	\$0	\$76,544
Gambling Taxes	\$0	\$634	\$67,049	\$201,840

Year of Rule 2001				
Required Cash Flow	\$1	\$2,269	\$97,917	\$307,745
Actual Cash Flow	\$1,007	\$97,711	\$202,729	\$542,199
Actual Gross Receipts-Bingo & PBPT	\$5,254	\$450,644	\$2,256,949	\$5,754,081

Out of compliance with rule

**Abbreviations:**

B=Bingo  
CF=Adjusted Cash Flow  
GR=Gross Receipts  
NI=Net income  
NR=Net Return  
PBPT=Punchboard/Pull-tabs  
PO%=Payout Percentage

**NOTES:**

Class A and B ranges changed in 1995

Washington State Gambling Commission  
Analysis of Impact For  
Bingo Compliance Rules

Standard Year	Pool Small 2004	Pool Medium 1992	Pool Large 1995	Pool Extra-Large 1998
<b>Fact Statements for Each Set:</b>				
License Class	A	D	H	L
Gross Receipts-Bingo	\$5,254	\$82,183	\$1,617,892	\$4,304,336
Gross Receipts-Punchboard/Pull-tabs (PBPT)	\$0	\$368,461	\$639,057	\$1,449,745
Net Receipts-Bingo	\$1,058	\$13,677	\$350,975	\$1,391,480
Retail Sales	\$338	\$1,818	\$692	-\$22,844
Drawing Sales	\$0	\$0	\$0	\$0
Amusement Game Sales	\$0	\$0	\$0	\$0
Depreciation Expense-Equipment & Building	\$0	\$0	\$0	\$76,544
Gambling Taxes	\$0	\$634	\$67,049	\$201,840

<b>Year of Rule</b>				
<b>1990</b>				
Required Payout Percentage	No limit	85%	78%	70%
Actual Payout Percentage	79.9%	80.2%	78.3%	67.7%
Required Net Income-Bingo	None	\$1,644	\$129,431	\$624,129
Actual Net Income-Bingo	\$1,007	\$12,733	\$147,428	\$564,969
Required Net Income-Bingo & PBPT	None	\$2,465	\$161,789	\$731,737
Actual Net Income-Bingo & PBPT	\$1,007	\$98,405	\$269,778	\$667,495
Gross Receipt Maximum	\$10,000	\$300,000	\$2,000,000	\$4,000,000
Actual Gross Receipts-Bingo	\$5,254	\$82,183	\$1,617,892	\$4,304,336
<b>1993</b>				
Required Payout Percentage	No limit	85%	78%	70%
Actual Payout Percentage	79.9%	80.2%	78.3%	67.7%
Required Net Income-Bingo	None	\$822	\$113,252	\$581,085
Actual Net Income-Bingo	\$1,007	\$12,733	\$147,428	\$564,969
Required Net Income-Bingo & PBPT	None	\$1,644	\$145,610	\$688,694
Actual Net Income-Bingo & PBPT	\$1,007	\$98,405	\$269,778	\$667,495
Gross Receipt Maximum	\$10,000	\$300,000	\$2,000,000	\$4,000,000
Actual Gross Receipts-Bingo	\$5,254	\$82,183	\$1,617,892	\$4,304,336
<b>1996</b>				
Required Payout Percentage	No limit	No limit	80%	72%
Actual Payout Percentage	79.9%	80.2%	78.3%	67.7%
Required Net Return	No limit	No limit	\$129,431	\$645,650
Actual Net Return	\$1,007	\$98,405	\$269,778	\$667,495
Gross Receipt Maximum	\$15,000	\$250,000	\$2,000,000	\$4,000,000
Actual Gross Receipts-Bingo	\$5,254	\$82,183	\$1,617,892	\$4,304,336
<b>1999</b>				
Required Payout Percentage	No limit	No limit	80%	72%
Actual Payout Percentage	79.9%	80.2%	78.3%	67.7%
Required Net Return	No limit	No limit	\$48,537	\$430,433
Actual Net Return	\$1,007	\$98,405	\$269,778	\$667,495
Gross Receipt Maximum	\$15,000	\$250,000	\$2,000,000	\$4,000,000
Actual Gross Receipts	\$5,254	\$82,183	\$1,617,892	\$4,304,336

