

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 1042

DATE: March 14, 2005

Version: As introduced

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Subject: Video lottery terminals

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Overview

This bill permits the director of the state lottery (director) to place video lottery terminals (VLTs) in bars. Specifically, the director would be authorized to enter contracts to place up to five VLTs in a bar where lawful gambling occurs. The bill limits VLT play to persons 21 years old and older and regulates the operation and play of VLTs.

Net revenue (total wage less prizes) from the VLTs would be taxed at a rate of 30 percent. Each retailer would receive a commission equal to 33 percent of the net income from the VLTs in the retailer's establishment, 31 percent of which would be distributed by the retailer to organizations conducting lawful gambling in the retailer's establishment. Revenue would also be transferred to the lottery operations account and a compulsive gambling trust account. The remaining revenue would be divided in the same manner as other lottery net proceeds (40 percent environmental trust fund, 60 percent general fund).

In addition to providing organizations conducting lawful gambling with a share of VLT revenues, the bill also provides for a reduction in the state tax on pull-tabs and tipboards by eliminating the separate tax on their ideal gross and the combined receipts tax on their gross receipts, and including them under the existing tax on paddlewheels, raffles, and bingo (8.5 percent of gross profit).

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- 1 **Lottery gaming machines; in-lieu tax.** Provides that net terminal income from the operation of VLTs authorized under section 22 is exempt from the sales tax. Imposes an in-lieu tax at a rate of 30 percent of net terminal income (section 0).
- 2 **Imposition.** Imposes an 8.5% tax rate on gross profit (gross receipts less prizes) from pull-tabs and tipboards (the rate for other lawful gambling). This tax would replace the current tax of 1.7 percent of ideal gross from pull-tabs and tipboard and the current combined receipts tax on gross receipts from pull-tabs and tipboard (repealed under section 37).
- 3 **Lottery.** Requires the director to deposit in a separate account in the state treasury all money received for investigations and background checks relating to ownership and operation of VLTs. Appropriates this money to the director for the background checks, investigations, and audits required in section 299L.02, subd. 1.
- 4 **Expenditure restrictions.** Provides that money from net VLT income received under section 19 by an organization conducting lawful gambling must be expended only for lawful purposes.
- 5 **Lottery game.** Defines "lottery game" as any game operated by the lottery where the prize is determined primarily by chance.
- 6 **Lottery procurement contract.** Modifies the definition of "lottery procurement contract" to include contracts to provide VLTs, maintenance of VLTs, and computer hardware and software used to monitor VLT sales.
- 7 **Lottery retailer.** Modifies the definition of "lottery retailer" to include a person with whom the director has contracted to place a VLT within its premises where VLT plays are sold.
- 8 **Lottery ticket or ticket.** Modifies the definition of "lottery ticket" to specify that the term does not include tangible evidence issued by the lottery to prove participation in a video lottery game.
- 9 **Net terminal income.** Defines the "net terminal income" to mean the sum of all money spent for VLT plays less prizes.
- 10 **Video lottery credit.** Defines "video lottery credit" as the basic unit of play for a VLT which has a value of 25 cents.
- 11 **Video lottery credit receipt.** Defines "video lottery credit receipt" as a receipt generated by a VLT that provides evidence of cash payment due to the player.
- 12 **Video lottery game.** Defines "video lottery game" to mean an electronically simulated game authorized by the director that is displayed and played on a VLT "for consideration and with prizes awarded for designated results."
- 13 **Video lottery terminal.** Defines "video lottery terminal" as an electronic machine that, upon insertion of a coin, token, or currency, is available to play (or simulate the play of) a game using a video display and microprocessors in which, primarily by chance, the player may receive free plays or video lottery credits that are redeemable for cash.
- 14 **Video lottery terminal play.** Defines "video lottery terminal play" as an electronic record that proves participation in a video lottery game.
- 15 **Win percentage.** Defines "win percentage" as the portion of money wagered by players on a VLT that is available for the payment of prizes.
- 16 **Contracts.** Permits the director enter contracts with lottery retailers for the operation of VLTs, which may provide for the retailer to operate VLTs at more than one location.
- 17 **Restrictions on lottery retailers.** Permits lottery retailers to place VLTs only on premises described in the contract with the director (section 0). Requires retailers to post in the area

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where VLTs are operated (1) a certificate from the director and (2) the compulsive gambling hotline number.

18 Restrictions on lottery retailers; VLTs. Allows the director to authorize up to five VLTs on a retailer's premises. Regulates the director's retailer contracts for VLTs as follows:

- The director can enter these contracts only with retailers licensed to sell alcoholic beverages for consumption on the premises. This does not include retailers with temporary on-sale licenses or retailers of 3.2 beer (if 3.2 beer does not account for at least 50 percent of total gross receipts on the premises).
- The director may only contract with retailers who have a licensed lawful gambling organization conducting lawful gambling on the premises.

