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AMEND LOTTERY ACT TO INCLUDE VIDEO LOTTERY TERMINALS

House Bill 6520

Sponsor: Rep. Dale Sheltrown

Committee: Agriculture and Resource
Management

Complete to 11-15-02

A SUMMARY OF HOUSE BILL 6520 AS INTRODUCED 11-13-02

The bill would add a new Article 2, pertaining to the placement of video lottery terminals (VLTs) at horse racetracks, to the McCauley-Traxler-Law-Bowman-McNeely Lottery Act (MCL 432.1 et al.). Specifically, the bill states that the state lottery bureau could implement and operate video lottery games at racetracks in the state, and the bureau would have primary responsibility for the control and regulation of a video lottery terminal or game. In addition, the bill would codify existing provisions in the act into “Article 1”, which pertain to the current operations of the state lottery. Further, the bill states that the provisions of Article 1 would also apply to video lottery operations, though the provisions in Article 2 would supercede any conflicting or inconsistent provisions of Article 1.

Definitions. The bill defines “video lottery” to mean a lottery that allows a game to be played using an electronic computer and interactive computer terminal device, among other requirements. However, a video lottery would not include a lottery game that merely uses an electronic computer and video screen to operate a game and communicate the results but does not use an interactive electronic terminal device allowing input by a player.

In addition, the bill defines “video lottery game” to mean a bureau-approved electronic game of chance that is displayed on a video lottery terminal that, among other requirements, would not display roulette, dice or baccarat card game themes commonly associated with casino gambling. However, the game could display symbols that appear to roll on drums to simulate a classic casino slot machine or could display other card game or keno game themes.

Further, the bill defines “video lottery terminal” to mean a bureau-approved interactive electronic terminal device that is connected to the central control system and used to play video lottery games authorized by the bureau.

Placement. The bill would permit a license holder to install and operate up to 1,500 VLTs at the holder’s racetrack. However, the license holder could apply to the bureau for permission to install and operate more than 1,500 VLTs. Each VLT would have to be physically located in an area that meets the following requirements:

- The area is continuously monitored by a closed circuit television system.
- Access to the area is restricted to person legally entitled by age to play the games.

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- The license holder has submitted a floor plan of the area detailing the location of the VLTs and security cameras.

- The area is in a building that is located on property that is contiguous to the racetrack's grandstand.

- The area has windows that permit a view of the racetrack that remains uncovered during all live races.

Manufacturers. Under the bill, a manufacturer of a VLT or any component of a VLT would be prohibited from selling or leasing a VLT to be placed at a racetrack in the state unless the bureau had approved the terminal. Only a manufacturer with a permit to design or build a VLT or any component of a VLT intended to be sold or leased to a person licensed to conduct video lottery games at a racetrack could apply for approval of the VLT. To apply for approval, a manufacturer would have to supply the bureau with two copies of terminal illustrations, schematics, block diagrams, circuit analysis, technical and operational manuals, and any other information requested by the bureau.

Testing of VLTs. The bureau could require that two working models of a VLT be tested. The manufacturer would pay all costs for transporting and testing the VLT models. In addition, the bureau could require the manufacturer to provide specialized equipment or pay for the services of an independent technical expert to test the terminal.

In addition, the bill states that the bureau would be required to conduct a test at its headquarters to determine VLT functions and central control system compatibility, and that the manufacturer would pay for the cost of transporting two VLTs to bureau headquarters. If the VLT failed the test conducted by the bureau, the manufacturer would have to make all modifications as required by the bureau.

After the completion of testing, the bureau would provide the manufacturer with a report of its findings, conclusions, and results. This report could contain recommendations for modifications to bring the VLT into compliance with the provisions of the bill. Before approving a particular model, the bureau could require a trial period of not more than 60 days for the license holder to test the terminal. Any modifications of the terminal by the manufacturer during this trial period would have to be approved by the bureau.

Further, the bill states that the license holder and the manufacturer would be jointly liable for the assembly and installation of VLTs. Neither the manufacturer nor the license holder would be permitted to modify the assembly or operation functions of a VLT unless the bureau approves a request for modification. Any request for modification would have to include a detailed description of the type of change, reasons for such change, and technical documentation of the change.