Washington State Gambling Commission  
Analysis of Impact For  
Bingo Compliance Rules

Standard Year	Pool Small 2004	Pool Medium 1992	Pool Large 1995	Pool Extra-Large 1998
<b>Fact Statements for Each Set:</b>				
License Class	A	D	H	L
Gross Receipts-Bingo	\$5,254	\$82,183	\$1,617,892	\$4,304,336
Gross Receipts-Punchboard/Pull-tabs (PBPT)	\$0	\$368,461	\$639,057	\$1,449,745
Net Receipts-Bingo	\$1,058	\$13,677	\$350,975	\$1,391,480
Retail Sales	\$338	\$1,818	\$692	-\$22,844
Drawing Sales	\$0	\$0	\$0	\$0
Amusement Game Sales	\$0	\$0	\$0	\$0
Depreciation Expense-Equipment & Building	\$0	\$0	\$0	\$76,544
Gambling Taxes	\$0	\$634	\$67,049	\$201,840

<b>Year of Rule</b>				
<b>1983</b>				
Required Payout Percentage	No limit	No limit	76%	70%
Actual Payout Percentage	79.9%	80.2%	78.3%	67.7%
Required Net Income-Bingo	None	None	\$145,610	\$645,650
Actual Net Income-Bingo	\$669	\$10,915	\$111,639	\$449,064
Gross Receipt Maximum-Licensed Class	\$10,000	\$300,000	\$2,000,000	\$3,500,000
Actual Gross Receipts-Bingo	\$5,254	\$82,183	\$1,617,892	\$4,304,336
<b>1985</b>				
Required Payout Percentage	No limit	No limit	83.0 - 80.0%	72.0 - 70.0%
Actual Payout Percentage	79.9%	80.2%	78.3%	67.7%
Required Net Income-Bingo	None	None	\$113,252	\$559,564
Actual Net Income-Bingo	\$669	\$10,915	\$111,639	\$449,064
Gross Receipt Maximum	\$10,000	\$300,000	\$2,000,000	\$3,500,000
Actual Gross Receipts-Bingo	\$5,254	\$82,183	\$1,617,892	\$4,304,336
<b>1988</b>				
Required Payout Percentage	No limit	No limit	83.0 - 80.0%	72.0 - 70.0%
Actual Payout Percentage	79.9%	80.2%	78.3%	67.7%
Required Net Income-Bingo	None	None	\$113,252	\$559,564
Actual Net Income-Bingo	\$669	\$10,915	\$111,639	\$449,064
Gross Receipt Maximum	\$10,000	\$300,000	\$2,000,000	\$3,500,000
Actual Gross Receipts-Bingo	\$5,254	\$82,183	\$1,617,892	\$4,304,336
<b>1989</b>				
Required Payout Percentage	No limit	85%	78%	70%
Actual Payout Percentage	79.9%	80.2%	78.3%	67.7%
Required Net Income-Bingo	None	\$1,644	\$129,431	\$624,129
Actual Net Income-Bingo	\$669	\$10,915	\$111,639	\$449,064
Gross Receipt Maximum	\$10,000	\$300,000	\$2,000,000	\$4,000,000
Actual Gross Receipts-Bingo	\$5,254	\$82,183	\$1,617,892	\$4,304,336

**APPENDIX F: FINANCIAL STATUS OF LARGEST LICENSEES:  
A 22 REVIEW SAMPLE BASED ON QUALIFICATION REVIEW FINANCIAL DATA**

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**PURPOSE:** The purpose of analyzing these financial data was to determine, within the information provided by a sample (22 reviews for 19 organizations) of the larger licensees:

- the size of the gambling portion of the organization relative to the program portion (gambling revenue and expenses are a significant portion of the total organization, often more than 50%);
- the relative reliance of the total organization on gambling revenues (most licensees are moderately to very reliant on gambling revenues);
- the financial health of the total organization compared to the gambling operation (overall financial health is not good for the periods reviewed).

