

HCS HB 970 -- VIDEO LOTTERY GAMES

SPONSOR: Hardwick

COMMITTEE ACTION: Voted "Do Pass with HCS" by the Standing Committee on Emerging Issues by a vote of 8 to 5.

The following is a summary of the House Committee Substitute for HB 970.

ILLEGAL GAMING ENFORCEMENT FUND

This bill creates the "Illegal Gaming Enforcement Fund", which consists of revenues received from the State Lottery Commission. Revenue deposited into the fund will be used by the Attorney General for investigating and prosecuting violations of law. (Section 27.180, RSMo)

ENFORCEMENT OF LICENSED GAMING ACTIVITIES

Currently, the Superintendent of the State Highway Patrol may enter into an agreement with the Missouri Gaming Commission to enforce rules and regulations, conduct background investigations, and enforce the regulations of licensed gaming activities. This bill allows the Superintendent to also enter into agreements with the Missouri Lottery Commission. (Section 43.050)

HONORING MISSOURI VETERANS AND SUPPORTING MISSOURI EDUCATION ACT

This bill creates the "Honoring Missouri Veterans and Supporting Missouri Education Act". The bill provides funding for Missouri education programs and the Veterans Commission, and establishes a regulatory framework for video lottery game terminals (Section 313.425).

The Commission shall implement a system of video lottery game terminals and issue licenses to video lottery game manufacturers, distributors, operators, handlers, and retailers, with the following restrictions:

- (1) A person licensed as a video lottery game manufacturer or distributor cannot also be licensed as a video lottery game operator or retailer;
- (2) A video lottery game operator cannot hold a license as a video lottery game manufacturer, distributor, or retailer; and
- (3) A video lottery game retailer cannot obtain a license as a video lottery game manufacturer, distributor, or operator.

Nothing in these provisions prevents a video lottery game manufacturer from acquiring both a manufacturer's license and a distributor's license, as well as providing and operating the centralized computer system for monitoring video lottery game terminals.

The Commission must not permit a single vendor to implement the entire system of video lottery game terminals. A vendor that offers a centralized computer system is ineligible to be licensed as a video lottery game operator or retailer. The Commission must also ensure that private sector investment and job opportunities are encouraged.

The commission will set minimum standards for video lottery terminals operating in the state. Those minimum standards for game terminals must include:

(1) Conforming to all required Federal laws and regulations, including FCC Class A Emission Standards;

(2) Theoretically paying out a mathematically demonstrable percentage over the lifetime of the machine, which must not be less than 80%. The Commission must establish a maximum payout percentage. Game terminals that may be affected by skill must meet this standard and provide the greatest return to the player over a period of continuous play;

(3) A random number generator or similar method to ensure each play produces a random outcome of each play of the lottery game. This process must achieve 99% percent confidence, verified by a chi-squared test;

(4) An accurate display of the game outcome;

(5) Must not automatically alter pay tables or any function of the terminals based on internal computation of hold percentage or any methods of manipulation that affects the random selection or probability of winning;

(6) Must not be adversely affected by static discharge and electromagnetic interference;

(7) Must be capable of detecting and displaying messages like "power reset," "door open," and "door just closed" when in an idle state or on demand;

(8) Must have the capacity to display complete play history, including outcome, intermediate play steps, available credits, bets

placed, credits paid, and credits cashed out, for the most recent game and the 10 games played immediately prior;

(9) The theoretical payback percentage of a game terminal must not be capable of being changed without making changes to hardware or software in the game terminal;

(10) Must be designed so that replacement of parts or modules does not necessitate replacement of electromechanical meters;

(11) Must have meters that cannot be reset or housed in a locked area of the game terminal that keep a permanent record of:

(a) All cash inserted into the machine;

(b) All credits cashed out by the terminal printer;

(c) Credits played by players; and

(d) Credits won by players.

The Commission shall determine how on-demand displays of stored information will be provided. The information must be preserved for at least 180 days after a power loss to the terminal;

(12) Must have a minimum of one mechanism that accepts cash in the form of bills. Such mechanisms must be designed to prevent obtaining credits by tampering with the game terminal, and if attempts at physical tampering are made, the game terminal will suspend itself from operating until reset;

(13) Must have accounting software that keeps an electronic record of information including total cash inserted, value of winning tickets claimed, total credits played, total credits awarded, and payback percentage credited to players;

(14) Must be capable of issuing and accepting tickets for play, commonly known as ticket-in, ticket-out and must not directly dispense anything of value except for tickets representing credits purchased or won on a video lottery game terminal; and

(15) Must connect to a centralized computer system developed by the Commission.

The Commission may impose an initial nonrefundable license application fee that will be deposited in the State Lottery Fund, at set dollar values as specified in the bill.

The initial license will be valid for one year. After the first year, the license can be renewed for a period of five years, provided the applicable renewal fee is paid in advance for each year of renewal. Annual renewal fees will apply for anyone licensed under these provisions. For a video lottery game operator, the fees shall be \$200,000, with a renewal fee of \$100,000. The other fees are specified in the bill.

