

HOUSE RESEARCH

Bill Summary

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Authors: Erickson and others

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Analyst: Elisabeth Long

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Overview

This bill permits the director of the state lottery (director) to enter contracts for the placement of video lottery terminals (VLTs). The director would be authorized to enter contracts with retailers to place up to five VLTs in a retail-establishment where lawful gambling occurs. Video lottery games would be limited to video pull-tabs.

Net revenue (total wagers less prizes) from the VLTs would be taxed at a rate of 28 percent. This amount would be deposited into a compulsive gambling and chemical dependency account (1.5 %), an out-of-home placement account (0.5%), a military pay exemption account (3%), a clean water account (3%), the trunk highway fund (15%), the county state-aid highway fund (15%), the municipal state-aid street fund (10%), a senior corps account (1%), a general property tax relief account (8%), and the remainder to the general fund.

Each retailer would receive a commission equal to 31 percent of the net income from the VLTs in the retailer's establishment, 29 percent of which would be distributed by the retailer to organizations conducting lawful gambling in the retailer's establishment. The lottery would be allowed to transmit up to 12 percent of net terminal income to the lottery operations account. All remaining net lottery proceeds would be divided like other net lottery proceeds: 40 percent to the environmental trust fund, 60 percent to the general fund.

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The bill also reduces 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 profits).

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- 1 **Lottery gaming machines; in-lieu tax.** Provides that net terminal income from the operation of VLTs authorized under section 0 is exempt from the sales tax. Imposes an in-lieu tax at a rate of 28 percent of net terminal income (defined in section 0).
- 2 **Deposit of revenues.** Requires the commissioner of revenue to deposit revenues from the in-lieu tax in section 0 into the following accounts. Money and interest on money in these accounts may not be spent until appropriated by law for fiscal year 2007 and thereafter is dedicated as explained below.
 - 1.5 percent to a compulsive gambling and chemical dependency account, dedicated to the compulsive gambling treatment program (Minn. Stat. § 245.98) and to chemical dependency treatment programs (Minn. Stat. §§ 245.62, 245.652). Requires the commissioner of human services to give priority to treatment programs and services that provide long-term treatment and have demonstrated success in rehabilitating persons with gambling or chemical additions.
 - 0.5 percent to an out-of-home placement account, dedicated to reimbursing counties for costs associated with out-of-home placement of tribal children.
 - 3 percent to a military pay exemption account, dedicated to offset the cost of subtracting income earned through military service from federal taxable income.
 - 3 percent to a clean water account, dedicated to programs to achieve the state's water quality goals and control water pollution to meet federal Clean Water Act requirements.
 - 15 percent to the trunk highway fund.
 - 15 percent to the county state-aid highway fund.
 - 10 percent to the municipal state-aid street fund.
 - 1 percent to a senior corps account, for grants to the Minnesota Senior Corps program.
 - 8 percent to a general property tax relief account, dedicated for replacing revenue lost as a result of the reduction in property taxes under section 273.135. Provides that money in this account may not be spent until appropriated for fiscal years 2008 and thereafter.

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Directs the commissioner to deposit the remainder in the general fund.

Specifies that the revenue dedicated under this section is a supplement to, not a substitute for, traditional sources of funding for these purposes.

- 3 **Imposition.** Imposes an 8.5 percent tax on gross profits (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 0).
- 4 **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.
- 5 **Exclusions.** Provides that the State Lottery does not need a license to possess gaming devices as authorized by law.
- 6 **Restrictions.** Allows license manufacturers of gaming devices to sell, offer to sell, lease, or rent a gaming device to the State Lottery as authorized by law.
- 7 **Gambling prohibited.** Allows gambling and the operation of gaming devices in bars insofar as the activity is authorized by law.
- 8 **Expenditure restrictions.** Provides that money from net VLT income received under section 0 by an organization conducting lawful gambling must be expended only for lawful purposes.
- 9 **Lottery game.** Defines "lottery game" as any game operated by the lottery where the prize is determined primarily by chance.
- 10 **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.
- 11 **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.
- 12 **Lottery ticket or ticket.** Modifies the definition of "lottery ticket" to specify that it does not include proof of participation in a video lottery game.
- 13 **Net terminal income.** Defines the "net terminal income" to mean the sum of all money spent for VLT plays less the value of prizes due to players.
- 14 **Video lottery credit.** Defines "video lottery credit" as the basic unit of play for a VLT.
- 15 **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.
- 16 **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." Specifies that video lottery games are limited to video pull-tabs.
- 17 **Video lottery terminal.** Defines "video lottery terminal" as a machine, system, or device upon which payment of consideration allows the play of a video lottery game.
- 18 **Video lottery terminal play.** Defines "video lottery terminal play" as an electronic record that proves participation in a video lottery game.
- 19 **Win percentage.** Defines "win percentage" as the portion of money wagered by players on a VLT that is available for the payment of prizes.