The current Qualification Review process is neither required nor designed to review these types of indicators. The Qual Review worksheets were used in this analysis because they contain the types of financial data needed for this type of review. The data reviewed were provided by the licensees in their annual financial reports. Some of the organizations provided audited figures; all were required to have a licensed accountant prepare the figures, albeit from the organization's books. The Commission does not require that the actual audit document be submitted.

**OVERALL CONCLUSIONS.**

The data very strongly suggest that the Commission should set standards for how much of an organization's total (gambling and non-gambling) expense budget is gambling expense as one way to measure whether the organization exists for its stated purpose or primarily to provide gambling activities.

The data further suggest that, given the ongoing decline in the C/NP gambling sector generally, a number of licensees need to diversify their non-gambling funding sources to become less dependent on gambling net income.

The data strongly suggest that the Commission should monitor the overall financial health of licensees who are seeing large net losses in their total (gambling and non-gambling) operations.

Organizations which have a relatively small percentage (less than 30%) of gambling revenue and expenses compared to their total operation (gambling and non-gambling) generally were not doing well financially overall for the period reviewed (2002-03). This suggests that their gambling net income has dropped but has not been replaced quickly enough by other revenue sources.

For the handful of cases where licensees were earning high levels of total net income (gambling and non-gambling) which were far in excess of the funds needed to operate non-gambling activities, the Commission should conduct a thorough review under the excess reserves policy in WAC 230-02-137.

## FINDINGS:

**Extent of the gambling operation as a percentage of the total (gambling and non-gambling) operation. Twelve (54.5%) of the 22 reviews show organizations with 60% or more of their total EXPENSES in their gambling operation. Four (18%) had more than 80% of their EXPENSES in their gambling operation.**

Many of the organizations reviewed here were operating their charitable or nonprofit purposes as part of their program organizations—in other words, the reported information was for both gambling and non-gambling operations. Thus, the high percentage of total expenses attributable to the gambling operation is of concern.

At least two of the organizations may be relatively new to C/NP gambling and building their capacity before making significant commitments to expanding programs. Thus, they may have a larger percentage of expenses in the gambling portion of the operation. However, many of the others are long-term licensees and this explanation does not apply.

There does not appear to be a relationship between the percent of total operation (gambling and non-gambling) expenses that are gambling expenses and other financial issues. No patterns emerged related to net losses or CTR.

This indicator raises the question of the purpose of the organization. What percentage of total expenses is acceptable to document that the primary purpose of the organization is the charitable or nonprofit purpose, rather than gambling?

Ohio answers this question by requiring that no more than 50% of total expenses be attributable to the gambling operation. Under Ohio's requirement, seventeen (77.2%) of the situations reviewed would be out of compliance.

**Reliance on gambling revenue. Of the 22 situations reviewed, nine (41%) had 60% or more of their total organizational REVENUE (gambling and non-gambling) coming from the gambling operation. Two report more than 100% of their REVENUE coming from their gambling operation because they had negative revenue (primarily losses in investment accounts) in the program portion of their organization.**

This extensive reliance on gambling revenue as a major portion of total revenue indicates that the organizations are not diversifying their funding bases. This in turn makes their charitable and nonprofit programs vulnerable to downturns in gambling activity and income. Given the generally downward trend in C/NP gambling, all licensees should be working to diversify their funding bases if they want to continue their C/NP services and activities at current levels.

This indicator again raises the question of the purpose of the organization. What percentage of total revenue (gambling and non-gambling) should be gambling-generated? At what point is the percentage high enough to suggest that the organization's purpose really is gambling and not charitable or nonprofit purposes?

This indicator also relates to a typical C/NP standard, that no single source of revenue should be more than one-third of an organization's total revenue.