An annual administrative fee of \$1,000 is required for each video lottery game terminal placed in service. This fee will be equally divided between the video lottery game operator and the retailer, payable to the Commission once a year.

The fee will be allocated with \$200 distributed to the State Lottery Fund and the remaining \$800 will be allocated as follows:

- (1) \$100 to the Missouri State Highway Patrol for investigations;
- (2) \$100 to the Missouri Attorney General's Office for illegal gambling enforcement;
- (3) \$400 dollars to the Veterans Commission; and
- (4) \$200 to the municipality where the terminal is located; if in an unincorporated area, the funds will be transmitted to the county.

Licensed video lottery game operators and retailers must sign a written agreement for the placement of video lottery game terminals. The operator must provide the retailer with a copy of the signed agreement within 10 days. This agreement must be on a commission-approved form and include commercially reasonable terms, as specified in the bill.

A video game lottery retailer must not enter into an agreement with more than one video lottery game operator at any time. All licenses shall remain subject to all imposed taxes.

Game terminals must be inspected and approved by the Commission before being sold, leased, or transferred. Licensed manufacturers can buy, sell, or lease new or refurbished terminals to and from licensed distributors. Distributors may also conduct these transactions with licensed operators. Ticket redemption terminals must meet independent testing standards approved by the Commission. The bill allows a video lottery game operator that owns or leases redemption terminals before the specified operational date to use or sell the terminals.

The Commission will approve terminals for use and sale if they meet the criteria of these provisions or if they have been approved by another state for its video lottery game system.

Licensed video lottery game operators may:

- (1) Purchase, lease, or rent video lottery game terminals from licensed manufacturers, operators, or distributors;
- (2) Handle, place, and service video lottery game terminals; and
- (3) Connect the game terminals to the centralized computer system approved by the Commission.

All video lottery game tickets must be redeemed at a video lottery game ticket redemption terminal located near the game terminals within the retailer's establishment. Video lottery game operators must pay a 32% commission on any cash prize from tickets not redeemed within 180 days. The bill prohibits game terminal operators from leasing property to retailers, and lease agreements cannot include provisions for sharing net terminal income or calculating rent based on the income.

Only video lottery game operators or their employees may negotiate agreements with video lottery game retailers for placing terminals. Operators and retailers may not offer anything of value, aside from the agreed percentage of adjusted gross receipts and may not compensate a third party for contract solicitation or execution. The bill allows operators to contribute up to \$10,000, covering half the costs of a video lottery game terminal area in their agreements with retailers.

To address problem gambling, video lottery game operators must allow players to voluntarily exclude themselves from games. Operators must provide the Commission with a confidential list of excluded players within 30 days and update the list as required. Additionally, video lottery game operators or retailers may establish a commission-approved player rewards system, but players cannot be required to join the program to participate in the games.

A licensed video lottery game operator must not:

- (1) Dispense anything of value from video lottery game terminals except video lottery game tickets, which must indicate the total credits, cash award, time, date, terminal serial number, ticket number, and an encrypted validation number. The maximum wager per play is \$4, and the maximum prize must be \$1 less than the minimum reporting threshold for slot machine winnings;

(2) Operate more than 12 video lottery game terminals in any licensed establishment;

(3) Advertise to the public in any form, including media, mail, and billboards. This prohibition applies to all licensees but does not restrict marketing among manufacturers, distributors, operators, retailers, and handlers in trade journals or conferences; or

(4) Allow game play when the establishment is closed for business.

This bill states that no one under 21 years of age is allowed to play video lottery games and the video lottery game retailer is responsible for preventing anyone under 21 from playing video lottery games. Every retailer is required to have a video surveillance system where the game terminals are located and the video footage must be maintained for 30 days. Any operator or retailer that fails to report any violation of these provisions may be subject to a fine not to exceed \$5,000.

The bill requires each operator to post a sign in a conspicuous location where the terminals are located that contains the phone number for the problem gambling helpline as specified in the bill.

Video lottery game operators must pay the Commission 34% of the adjusted gross receipts from video lottery games, which must be deposited into the State Lottery Fund. The Commission will allocate these funds as follows:

(1) Retain an amount for necessary to cover administrative expenses not covered by operator reimbursements;

(2) Distribute funds to municipalities and counties based on tax revenue from video lottery game terminals. Each municipality and county will receive 10% the revenue generated within its boundaries for public safety services at the terminals. These funds will be placed in the general revenue fund of each municipality and county; and

(3) Deposit the remaining funds into the State Lottery Fund, which must be equally allocated to public elementary and secondary education and public institutions of higher education. Emphasis must be placed on student transportation costs and workforce development programs, and the funding will supplement, not replace, existing education appropriations.

All revenues from license fees and any related reimbursements received by the Commission, including interest earned, will be considered administrative expenses and deposited into the State

Lottery Fund. Subject to appropriation, up to 1% of the license fees may be allocated to the Compulsive Gamblers Fund and the remaining funds will be used for administrative expenses associated with overseeing and enforcing these provisions.

