

HCS HB 970 -- VIDEO LOTTERY GAMES (Hardwick)

COMMITTEE OF ORIGIN: Standing Committee on Emerging Issues

ILLEGAL GAMING ENFORCEMENT FUND (Section 27.180)

This bill creates the "Illegal Gaming Enforcement Fund", which consists of revenues received from the State Lottery Commission. The State Treasurer will be the custodian of the Fund and revenue deposited into the Fund will be used by the Attorney General, prosecutors, and law enforcement for investigating and prosecuting violations of law.

ENFORCEMENT OF LICENSED GAMING ACTIVITIES (Section 43.050)

Currently, the Superintendent of the State Highway Patrol can 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.

HONORING MISSOURI VETERANS AND SUPPORTING MISSOURI EDUCATION ACT (Section 313.425)

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

DEFINITIONS OF GAMING ACTIVITIES (Section 313.427)

This adds new definitions related to video lottery gaming, including definitions regarding "adjusted gross gaming revenue" and "Video lottery game terminal or Electronic gaming machine". This bill also removes definitions, including "no-chance game machines".

ADMINISTRATION OF VIDEO LOTTERY TERMINALS (Section 313.429)

The Commission must 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 licensee 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 promulgate rules by setting 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 or other 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, but not limited to, outcome, intermediate play steps, available credits, bets placed, credits paid, and credits cashed out, for the most recent game played 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 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;
- (12) Must have accounting software that keeps an electronic record of information including, but not limited to, total cash inserted, value of winning tickets claimed, total credits played, total credits awarded, and payback percentage credited to players;
- (13) 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
- (14) Must connect to a centralized computer system developed by the Commission.

The Commission can impose an initial nonrefundable administrative 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 four 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 will be \$50,000, with a renewal fee of \$50,000. The other fees are specified in the bill. For a video lottery game retailer establishment, the fees will be \$1,000.

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 in which the video lottery game terminal is located.

No license will be issued to any person who has been convicted of a felony or any crime involving illegal gambling and the licensee is responsible for notifying the Commission of any changes to the status of its license. 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, and must include:

- (1) An equal division of net terminal income between a video lottery game operator and retailer;
- (2) Requirement that the video lottery game operator is to be responsible for collection, remittance, and disbursement of gross gaming revenue tax and net terminal revenue;
- (3) An affirmative statement that no inducement was offered or accepted regarding the placement or operation of a gaming terminal;
- (4) An indemnity provision on behalf of the State relative to any cause of action arising out of the contractual agreement;
- (5) A prohibition on the assignment of the agreement, except in certain situations;
- (6) A release of the video lottery game terminal retailer from any continuing contractual obligation to the operator if the operator has its license revoked or denied;

(7) A provision that the parties agree to modify the agreement to the extent necessary to comply with Missouri law; and

(8) Provisions approved by the Commission.

No video game lottery retailer will enter into use agreements with more than one video lottery game operator at any time. A video lottery game retailer can only enter into a new agreement with a different video lottery game operator upon the termination of an existing agreement.

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 can 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 can 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.

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 can 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 eight 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, although video lottery game terminal operators may advertise and market to players of video gaming terminals through player rewards programs approved by the Commission; 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. Video footage taken by the video surveillance system must be deleted and expunged after the 30 day period, nor will the surveillance system use facial recognition technology or software. 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 are responsible for:

- (1) Payments to winning players;
- (2) Collecting all funds from video lottery game terminals;
- (3) Depositing all funds so collected into a separate bank account for electronic fund transfers; and
- (4) After such transfer by the Commission, remitting to the retailer its share of net terminal income on a monthly basis.