**Overall Financial Health. Of the 22 worksheets reviewed (representing 19 organizations because three were reviewed twice), 15 (or 68%) showed an overall net loss for the total organization for the period being reported. This means that when revenue and expenses for gambling and non-gambling operations were added together, the total organization had less overall revenue than expenses for the period being reviewed. Some of the losses were significant.**

The reported losses for the total operation (gambling and non-gambling) ranged from \$613,096 to \$1,914. The average net loss was \$150,641. Five organizations had net losses of \$100,000 or more; another four had net losses of \$50,000 to \$99,000. Losses of this magnitude, even for only one year, can endanger the ability of the organization to continue as a going concern.

Two of the three organizations which have two reviews in this analysis lost money in their total operations (gambling and non-gambling) in both periods.

Given that all 22 worksheets reported positive net income in the gambling portion of their operation, this means that 68% of these licensees were, in the period reported, not able to run their program services portion of their organization profitably.

While there may have been extenuating circumstances for some licensees, it is unlikely that all 15 had extenuating circumstances causing losses of this magnitude.

The question these data raise is: whether these organizations are capable of running profitable gambling operations but are not capable of running profitable program services operations. Therefore, is their primary purpose (in terms of their financial results) gambling or programs?

These data also raise the question of whether some of these organizations are weak enough financially to be in danger of dropping their program services or of closing entirely. If so, are players who participate in these organizations' gambling activities for the intent of benefiting the charitable or non-profit purpose being misled?

If it is possible that the figures being reported are not accurate, then requiring CPA-audited financial statements is necessary.

**The 30/30 club. Only two of the 22 situations reviewed had both gambling revenues and expenses that were 30% or less of total revenues or expenses (gambling and non-gambling).**

Both of these organizations had significant net losses for the period reported. This suggests either that their gambling operation was not large enough to

generate significant income or that their gambling income has been dropping and other sources of revenue have not yet replaced it.

There were seven organizations that had 30% or lower expenses or revenues (but not both). All but one of the seven organizations that generated less than 30% of their revenue from gambling lost money in their total organization (gambling and non-gambling); four lost more than \$60,000 and two lost more than \$250,000. However the net income from gambling was large enough (ranging from a maximum of \$291,716 to a minimum of \$38,829 for these seven groups) that it would be challenging to replace it, given the losses in the non-gambling area.

In either case, the numbers suggest it would be useful to monitor the trends of gambling net income for these organizations to determine how the role and size of the gambling operation is changing over time. Long term, these organizations cannot sustain the large net losses reflected in the figures reviewed and either need to sharply increase their income from gambling, reduce their gambling expenses, increase their income from non-gambling sources, or reduce their C/NP programs.

**High total net income and its implications. There were five (22.7%) situations reviewed where the licensee reported over \$100,000 in total net income (gambling and non-gambling) for the period.**

All five spent 50% or more of their total organizational expenses on gambling. Two were over 60%, one was over 70% and one was over 80% of total organizational expenses being attributable to gambling.

This means that one had less than 20% of its total organizational expenses in programs; one had less than 30% and two had less than 40%. Given this high level of net income, where were those dollars of income going?

It is possible that some of these organizations were saving money to invest either in gambling upgrades or program expansion. However, the amassing of significant amounts of unused cash, especially when gambling expenses are a large part of the total organization, should be tracked to assure that the gambling income does eventually end up supporting the charitable or nonprofit purpose. The excess reserves rule (230-02-137) provides a means to do this.

These five licensees vary in percent of total revenue attributable to gambling operations, from a low of 34% to a high of 85%. This suggests further study before an indicator can be developed.