Regulates lottery retailers authorized to sell games operated by a VLT as follows:

- For three years after the act becomes effective, a retailer cannot cancel or refuse to renew a lease with a licensed lawful gambling organization that conducts lawful gambling on the retailer's premises (unless the organization has failed to comply with its lease).
- The retailer cannot refer to the establishment as a "casino" or use that word in ads or in its name.
- The director or his employees may, without notice, inspect any VLT at any time when alcohol may be sold at on-sale.

19 Retention by retailers; VLTs. Gives retailers a commission equal to 33 percent of net terminal income. Requires the retailers to transmit 31 percent of the commission to the lawful gambling organizations conducting lawful gambling on the retailer's premises (distributed pro rata in accord with the organizations' respective gross receipts).

20 Proceeds of sales. Provides that, like proceeds from the sale of lottery tickets, proceeds from the sale of VLT plays constitute a trust fund until paid to the director. Makes retailers personally liable for all proceeds (as they are for all proceeds from lottery tickets).

21 Local licenses. Prohibits political subdivisions from requiring a local license to restrict or regulate the placement of a VLT. Current law already prohibits political subdivisions from requiring lottery retailers to have a local license or to pay a tax or fee on operations.

22 Video lottery terminals.

Subd. 1. Specifications. Requires VLTs to (1) maintain on nonresettable meters a permanent, printable record of all transactions by VLT and entries into the VLT; and (2) be capable of being electronically linked to a central communication system, to provide auditing program information.

Subd. 2. Limit on amount played. Requires the VLT to limit the amount played on a single game to no more than \$2 and no less than 25 cents.

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Subd. 3. Maximum prize. Limits the maximum prize from one VLT game to \$1000.

Subd. 4. Testing and examination of terminals. Allows the director to require that working models of VLTs be transported for testing, examination, and analysis. Provides that the manufacturer must pay all costs of any testing, examination, analysis, and transportation of the model.

Subd. 5. Deactivation of terminal. Requires the director to deactivate a VLT without notice if the retailer violates any provision of chapter 349A, any rule, or any provision of its contract with the director.

- 23 **Agreement by players.** Provides that a person who plays a video lottery game agrees to be bound by the applicable game procedures.
- 24 **Payment; unclaimed prizes.** Requires a video lottery credit receipt from a VLT be presented for payment before the close of business on the day the receipt was printed. Requires a retailer to pay unclaimed prize money to the lottery. Treats as unclaimed prizes all prizes won by persons under 18 years old or otherwise ineligible to play.
- 25 **Withholding of delinquent state taxes or other debts.** Excludes winners of VLT prizes from the requirement that the director report lottery prize winners of \$600 or more to the Department of Revenue to determine whether the winner is delinquent or owes a debt.
- 26 **Odds; required information.** Requires the approximate odds of winning a VLT prize to be displayed on the VLT's screen or face.
- 27 **Prize fund.** Eliminates outdated language. Provides that the win percentage for VLT games will be set by the director for each kind of game at no less than 80 percent and no more than 95 percent.
- 28 **Lottery operations.** Permits the director to credit to the lottery operations account up to 20 percent of net terminal income to the lottery fund in that fiscal year. Requires the remittance of 2 percent of net terminal income from the lottery operations account to be transferred to the commissioner of human services and held in a compulsive gambling trust account, pending appropriation.
- 29 **Deposit of receipts.** Specifies that the requirements governing the deposit of lottery ticket receipts by lottery retailers also apply to receipts from VLT plays.
- 30 **Lottery ticket; retailer.** Expands the provision prohibiting the director, lottery employees, and their immediate families from purchasing lottery tickets to also prohibit them from playing a VLT game.
- 31 **Purchase by minors.** Establishes a minimum age of 21 years for playing VLTs.
- 32 **Sale to minors.** Provides that lottery retailers may not allow a person under the age of 21 years to play a VLT game.
- 33 **Restrictions.** Strikes the language prohibiting the director "to install or operate a lottery device operated by coin or currency which when operated determines the winner of a game."
- 34 **Fraud.** Expands the statutory provisions criminalizing lottery fraud to include various forms of VLT fraud.
- 35 **Gambling device.** Excludes VLTs operated by the lottery from the definition of "gambling device." (The possession of gambling devices is illegal.)
- 36 **State lottery.** Adds the manufacture, possession, or operation of a VLT for the lottery to the list of gambling operations that are permitted under the criminal code.
- 37 **Repealer.** Repeals the tax of 1.7 percent of ideal gross receipts from pull-tabs and tipboards

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and the combined receipts tax on gross receipts from pull-tabs and tipboards.

- 38** **Effective date.** Makes sections 1 and 3 to 26 effective the day following final enactment.
Makes sections 2 and 37 effective July 1, 2005.