

Editor's note: it's best to print both pages and place them side by side when reviewing this publication.

QUESTION:

What should I know about the fee stated on my operator contract?

SHORT ANSWER:

The amount of the operator fee stated on the contract may seem excessive, however the rules are designed so that the permittee always gets 100 percent of net proceeds. This amount must equal at least 30 percent of adjusted gross income (AGI) for the game type of pull-tabs, and 10 percent of AGI for the game type bingo.

LONG ANSWER:

An operator who sells pull-tabs is required to pay a permittee a minimum of 30 percent of AGI. To be successful, an operator needs to make enough money to pay the permittee, pay the bills, and earn a profit.

In Example 1 we can see as gross receipts increase, so does AGI. We also know a permittee must be paid net proceeds that represent a minimum of 30 percent of AGI.

Operators incur gaming-related expenses such as rent, utilities, wages, insurance and cost of games. The profit an operator earns is called an operator fee and is also an expense. For the game type of pull-tabs, total expenses are limited to 70 percent of AGI. For the game type of bingo, total expenses are limited to 90 percent of AGI.

Expenses are generally fixed, which means they don't change much. For example, a rent payment is usually the same amount each month. Gross Receipts (sales) however, can change quite a bit. For example, sales might be higher in the winter, and lower in the summer. However, expenses remain relatively stable over a one year period.

In Example 2, if AGI increases and the operator fee does not, the expense ratio declines from 70 percent (maximum allowable) to 60 percent.

In Example 3, if AGI increases, and the operator does not increase the fee, net proceeds increases substantially, and all of it must be paid to the permittee.

In Example 4, it is permissible for the operator to increase the fee until the 70 percent limit is reached. Now the operator can collect a fee of 140,000 and pay the permittee net proceeds of 194,000. There is one caveat, the operator fee must be disclosed on the operator contract. If the fee disclosed on the contract is higher than the actual fee, it is acceptable, however if the fee disclosed on the contract is lower than the actual fee, the operator may only collect up to the amount of the fee stated on the contract.

Example 1	BASE	UP
Gross Receipts from the Sale of Pull-Tabs	2,500,000	3,000,000
Federal Excise Tax	6,250	7,500
Cost of Prizes	1,950,000	2,340,000
Adjusted Gross Income (AGI)	543,750	652,500
30% of AGI	163,125	195,750

Example 2	BASE	UP
Adjusted Gross Income (AGI)	543,750	652,500
30% of AGI	163,125	195,750
Game-Related Expenses		
Rent	43,500	43,500
Other Expenses	264,491	275,000
Operator Fee	72,650	72,650
Total Expenses	380,641	391,150
Expenses as a percent of AGI	70%	60%

Example 3	BASE	UP
Adjusted Gross Income (AGI)	543,750	652,500
30% of AGI	163,125	195,750
Game-Related Expenses		
Rent	43,500	43,500
Other Expenses	264,491	275,000
Operator Fee	72,650	72,650
Total Expenses	380,641	391,150
Expenses as a percent of AGI	70%	60%
Net Proceeds	163,109	261,350

Example 4	BASE	UP
Adjusted Gross Income (AGI)	543,750	652,500
30% of AGI	163,125	195,750
Game-Related Expenses		
Rent	43,500	43,500
Other Expenses	264,491	275,000
Operator Fee	72,650	140,000
Total Expenses	380,641	458,500
Expenses as a percent of AGI	70%	70%
Net Proceeds	163,109	194,000