**ORGANIZATIONS WHOSE QUALIFICATION REVIEW WORKSHEETS WERE  
REVIEWED FOR THIS ANALYSIS**

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<b><u>ORGANIZATION</u></b>	<b><u>DATE OF QUAL REVIEW</u></b>
LOOM #1774	4/1/02
Cascade Youth Music	9/30/02 (1)
Spokane Valley Foundation	6/30/02
Lions-N. Everett	6/30/02
Gateways for Youth&Families	12/31/02
Exchange Club/Tacoma	6/30/02 (1)
DV/ Sexual Assault Center	12/31/02
Columbia Center Rotary	6/30/02
Mid Columbia Coalition for Children	12/31/02
Northern Lights Drum&Bugle	12/31/02
Sister Rebecca Berghoff Fdn.	12/31/02
Sound Institute for Families&Children	6/30/02 (1)
Seattle Jaycees	12/31/02
Amvets #1	12/31/03
Cascade Youth Music	6/30/03 (2)
Exchange Club/Tacoma	6/30/03 (2)
Seattle Junior Hockey	6/30/03
Silver Buckle Rodeo	6/30/03
Sno-King Hockey	6/30/03
Sound Institute for Families&Children	6/30/03 (2)
Spokane FOE #002	5/31/03
Walla Walla Catholic School	6/30/03

## APPENDIX G: STANDARDS FROM THE CHARITABLE/NONPROFIT WORLD IN GENERAL

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**Overview.** It appears from the research done for this project that both licensees and the Commission see charitable/nonprofit gambling as a specialized and unique form of fundraising. Nonetheless, the purpose of the authorized gambling activities is to raise funds for the stated purpose, and in that respect, C/NP gambling is similar to other nonprofit fundraising activities.

While all of the broader C/NP standards may not apply completely to C/NP gambling, they do offer benchmarks and comparison points that can stimulate new thinking and discussion.

There are more than 1 million C/NP organizations in the United States. The C/NP area accounts for one in eleven paid jobs, and if volunteer time is added in, accounts for one in every eight jobs. Today's nonprofit organizations utilize government and private funds and often earn income from some aspects of their operations. In Washington State, there are 5,262 charities, and 45,491 nonprofit corporations currently registered with the Secretary of State's office.

The overall charitable/nonprofit area is coming under increasing scrutiny, as governance and disclosure problems are identified. Donors and the public want to know that C/NP organizations are using funds wisely, are raising funds efficiently, and are providing cost-effective programs for the people they serve. These issues affect gambling licensees along with all other charitable and nonprofit organizations.

### **Better Business Bureau's Wise Giving Alliance standards:**

- **Spend at least 65% of total expenses on program activities.** This standard could be applied in two ways for C/NP gambling licensees. One is to see if 65% of total organizational expenses (gambling and non-gambling) are being spent on programs. This would assume that only 35% of total expenses are being incurred in the gambling operation.

The other is to measure if, for the non-gambling operation, 65% of the expenses are applied to program services. This assumes the other 35% is for administration and supporting services.

- **Total fundraising expenses should be no more than 35% of total related contributions.** In this project, an indicator was developed called "cost to raise" or CTR. It measures the cost to raise a dollar of net income in a gambling activity. It is computed by dividing reported expenses by reported net income.

Raffles are the only C/NP gambling activity that in the aggregate comes close to this 35% standard. Bingo and PB/PT are up in the \$3.00 and \$4.00 CTR. This means that licensees spend \$3.00 or \$4.00 (not counting prize payouts) to generate \$1.00 of net income.

There are two areas in typical C/NP fundraising where costs might be this high. One is in direct mail prospecting, where thousands of mailings are sent out with a very

small response (2-3% is considered good). The gain occurs when those respondents increase their gifts over time.

The other area is in special events, where an organization spends a great deal to create a unique event. Often these events are used for cultivation of donors or to thank supporters and the fundraising expectations are modest.

In effect, Bingo is like a continuous special event, requiring an ongoing high level of organizational effort and generating an ongoing level of high expenses.

