

MINUTES

MONTANA SENATE 54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON BUSINESS & INDUSTRY

Call to Order: By **CHAIRMAN JOHN HERTEL**, on January 31, 1995, at 7:30 AM.

ROLL CALL

Members Present:

Sen. John R. Hertel, Chairman (R)
Sen. Steve Benedict, Vice Chairman (R)
Sen. William S. Crismore (R)
Sen. C.A. Casey Emerson (R)
Sen. Ken Miller (R)
Sen. Mike Sprague (R)
Sen. Gary Forrester (D)
Sen. Terry Klampe (D)
Sen. Bill Wilson (D)

Members Excused: N/A

Members Absent: N/A

Staff Present: Bart Campbell, Legislative Council
Lynette Lavin, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: SB 187
Executive Action: None

HEARING ON SB 187

Opening Statement by Sponsor:

SEN. BOB BROWN, SD 40, Whitefish, stated SB 187 is an act authorizing the Department of Justice to operate and maintain an automated accounting and reporting system for video gambling machines. This bill is a result of the January, 1994, Performance Audit Report (**EXHIBIT 1**), conducted by the Department of Justice, Gambling Control Division. The recommendations made in the report are the basis for SB 187. **EXHIBIT 1** is not a duplicate of the report but rather a duplicate of the report summary.

SEN. BROWN referred to the underlined section of material on page S-3. He read **EXHIBIT 2**, "Of Machines and Money". He stressed that because of the amount of revenue produced by the keno and poker machines, it is very important to state and local governments to have an accurate system to monitor these machines and determine the taxes that should be paid. **SEN. BROWN** handed out **EXHIBIT 3** and stated it showed the significance of gambling machine revenues in different parts of the state. He read page S-5 of the Performance Audit Report and pointed out there are currently more machines in Montana than when the report was done.

SEN. BROWN cautioned that the lobbying effort against SB 187 would have the committee believe this bill would extend the intrusive hand of government regulation into the gambling element of the economy. He rebutted this, saying that Montana is unique in having no type of automated or electronic monitoring of gambling machines. Although the gaming industry is referred to as an industry, that is not correct because there is no industrial production. The gaming industry is a very cash intensive activity that involves machines. The activity is not technically gambling; the machines are set to pay back less money than they take in. If the same machine is played long enough it will win the money. The point is the machines are cash intensive and difficult to monitor. **SEN. BROWN** pointed out there is a history of scandal connected with this particular activity in other states. For this reason, the gaming industry is regulated by the Department of Justice rather than the Department of Commerce. Gaming is not an ordinary industry. The audit report shows the current system is neither accurate nor adequate and is unprotected from certain activities. The Department of Justice cannot, under the current system, do the job it is charged by law to do.

SEN. BROWN explained SB 187 would allow the Department of Justice to monitor machine play on an accurate and regular basis. The dial-up system would alert the Department to illegal or unfair activities and ensure that machine operators pay the correct revenue amount. The system would also help to prevent mistakes in reporting activities. It will assure that Montana cities and towns get the 2/3 of the tax revenue due to them. The people of Montana who play the machines would be able to do so with the assurance that each machine meets state regulations. There is an important consumer protection aspect to SB 187.

SEN. BROWN referred to the fiscal note and pointed out the tax credit to defray the cost to machine owners for converting their machines to the dial-up system.

Proponents' Testimony:

Joe Mazurek, Attorney General, Head of Montana Department of Justice (Amendments EXHIBIT 4) would like to thank **SEN. BROWN** for being willing to carry this bill and Governor Racicot who, on the basis of his experience as Attorney General and being the person