To ensure an orderly implementation of the video lottery game system, the Commission must:

(1) Contract for the supply and operation of a centralized computer system for video lottery games within 365 days of the effective date;

(2) Make license applications for manufacturers, distributors, operators, retailers, and handlers available within 365 days and establish necessary regulations;

(3) Provide an approved form for video lottery game terminal operator applications within 365 days;

(4) Establish a start date for initial operators to solicit contracts with retailers, which cannot exceed 180 days after the last application from the first year is approved;

(5) Approve or deny applications within 90 days, ensuring decisions for first-year applications are made at least 30 days before the start date; and

(6) Establish an operational date for the video lottery game terminal system, set no more than 180 days after the start date.

Any municipality or county with an ordinance that prohibits or restricts video game terminals will be invalid as of the effective date of this bill and a new ordinance shall not be adopted until one year after the operational date, as specified in the bill. Any municipality or county that adopts an ordinance prohibiting or restricting the licensing of video lottery game retailers or terminals is required to notify the Commission.

Beginning August 28, 2025, no person shall enter into any contract, agreement, or otherwise for the sale, use, license, or operation of no-chance game machines, coin-operated amusement devices, or any other similar device. Existing no-chance game machines will be allowed to continue in force if the owner of the no-chance game machine requests and receives a permit sticker from the Commission for each no-chance game machine. The owner has 60 days to submit the request.

The Commission shall provide a form to request permit stickers for no-chance gaming machines. The forms will include certain information, as described in the bill.

The Commission shall charge a \$25 fee for each permit sticker issued. Once the completed form is received, the Commission will issue the permit sticker within 10 days.

This bill does not prevent the issuance of licenses based on an applicant's involvement with no-chance game machines. Video lottery game retailers must certify, using a form from the Commission, that they do not operate any no-chance game machines in their establishments. This certification must be submitted within 48 hours of installing and beginning operation of any video lottery game terminals.

A permit sticker will expire upon the earlier of:

- (1) The expiration of the 48 hour notice if it's on a no-chance game machine at a retailer with video lottery terminals; or
- (2) 180 days after the specified operational date.

The Commission must provide all necessary forms within 60 days of the effective date of the bill (Sections 313.425 to 313.437).

DEFINITIONS AND GAMBLING OFFENSES

This bill updates the definition of gambling to include gambling devices, as provided in the bill (Section 572.010).

This bill declares that VFW raffles that use tickets, devices, or machines as being part of the provisions of Chapter 572 that hold that nothing shall prohibit the constitutionally authorized activities found under Article III, Sections 39(a) to 39(f) of the Missouri constitution, so long as the winner of such a raffle is determined by the opinion of a qualified engineer (Section 572.015).

Currently the offense of gambling is a class C misdemeanor, except in certain circumstances. This bill makes gambling a class E felony (Section 572.020).

The offense of possession of a gambling device shall remain a class A misdemeanor (Sections 572.070).

The following is a summary of the public testimony from the committee hearing. The testimony was based on the introduced version of the bill.

PROPOSERS: Supporters say that this bill will go a long way in reducing criminal activity currently associated with these video systems, as well as eliminate any bad actors that operate under the radar without any regulation. Supporters further say that the bill provides regulatory clarity that is not too burdensome on business owners. Current law has not kept up with advances in technology as these video gaming systems continue to grow, and placing guardrails on how and when these systems can be operated is overdue.

Testifying in person for the bill were Representative Hardwick; Bruce Banks, Accel Entertainment; Torch Electronics; Kenneth D. Goins, MotoMart/ FKG oil; Joshua Grant, Pit Stop Missouri, LLC; Kenny Dobson, Ware Brands; Leland Moloney, Warrenton Oil Company; Mo Coalition For Video Lottery; MPCA-Mo Petroleum and Convenience Assn; Troy Stremming, J & J Gaming; Chuck Hatfield, Torch Electronics.

OPPOSERS: Those who oppose the bill say that these provisions could wrap a cloak of legitimacy over illegal gambling games. If we as a society regard these video gaming systems as illegal, then it should stay illegal. Opponents further say that it is disingenuous to argue in favor of the bill by pointing to the fact that fees and revenue generated by the video gaming systems will go to education, because those same people argue that we should also reduce local property tax. Additionally, video gaming systems typically fail to produce all of the promised revenue and jobs, and ends up causing local communities more problems.

Testifying in person against the bill were Winton Policy Group; Missouri Home Dock Cities Association; David Schatz; Timothy Faber; Marc Ellinger, Missouri Gaming Association; and MO Gaming Association.

OTHERS: Others testifying on the bill say any and all constitutional concerns should be addressed before the bill proceeds, including whether or not this program should be put to a vote of the people.

Testifying in person on the bill was Troy Williams, MO Association Of Veterans Organizations.

Written testimony has been submitted for this bill. The full written testimony and witnesses testifying online can be found under Testimony on the bill page on the House website.