- **A charity should be able to substantiate what portion of the “purchase price” (the player’s dollar) will benefit the charitable purpose.** For C/NP gambling activities, this would include the amount devoted to prize payouts as well as expenses. The Bingo or PB/PT player should know that, currently, for every gambling dollar s/he puts down, less than a dime will go for the stated purpose. If only the dollars for direct program services are counted, then less than a nickel may go for the stated purpose.
- **A charity should accurately report all expenses, including joint cost allocations.** The Commission currently does not specify standards for allocating costs among gambling activities for those licensees which operate more than one activity. As a result, it is difficult to understand the cost structure of Bingo as compared to PB/PT. The nature of PB/PT is such that, other than the cost of the games, the cost to operate PB/PT should be minimal. Yet licensees report substantial expenses attributed to PB/PT, sometimes to the point that CTR for PB/PT exceeds CTR for Bingo.
- **A charity should make available for all, on request, annual financial statements prepared in accordance with generally accepted accounting practices. When total gross income exceeds \$250,000, these statements should be audited in accordance with generally accepted accounting practices. For charities whose annual gross income is less than \$250,000, a review by a CPA is sufficient to meet this standard. For charities whose annual gross income is less than \$100,000, an internally produced, complete financial statement is sufficient.**

Some of the Commission’s licensees gross millions of dollars in their gambling operations, yet the Commission requires only that the licensee have a licensed accountant prepare the figures from the organization’s books.

- **Avoid accumulating funds that could be used for current program activities.** The Commission addresses this standard with its excess reserves rule. In this project, there were two situations where the financial reports reviewed (of the sample of 22 sets of financial reports reviewed) showed a very high overall net income for the total organization (gambling and non-gambling income) for the periods reviewed. If that income is not eventually spent on program activities, it will end up in reserves and may create an excess reserves issue.

**Other standards.** The charitable/nonprofit sector has additional “rule of thumb” standards that are applicable as well:

- **Diversified funding sources.** A strong charitable/nonprofit organization should have a diversity of funding sources. Ideally, one-third of the organization’s income should come from private fundraising, one-third from grants (government or private) and one-third from earned or program income.

While some nonprofits do not have this range of funding sources available, over-dependence on one funding source can leave an organization vulnerable if that funding source is threatened or lost. A significant number of the 22 sets of licensee financial reports examined for this project showed that the organizations received more than 50% of their total income from their gambling operations. Some received virtually all of their income from gambling. This calls into question their long-term survival as C/NP gambling continues to decline. It also calls into question their primary purpose, if they are unable to raise other funds for their stated purposes.

- **Donor disclosures.** Donors increasingly want to know where their dollars go, how much of their donation goes to administration, etc. Standards are being developed in the greater C/NP sector on donor disclosures. Both “cost to raise” and “percent to direct services” indicators mentioned above apply here.

It may be that C/NP gambling players are content with the costs and amounts that flow to the stated purpose. Disclosure of this information would verify this.

**Use of existing regulatory standards for charitable/nonprofit organizations.** The Commission can utilize existing requirements for C/NP organizations to organize its data base and assure that its licensees are complying with the basic governmental requirements for charitable and nonprofit organizations.

- **IRS stated purpose.** Virtually every organization that comes to the Commission seeking a gambling license has had to gain IRS approval for their C/NP status. The IRS code has a detailed list of 501 (c) organizations, each with its one definition and subsection in the code.

Currently the Commission’s records do not contain data that allows it to differentiate between charitable and nonprofit organizations. This data was not transferred from paper files when the computer system was upgraded.

Also, licensees can self-identify as many stated purposes as they wish in their license application, so the stated purpose information in the Commission’s data base is very inconsistent.

Over time, the Commission may wish to update its records by requiring each licensee to provide its IRS stated purpose information and most recent 501 (c) letter, as a way to organize this area better. Other states use the IRS definitions and criteria successfully

- **State registration.** There are two Washington State registration processes that are applicable to many C/NP licensees: registration as a corporation (for all licensees that are incorporated) and registration as a charity (for all licensees who seek funds from the public).

The Commission should require all C/NP licensees to provide documentation of their compliance with these requirements or a brief explanation of why the requirement is not applicable. State agencies can support each other in achieving a thoroughly-overseen and trustworthy charitable/nonprofit sector by coordinating their expectations about minimum standards and requirements.

In this project, it was noted that one large sports-related licensee was registered as a charity with the Secretary of State, with the required financial disclosures, while another similar sports-related licensee was not registered as a charity.