who had the first opportunity to implement the regulatory system we have now, recognizes the importance of modernizing the way we do business in regulating the gaming industry. **SEN. BROWN** mentioned this is probably the most heavily lobbied bill of the session. He welcomed the opportunity to address the nature of this bill and why it is here. He hoped that the industry would embrace this bill as a technological step forward. Discussions in the last few days weren't too encouraging. We must recognize this is a new industry in the state and we are new as regulators. Gambling machines were not legal before 1985. The number of machines has grown and keno machines have become legal. The 1989 Legislature enacted the Montana Gambling Control Act. That recognized a need for a uniform system of regulation of this industry. We looked to Nevada for a pattern for our manual paper system that is used for establishments outside the major casinos. It is important to understand the duties of the Department of Justice. We are not talking only about auditing and monitoring electronic gambling machines. Every business (1600) and every machine (1700) in the state has to be licensed and inspected. Gambling statutes must be enforced, taxes on machines must be collected, and taxes distributed to the local governments and state. There are a multitude of responsibilities in our regulatory duties. Over the past 5 years we have done the best we can, but due to the growth, we are incapable of keeping up. In 1991 the Attorney General asked for 21 additional staff to assist with the work. He was given 5. In 1989 there were approximately 2,000 poker machines, by 1994 there are 17,000. The gross income level has grown from \$78 million in 1989 to \$200 million (income of machines, less payouts) and the taxes have gone from \$12 million to \$30 million. Establishments that have 1-4 machines gross approximately \$6500 per machine per year; those which have 15-20 machines, gross approximately \$25,000 per machine per year. The highest machine makes approx. \$165,000 per year; and there are 8 that make over \$100,000 per year. It is a successful business. With this tremendous growth, I, as Attorney General must comply with the statutory duties with which I am charged. That is what the audit shows. This is the first audit of our efforts to regulate the industry. With our current staffing level it translates to every establishment having an audit once every 65 years and an inspection of every machine once every 7 years. We would like to keep up. The audit recommended either to give the Department of Justice 23 FTE's for the job or go to automation. The Department of Justice will look at automation in all aspects of what we do. We try to apply the latest technology to make it efficient and effective and cut back on costs. It is important to recognize the dual responsibility here: to ensure the correct amount of taxes are paid and collected and to ensure that each machine complies with the statutes and regulations in respect to payout and other aspects.

The bill will not sweep accounts electronically as does the lottery. There will not be sweeping of bank accounts without permission of owner. We are not going to look at other aspects of your business by computer; it will not lead to excessive phone

charges. By the time the system goes on-line and the subnet is in place, we may be making local calls. It won't tie up business lines; we can dial after hours in less than 30 seconds. If a malfunction occurs in the central monitoring computer, machine play at a local establishment will not be affected. Machines will not be able to be shut off from Helena without prior notice to the owner.

One of several benefits to the industry as a result of this bill will be a reduction of paperwork for the owners. No more reports. It will treat all manufactures equally, and provide the state, players and industry with accuracy and the insurance that the machines are fair. The funding we have asked for is already in the bank in an account to study and implement this system. We have made an effort to try to help pay a portion of the cost for hooking up the system to the individual operators who will have to modify their machines. Scaling the tax credit from \$300-\$150 will depend on the amount of income the machines make. This isn't about intrusion; it is about a faster, better, cheaper system.

A packet of exhibits were handed out to the committee members from **Joe Mazurek, Attorney General**, Department of Justice. Study Group Report, Compiled by Wilbur Rehmann (**EXHIBIT 4A**). Memorandum of 12/23/94 from the Attorney General to study group participants (**EXHIBIT 4B**). Draft Copy of LC0177 (**EXHIBIT 4C**). Memorandum dated 1/04/95 from Ben Kamerzel, Supervisor, Technical Services to Wilbur Rehmann (**EXHIBIT 4D**). Department of Justice, Manufacturer Market Share Report (**EXHIBIT 4E**). Data Center Hardware Configuration (**EXHIBIT 4F**).

Leo Giacometto, Governor's Office, urged that we rise in support of this bill. The Governor's main concern is to see that this is a fair process. There is, according to the fiscal note, enough revenue coming in to make this revenue neutral in the system being set up. We want to see that the small business owner, who is in another category, has his individual concerns addressed. The Governor believes the accounting system will benefit both parties, the state and the owners, and is willing to work through the process and address the concerns.

Janet Jessup, Administrator of Gambling Control Division, pointed out this is not a proposal to change what we are doing but a proposal to change how we do it. She read her written testimony. (**EXHIBIT 4G**). She explained that under the current system, owners are required to fill out a quarterly report, several pages long, on each machine. We get these from 15,000 machines from 1600 locations. The machine's information, machine play, payouts and calculation of taxes due, has to be detailed on this report. The owner records the information from the meters, prints out a tape for verification, and attaches it to the report. We review these every quarter. If problems occasion an audit, we must ask for the tapes. This is time consuming; it could be months before we discover the problem. **Ms. Jessup** brought in a gambling

machine to point out its various features. She said the logic board operates the machine. She explained, in a general manner, what basic components would be needed to convert and provide the communication required for the upgrading. **Ms. Jessup** handed out (EXHIBIT 5).

Ellen Engstedt, representing Don't Gamble with the Future, read her written testimony. (EXHIBIT 6)

George Ochenski, Hotel and Restaurant Employees Union, said he worked on a bill in 1989 which put the state electronic bulletin board system in place. Six years ago, why would one want to put an electronic communications system in place that duplicates what is already going on in the paper system. Because that is the wave of the future? Why not use available technology to reduce the cost to the state and provide more accurate recording and protect the employees of the establishment. The concern of the union is who will pick up the cost. Looking at the fiscal note, he thought the state could do better than the \$300 tax credit. \$500 or \$600 per machine seemed a reasonable compromise. He believed the state should pick up the cost of implementing the system.