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- 20 Lottery game procedures.** Authorizes the director to adopt game procedures governing VLTs and the cost of video lottery plays.
- 21 Contracts.** Allows 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.
- 22 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 where VLTs are operated (1) a certificate from the director and (2) the compulsive gambling hotline number.
- 23 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.
- 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.

- 24 Retention by retailers; VLTs.** Gives retailers a commission equal to 31 percent of net terminal income. Requires the retailers to transmit 29 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).
- 25 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).
- 26 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.
- 27 Video lottery terminals.**

Subd. 1. Operation. Sets the following requirements for the operation of VLTs:

- The director must operate and control all VLTs.
- The director must own or lease all VLTs.

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- The lottery or a vendor (under the director's control and direction) must maintain all VLTs.
- VLTs must be maintained by the lottery or by a vendor that is under the control and direction of the director.
- The director must approve general security arrangements for VLT operations.
- The director must have a central communications system to monitor activities and provide auditing program information on each VLT.
- VLTs must maintain on nonresettable meters a permanent record (capable of being printed) of all transactions by and entries into the VLT.
- The director may implement other controls to ensure the integrity of VLTs.

Subd. 2. Testing and examination of machines. Requires the director to examine VLT prototypes (or to contractor for the examination of VLT prototypes) and to require VLT manufacturers to pay the cost of examination. Also allows the director to require working models of VLTs to be transported to designated locations for testing, examination, and analysis. Requires manufacturers to pay for any testing, examination, analysis and transportation of a VLT model.

Subd. 3. Deactivation of the terminal. Authorizes the director to deactivate a VLT without notice if a retailer violates and provision of this lottery laws, rules, or the retailer's contract with the lottery.

- 28 **Agreement by players.** Provides that a person who plays a video lottery game agrees to be bound by the applicable game procedures.
- 29 **Payment; unclaimed prizes.** Requires video lottery credit receipts from VLTs to be presented for payment within 60 days of the date 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 21 years old or otherwise ineligible to play.
- 30 **Withholding of delinquent state taxes or other debts.** Requires the director to report to the department of revenue each winner of a VLT prize of \$1,200 or more so the department can determine whether the winner is delinquent or owes a debt. (The director is obligated under current law to report to the department lottery prize winners of \$600 or more.)
- 31 **Odds; required information.** Requires the approximate odds of winning a VLT prize to be displayed on the VLT's screen or face.
- 32 **Prize fund.** Strikes obsolete language. Provides that the win percentage for VLT games will be set by procedures for each kind of game, but must be no less than 80 percent and no more than 95 percent.
- 33 **Lottery operations.** Permits the director to credit to the lottery operations account up to 12 percent of net terminal income to the lottery fund in that fiscal year. Strikes obsolete language.
- 34 **Deposit of receipts.** Specifies that the requirements governing the deposit of lottery ticket receipts by lottery retailers also apply to receipts from VLT plays.
- 35 **Budget; plans.** Specifies that the lottery's operating expenses (which are capped by law) do not include amounts paid to an outside vendor to operate and maintain a central system for VLTs or amounts paid to acquire and maintain VLTs.
- 36 **Lottery ticket; retailer.** Expands the provision prohibiting the director, lottery employees,

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and their immediate families from purchasing lottery tickets to also prohibit them from playing a VLT game.

37 Purchase by minors. Establishes a minimum age of 21 years for playing VLTs.

38 Sale to minors. Provides that lottery retailers may not allow a person under the age of 21 years to play a VLT game or redeem a video lottery credit receipt.

39 Restrictions. Strikes current language stating that the director cannot "install or operate a lottery device operated by coin or currency which when operated determines the winner of a game."

40 Recovery of money lost. Disallows lawsuits by VLT players to recover money spent to purchase video lottery plays.

41 Commitments for gambling debt void. Exempts commitments for gambling debt for authorized VLT wagers from the statutory provision voiding commitments for gambling debt.

42 Fraud. Expands the statutory provisions criminalizing lottery fraud to include various forms of VLT fraud.

43 What are not bets. Excludes VLT plays from the definition of "bets" for purposes of the Minnesota law criminalizing bets.

44 Gambling device. Excludes VLTs operated by the lottery from the definition of "gambling device." (The possession of gambling devices is illegal.)

45 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.

46 Lottery budget; video lottery terminals. Requires the director to submit to the commissioner of finance a VLT operating budget. States that, notwithstanding the statutorily-required cap on lottery operating expenses, amounts expended by the director for the conduct of VLTs in fiscal year 2007 are not subject to the maximum amount set by law for lottery operations.

47 Repealer. Repeals the tax of 1.7 percent of ideal gross receipts from pull-tabs and tipboards and the combined receipts tax on gross receipts from pull-tabs and tipboards.

48 Effective date. Makes sections 0and 0effective July 1, 2006. Makes all other sections effective the day following final enactment.