Finally, a VLT that is approved for placement would have to conform to the exact specifications of the VLT model tested and approved by the bureau. The bureau would be required to seize and destroy a VLT or modification of a VLT that has not been approved by the

bureau and suspend the license of a license holder or the permit of a manufacturer that operates or manufactures a VLT or modification not approved by the bureau.

Hardware Specifications. A video lottery approved for placement at a racetrack in the state would have to meet all of the following hardware specifications:

- The electrical and mechanical parts and design principles would not subject players to physical hazards or injury.

- A surge protector would be installed on the power supply line to a VLT. Backup power capable of maintaining all accounting records and terminal status reports would be located within the locked logic board compartment of a VLT.

- An on-off switch would be located in an accessible place within the interior of a VLT.

- Static discharge or other electromagnetic interference would not adversely impact the operation of a VLT.

- At least one coin acceptor or other method to establish credits would be installed on each VLT. A VLT could also contain a bill acceptor if the bureau has approved the use of one.

- Access to the interior of a VLT would be controlled through a series of locks and seals.

- The main logic boards would be located in a separate locked and sealed area within a VLT.

- The cash compartment would be located in a separate locked area within or attached to a VLT.

- Hardware switches, jumpers, wire posts, or other means of manipulation that alter the pay tables or payout percentages would not be installed in a VLT, though the bureau could approve hardware switches to control a VLT's graphic routines, speed of play, sound, or other cosmetic feature.

- A VLT would contain a single printing mechanism capable of printing an original ticket and retaining a copy within the VLT or other means of retrieving the ticket data. The data on the ticket would include the number of credits accrued, the value of credits in dollars and cents displayed in numbers and words, the date and time, the validation number, and any other information as required by the bureau.

- A VLT would have a permanently affixed identification plate on the exterior that specifies the manufacturer, serial number, and model number.

- A VLT that is registered and approved by the bureau would only allow the play of those games regulated and controlled by the bureau.

- The rules for play for each game would be displayed on the VLT screen. In addition, each game would display the number of credits awarded for each winning combination.

- A VLT would have communication equipment and devices installed that enable it to communicate with the central control system.

- Finally, a VLT would have a security system that temporarily disables the gaming function while the VLT is opened.

Number Generation. A VLT would be required to use a random number generator to determine the occurrence of each specific symbol or number used in a game. The determination process would be considered 'random' if it met the following criteria:

- Each number or symbol satisfies the 99 percent confidence limit for the difference between the expected and observed result.

- Each symbol or number does not produce a significant statistic with regard to producing patterns of occurrences.

- Each pair of symbols or numbers meets the 99 percent confidence level using standard correlation analysis to determine whether each symbol or number is independently chosen without regard to another symbol in a single game.

- Each symbol or number meets the 99 percent confidence level using standard serial correlation analysis to determine whether each symbol or number is independently chosen without regard to the same symbol or number in a previous game.

Theoretical Payout Percentages. A VLT would have to meet the following theoretical payout percentages.

- A minimum of 80 percent of the amount wagered during the expected lifetime of the VLT, as determined by standard methods of probability theory.

- A maximum of 95 percent of the amount wagered during the expected lifetime of the VLT, unless the bureau approves a request by the manufacturer to program the VLT for a payout greater than 95 percent.

- A probability greater than 1 in 17 million of obtaining the maximum payout for each play.

Malfunctions. A VLT would have to be capable of continuing the current game after any malfunction is cleared. If a VLT becomes totally inoperable during a game, the current wager and all credits appearing on the VLT display prior to the malfunction would be returned to the player.

Accounting. A VLT would maintain an electronic account at all times, regardless of whether the terminal is being supplied with electrical power. The electronic meter of the VLT would record the number of coins (or its equivalent) inserted by the player; number of credits wagered; number of credits, coins, and tokens won; the number of credits paid out by a printed ticket; the number of times the logic area has been accessed; the number of credits wagered in

the current game; the number of credits won in the last complete game; and the number of cumulative credits representing money inserted and credits for games won, but not collected.