In response to further inquiry, Commission staff advised that the registration requirement (RCW) specifically excluded organizations that operate Bingo, Raffles or Amusement Games, unless they are also soliciting donations from the general public in addition to operating gambling activities. The Secretary of State's office advised that this exclusion was intended to reduce the reporting burden—if a licensee was covered by WSGC regulations, a member of the public could raise any concerns with the Commission. Requiring licensees to register also with the Secretary of State in effect would duplicate the WSGC licensing.

However, this raises another question. For the licensees who are not required to register with the Secretary of State, because they do not solicit funds from the general public—what percentage of their revenue comes from gambling operations? If a great deal of their revenue comes from gambling, is gambling their primary purpose?

Overall, there will be individual licensees for whom some of these standards may not apply. For example, the small, geographically remote organization that runs a Bingo operation, where the dollars from gambling constitute most of its revenue. This may be the only feasible way for the organization to raise funds in its setting, and may be the most efficient and community-building way to mobilize community support for its services.

However, the C/NP gambling sector should not assume that these broader standards do not generally apply in their situation, because the increased scrutiny of the C/NP area in general will carry over into the C/NP gambling sector.

## **APPENDIX H: CONSULTANT BACKGROUND: SALLY PERKINS**

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Sally Perkins brings more than 30 years of professional experience to this research project.

Ms. Perkins has her BA from Denison University (Granville, Ohio) and her Masters of Public Policy Studies from the University of Michigan (Ann Arbor).

From 1973 through 1983, Ms. Perkins worked for Washington State government, for the Office of Financial Management (then OPP&FM) as a program analyst in the Human Services section, and then for the Department of Social and Health Services in Community Services and in Public Health. Ms. Perkins supervised the budget and finance operations of the Division of Public Health for two years and managed statewide programs in family planning, perinatal and genetics programs for five years. In 1977, Ms. Perkins staffed the Adult and Juvenile Corrections work of Governor Ray's Special Committee on DSHS.

In 1983, Ms. Perkins became the Executive Director of Planned Parenthood of Pierce and the Coastal Counties, a nonprofit family planning and women's health agency serving women in Pierce, Kitsap and various coastal counties. As Executive Director, Ms. Perkins increased client services and the operating budget nearly sixfold and private fundraising nearly thirtyfold.

For Planned Parenthood Federation of America, Ms. Perkins served as Western Region Chair of the National Executive Directors Council, and as a member of the national Reinvention Team charged with responding to health care reform changes.

In 1995, Ms. Perkins helped accomplish the successful merger of three Puget Sound-area Planned Parenthood affiliates into Planned Parenthood of Western Washington.

Since 1996, Ms. Perkins has operated her own business and management consulting firm, serving public sector, nonprofit and for profit clients primarily in the Northwest. She provides nonprofit Board training and development services, strategic planning, organizational analyses, facilitation, and a variety of research and grant-writing projects. A representative client list is attached.

In 1998-99, Ms. Perkins served as the Synod of Alaska-Northwest representative to the Presbyterian Church USA Committee to Review the General Assembly (the national church structure) and its Committees.

Ms. Perkins has served on a number of nonprofit Boards, including the Central Neighborhood Council, Tacoma Community House, Sustainable Pierce County, and Trinity Presbyterian Church. She teaches Grantwriting 101 for the Nonprofit Center and is a member of Board Source (formerly the Center for Nonprofit Boards).