Adjusted gross gaming revenue must be deposited in the State Lottery Fund, and the Commission must use the funds as follows:

- (1) The Commission shall retain an amount necessary to cover administrative expenses;
- (2) The Commission must adopt rules to identify the location, by city and county, of each terminal being operated. The city or county will receive 10% of the gross gaming revenue generated by those video lottery terminals located in that city or county for use in providing services necessary for the safety of the public visiting a video lottery terminal retailer's location;
- (3) All remaining funds will be deposited in the State Lottery Fund and appropriated equally to public elementary and secondary education and public institutions of higher learning with an emphasis on student transportation costs and workforce development programs;
- (4) A video lottery game retailer or operator must place a warning label or sticker on each gaming machine, as provided in the bill, that reads: WARNING: GAMBLING CAN BE ADDICTIVE.

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.

The Commission will adopt rules for the implementation of the video lottery game systems including, but not limited to, a reasonable designation of the area within a video lottery game retailer's premises that is distinct and divided from the primary business operation area of the retailers establishment.

IMPLEMENTATION OF VIDEO LOTTERY GAME SYSTEMS (Section 313.431)

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 180 days of the effective date;
- (2) Make license applications for manufacturers, distributors, operators, retailers, and handlers available within 180 days and establish necessary regulations;
- (3) Provide an approved form for video lottery game terminal operator applications within 180 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. The operating of a no-chance game is not cause for denial of a VLT operator's or retailer's license; and
- (6) Establish an operational date for the video lottery game terminal system, set no more than 180 days after the start date. (Section 313.431)

#### LOTTERY OR GIFT ENTERPRISE (Section 313.433)

Participation by a person, firm, corporation, or organization in any aspect of the state lottery will not be construed to be a lottery or gift enterprise in violation of Article III, Section 39 of the Missouri Constitution.

#### LEGAL SHIPMENTS OF GAMING DEVICES (Section 313.434)

All shipments of gaming devices used as video lottery games that have been registered, recorded, and labeled under current regulations by the manufacturer or distributor shall be legal shipments of gambling devices into Missouri.

#### PROHIBITIONS ON GAMING DEVICES (Section 313.435)

A municipality or county may adopt an ordinance prohibiting video lottery game terminals with the municipality or county within 180 days from the effective date of this bill. The municipality or county must notify the Commission of the ordinance within seven days of passage and the Commission shall not authorize the placement of video lottery terminals therein. A municipality or



county that has adopted such an ordinance may at any time thereafter adopt an ordinance authorizing video lottery game terminals within the municipality or county. Any municipality or county that adopts an ordinance that authorizes the licensing of video lottery games must notify the Commission of such an action.

#### ISSUANCE OF GAMING LICENSE (Section 313.437)

Nothing shall be construed to prohibit or bar the issuance of any license to an applicant on the basis of that applicant's operation, handling, leasing, licensing, servicing, or placing of machines or devices used for amusement purposes, except that any video lottery game retailer must attest on a provided form that the video lottery game retailer does not have any machines or devices operating in the retail establishment where winning game plays result in a cash payout. The form must be submitted no later than 48 hours after the placement and operation of any video lottery game terminals in the retail establishment.

#### EXCURSION GAMBLING BOATS (Section 313.820)

Currently, an excursion boat licensee must pay to the Commission an admission fee of \$2 for each person embarking on such a boat with a ticket of admission. One dollar of the admission fee is deposited in the Gaming Commission Fund, and one dollar is paid to the home dock city or county.

This bill increases the admission fee to \$4, and the additional \$2 must be transferred to the Missouri Veterans Commission.

#### RAFFLES AND GAMBLING (Section 572.015)

This bill declares that VFW raffles that use tickets, devices, or machines as being part of the provisions of Chapter 572, RSMo, 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 the raffle is determined by the opinion of a qualified engineer.

#### MISSOURI GAMING BUREAU (Section 650.930)

This bill establishes the "Missouri Gaming Bureau" within the Department of Public Safety. The Bureau shall assist the Missouri Gaming Commission and the Missouri Lottery Commission in criminal and regulatory investigations of those who are applying for licensure or operations relating to video lottery games.

The director of the Bureau shall be a uniformed member of the Missouri State Highway Patrol. Members of the Bureau shall have

full power and authority as peace officers when working with the Bureau, including the power to enforce the rules of the Gaming Commission and the power to investigate violations. Members shall be paid from funds described in the bill.