In addition, the VLT would not have a mechanism that allows the electronic accounting meters to automatically clear, nor would a person clear a meter without prior approval from the bureau. Further, all meter readings would have to be recorded by bureau employees before and after a meter is cleared.

Central Control System. The bureau would maintain a central control system to monitor VLTs using an on-line or dial-up connection. The control system would have to be capable of monitoring the operation of each VLT and immediately disabling each VLT. The bureau could require the license holder to pay the costs of a central control system as part of the licensing agreement.

Application of a license. The bureau would not grant a license to operate VLTs or a permit to manufacture VLTs unless the bureau has determined that the applicant meets all of the following qualifications:

- If the applicant is applying for license to operate VLTs, that the applicant also holds a valid track license issued pursuant to the Horse Racing Law of 1995.
- The applicant has good character and integrity.
- The applicant's background does not pose a threat to the security and integrity of the lottery or to the public interest. An applicant for a license (initial or renewal) would provide fingerprints for a criminal background check by the Department of State Police (MSP) and the Federal Bureau of Investigation (FBI). Fingerprints would have to be provided by each individual required to be named in the application, and each individual would have to provide a signed authorization for the release of the information by the MSP or FBI. A person who has been convicted of a crime related to bribery, gambling, or moral turpitude would not be eligible for a license or permit. Similarly, the bureau would revoke the license or permit of a person who is convicted of a crime related to bribery, gambling, or moral turpitude after a license or permit was granted.
- The applicant demonstrates the business ability and experience necessary to establish, operate, and maintain the business of conducting gaming through the operation of VLTs or manufacturing VLTs.
- The applicant has secured adequate financing, which is from a source that meets the qualifications for granting a license of permit.

Responsibilities of the license or permit holder. A license or permit holder would be required to do all of the following:

- Promptly report to the bureau any facts or circumstances related to VLTs that constitute a violation of state or federal law.

- Conduct all video lottery activities and functions in a manner that does not pose a threat to the public health, safety, or welfare of the citizens of the state, and that does not adversely impact the security or integrity of the state lottery.

- Hold the bureau and the state harmless from, and defend and pay for, the defense of a claim against a license holder, the bureau, the state, or any one of their employees, arising from the license holder's participation in video lottery.

- Assist the bureau in maximizing video lottery revenue.

- Maintain all records required by the bureau.

- Provide the bureau, upon request, access to all records and physical premises of the business where the license or permit holder's activities occur so that the bureau is permitted to monitor the video lottery activities, games, and terminals, and associated equipment.

- Remain current in all payments and other obligations to the bureau.

Responsibilities of Manufacturers. A manufacturer would be required to meet the following requirements:

- Manufacture terminals and related equipment in accordance with the specifications set forth in the bill.

- Manufacture terminals and related equipment to ensure the timely delivery to racetracks.

- Maintain and provide an inventory of excess parts to assure the timely repair and continuous operation of VLTs.

- Provide technical assistance and training in service and repair of VLTs and associated equipment to license holders and service technicians.

- Obtain certification of compliance with Title 47, Part 15 of the Code of Federal Regulations.

Responsibilities of License Holders. A license holder would be required to meet the following requirements:

- Acquire VLTs via purchase, lease, or other transfer, and provide a secure location for the place, operation, and play of VLTs.

- Pay for the installation and operation of bureau-approved telephone lines to provide for a direct dial-up or on-line connection between each VLT and the central control system.

- Not permit a person to tamper or otherwise interfere with the operation of a VLT.

- Ensure that telephone lines from the central control system to the VLTs are connected at all times and prevent any person from tampering or interfering with the operation of the lines.