## REPRESENTATIVE LIST OF CLIENTS

- Broadway Center for the Performing Arts** (*grant-writing*)
- City of Tacoma** (*County-wide child care plan, Human Services planning process, Weed and Seed federal recognition application*)
- Department of Health, Family Planning & Reproductive Health** (*staff planning retreat, Title X regulatory analysis, free-standing agency viability analysis*)
- Department of Health, Family and Community Health** (*federal Abstinence Education grant--public input process design and facilitation*)
- Department of Health, HIV/AIDS Prevention** (*literature search re: health issues of homeless and runaway adolescents*)
- Department of Community, Trade and Economic Development, Community Mobilization Advisory Committee** (*staff reorganization and retreats, CMAC planning meeting, facilitation of statewide Prevention Group planning*)
- Electronic Commerce and Information Exchange** (*grant-writing to strengthen Latino communities through Internet access and utilization*)
- Franke Tobey Jones Retirement Estates** (*senior staff planning, Board governance analysis and development, Board strategic planning, grant-writing*)
- The Greater Tacoma Community Foundation** (*Fund for Women and Girls project planning and coordination*)
- King County Children's and Family Commission** (*Board/staff planning retreat*)
- King County Community Organizing Program** (*Board/staff strategic planning retreat*)
- KPLU-KUOW public radio stations** (*joint venture planning*)
- Lucks Food Decorating Company** (*strategic planning facilitation*)
- Martha and Mary Lutheran Services** (*Board and staff development facilitation*)
- Martin Luther King Housing Development Association** (*King Center merger business plan, King Center safety and security issues; five-year plan update*)
- Mason Matters** (*consultation on Mason County Summit for Children, Youth and Families*)
- MultiCare Center for Health Living** (*facilitation of planning retreats*)
- Pacific Lutheran University** (*Library public service strategic planning, School of Nursing faculty retreat facilitation, Student Health, Campus Safety analysis and recommendations, conflict resolution seminar*)
- Planned Parenthood of Western Washington** (*primary care feasibility study, Pierce County Family Planning coalition, clinic insurance billing procedures, emergency contraception new product introduction, Family Planning First initiative; 501 (c)(3) application for State Council, strategic plan evaluation, long-term secure supply of contraceptives worldwide*)
- Presbyterian Church, USA, Synod of Alaska-Northwest** (*Mission planning facilitation*)
- Presbyteries of Olympia and Seattle, Presbyterian Outdoor Ministries** (*joint venture analysis and dismantling*)
- Providence Health Services** (*Snohomish Hospice Board training and retreats*)
- Seattle Parks and Recreation, Older Adults Program** (*staff strategic planning and transition process*)
- Safe Streets Campaign** (*Truancy reduction demonstration grant implementation plan*)

**Sisters of St. Dominic, Tacoma** (*future planning, facilitation of annual Assemblies*)  
**South Puget Intertribal Planning Agency (Chehalis, Nisqually, Skokomish, Squaxin Island and Shoalwater Tribes)** (*joint grant planning retreat*)  
**Tacoma Art Museum** (*major gifts plan and structure, Board strategic planning*)  
**Tacoma City Ballet Productions** (*fund-raising consultation, grant-writing, Board development, strategic planning*)  
**Tacoma Lutheran Home and Retirement Community** (*Board training*)  
**Tacoma-Pierce County Board of Realtors** (*facilitation of affordable housing summit*)  
**Tacoma-Pierce County Health Department** (*PRISM grant consultant, community development training, facilitation of Adolescent Health Task Force, proposal to revamp health care system for uninsured persons in Pierce County, proposal to improve health consultation for child care centers, County-wide suicide prevention planning project, substance abuse prevention grant-writing, antibiotic resistance prevention grant, underage alcohol purchase focus group project*)  
**Tacoma Symphony Orchestra** (*Strategic planning, Board retreat*)  
**Tacoma Urban Network** (*facilitation of Board planning discussions*)  
**Temple Beth El** (*fund-raising development and Board retreat*)  
**The Collins Group** (*business analysis and recommendations*)  
**The Evergreen State College** (*strategic planning, facilitation of Board of Trustees, President, senior staff retreats*)  
**Thurston County United Way** (*community assessment process design*)  
**Trinity Presbyterian Church** (*grant-writing for community ministries*)  
**United Way of Pierce County** (*community assessment—community partners' roles*)  
**Washington Association for the Education of Young Children (WAEYC)** (*organizational analysis*)  
**YWCA of Tacoma-Pierce County** (*strategic planning, Board development*)  
**YWCA of the Wenatchee Valley** (*Board development, strategic planning*)