- Ensure that a VLT is within sight and control of a designated employee of the license holder when the terminal is available for play.
- Ensure that a VLT is placed and remains in the location at the racetrack of the approved license holder, unless the bureau first approves the relocation of the video lottery terminal.
- Monitor the VLT to prevent access or play by a person less than 18 years of age or visibly intoxicated.
- Maintain sufficient currency and coins at all times in the denominations accepted by the VLTs.
- Not provide players with access to an ATM in the area where VLTs are located; not accept a credit card or debit card from a player in exchange for the purchase of credits, coins, or currency to be used to play a game; and not extend credit, in any manner, to a player to enable him or her to play a game.
- Pay all credits won by a player upon presentment of a valid winning video lottery ticket.
- Promptly report a malfunction of a VLT to the manufacturer and the bureau, and notify the bureau of any failure on the part of the manufacturer or service technician to provide prompt service and repair the VLT.
- Prominently display signs, redemption information, and other promotional material required by the bureau at the racetrack.
- Permit video lottery games to be played only during hours established and approved by the bureau.
- Maintain general liability insurance coverage for all VLTs in an amount of at least \$2 million per claim.
- Promptly notify the bureau, in writing, of any breaks or tears in any logic unit sales.
- Assume liability for money lost or stolen from a video lottery terminal.
- Submit an audited financial statement to the bureau when initially applying for a license or permit and annually after a license or permit has been issued.

Programmatic Requirements. The bureau would be required to provide a manufacturer, or an applicant of a manufacturer's permit, the protocol documentation data necessary to enable the VLTs to communicate with the central control system.

Gross Terminal Income. The bill defines 'gross terminal income' to mean the total amount of cash, vouchers, and tokens inserted into a VLT, less the total value of the cash and tokens won by players and game credits cleared from the VLT's in exchange for winning redemption tickets.

The bill would require a license holder to remit its gross terminal income to the bureau by electronic transfer on dates established by the bureau. The bureau would deduct from the gross terminal income an amount to reimburse the bureau for administrative costs. Any amount deducted that exceeds actual administrative costs would be returned to each license holder in proportion to the administrative costs deducted from each license holder.

In addition, the bill would require a license holder to maintain in the bank account from which funds are transferred to the bureau an amount greater than or equal to the gross terminal income from its video lottery operations. A failure to maintain this balance could prompt the bureau to disable all of the license holder's VLTs until payments of all amounts due.

Net Terminal Income. The bill defines 'net terminal income' to mean the gross terminal income less an amount deducted by the bureau for administrative costs. The bureau would remit 37.4 percent of the net terminal income to the School Aid Fund, and the balance would be paid to the Office of Racing Commissioner to be divided in the same manner as the distribution of revenue from the operation of card rooms and site-only simulcasting under the Horse Racing Law of 1995, except that the distribution of funds under the bill to the School Aid Fund (above) would substitute for the distribution of funds to the state under the Horse Racing Law. (That is, while under the Horse Racing Law the state's general fund receives funding from the operation of the card rooms and the site-only simulcasting, under the bill, this state share of the proceeds from video lottery terminals would be paid to the School Aid Fund).

Training Requirement. Under the bill, a manufacturer would be prohibited from placing a VLT in operation until the manufacturer provides training on how to service and repair each bureau-approved VLT model, and a service technician employed by the license holder has completed the training. Upon completion of the training program, a person would be eligible for a service technician's permit, which is required in order for a person to service and repair VLT's and other associated equipment.

Payment for Credits. Payment for credits awarded on a VLT would not be made unless the ticket is legible, printed on bureau-approved paper, and contains all information required in the bill; has not been altered, mutilated, or otherwise tampered with; is not counterfeit; and is presented by a person authorized to play the video lottery games.

Penalties. The lottery commissioner would be permitted to take disciplinary action against a person, after a hearing, for a violation of any provision of the article or the rules promulgated pursuant to the article. Such action could include suspending or revoking a license under the act as well as a fine, reprimand, or other penalty.

Further, absent authorization granted by the bureau, a person who manipulates the outcome, payoff, or operation of a game (and with the intent to do so) would be guilty of a felony that is punishable by imprisonment not exceeding 10 years or a fine not less than \$10,000, or both. In addition, if the person is licensed under the article to operate video lottery terminals, the bureau would revoke the license.

Tie-bar. The bill is tie-barred to House Bills 5285 - 5288, and 6142, which concern computerized gaming at horse race tracks, site-only simulcasting and telephone account wagering, pari-mutuel card games and events, distribution of horse racing “breaks”, and authorizing “keno” operations at horse racetracks.

Analyst: M. Wolf

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.