Christine Peorte, Organizer with the Hotel employees and Restaurant Employees Union, registered her interest in this issue because she recently spent several months meeting with over 250 casino workers in Missoula and Billings. They worked for the larger casinos and conglomerates; these establishments have the maximum amount of machines. The issues we heard were mostly economic; low pay, no benefits, gender discrimination, sexual harassment. Although it is a rapidly growing industry, it is not a stable one. Turnover rate is 60% in a 10 week period in one casino. The employees we represent considered the electronic monitoring device an important step in improving their workplace and stability in this industry.

Jackie Helk, Organizer for the Hotel Employees and Restaurant Employees Union, duplicated previous testimony. She would have the state subsidize the cost of implementing the system.

Gary McCackren, Union, conceded the new system would eliminate cumbersome manual reporting.

David Hemion, Legislative Liaison for the Montana Association of Churches, read his written testimony. (EXHIBIT 7).

Alec Hansen, Montana League of Cities and Towns, supported SB 187 but had concerns as to whom pays for it.

Additional Proponents present:

Scott Seacat (EXHIBIT 8).

Office of Legislative Auditor (EXHIBIT 9A).

Gambling Control Division (EXHIBIT 9B).

Alan Ruby (EXHIBIT 10).

{Tape: 1; Side: B}

Opponents' Testimony:

Larry Akey, Video Lottery Technologies, Inc., and Montana Coin Machine Operators Association, read written testimony.
(EXHIBIT 11)

REP. BOB PAVLOVICH, HD 37, Butte, recalled that in 1985 it was his bill that created the problem we have today. He stated in his bill there were only 5 machines, not 20. Since the beginning of the legislature, he said he has heard nothing but the House and Senate wishing to downsize government and give it back to the people. Now we have a bill that will do just the opposite. He sat on the Audit Committee in January of 1994 and heard the same report. The industry itself did not have a chance for a rebuttal to the committee. The Audit Report was final. Those of us in the Audit Committee gave a standard motion to accept the report. That doesn't mean we put a stamp of approval on the report. There were members on the committee who voted against the report. We have a \$100 limit on poker and \$800 on Keno. I could accept a system if it had unlimited payout. The audit report said the machines had errors approximately \$40,000 and \$150,000. Half was underpayment; the other half was overpayment. Please kill the bill. Please kill the bill.

Mark Staples, Montana Tavern Association, deplored the overwhelming number of people affected by and subjected to the imposition of this system. He wished to thank Governor Racicot for showing a balanced perspective on this whole issue. The Governor's quote from Montana Magazine was handed in. (EXHIBIT 12). The Attorney General has admitted that we are changing the rules in the middle of the stream. We should consider a number of things as we go forward. The average net income is between 5-6%. The machines that make the incredible amounts of money are very few. He explained that they also put much of the money back in terms of promotions and their own upkeep. The cost goes up and the machines that can't be upgraded for the new system, must be replaced. Small dealers will be the ones that will have to replace. There needs to be a grandfather clause to take of this situation. This system is supposedly necessary. **Mr. Staples** stated the fiscal analyst said the system will bring in new money. It will bring in \$3.5 million a year. This will find extra money, not just the growth that we've always had, 12-15%, but there will be extra money because of the accuracy of the system. We paid millions of dollars in machines in 1985 to be in the system that the state was then touting with dual meters. There must be other solutions. We have dozens of people who are going to be affected much greater by the cost of this than the tax credits can take care of. With an administration that is asking you not to minimize a tax refund of \$100-\$200 dollars, please don't turn around and minimize an unfunded mandate to this industry of \$10's of thousands of dollars per place.

Don Lane, CPA, Anderson ZurMuehlen and Company, a regional accounting firm located in Helena. **Mr. Lane** said his company was retained by the Gaming Industry Association of Montana in the Spring of 1992 to conduct a survey of casinos in Montana. We sent surveys to 54 casinos at that time and received 14 responses. We requested the following information from those casinos: the latest fiscal year tax return, quarterly machine tax returns filed with the Department of Justice, officer and owner salaries, and percent time devoted to business and percent of ownership. Of the 14 received, 2 were incomplete and were removed from the survey. A composite was made of the remaining 12 responses. (**EXHIBIT 13**). This is not a statistical survey and should not be extended to the Montana casino population as a whole. However, it does appear that the 12 casinos represent a broad spectrum of casinos. We found inconsistencies where items were reported on the tax return. We tried to negate the inconsistencies in the following manner: promotions are with cost of goods sold, machine taxes are alone, salaries are broken up into two line items, keno and bingo payouts are cost of goods sold and machine paid out's as a net of gross revenue.

Darrell Keck, President of Montana Tavern Association and is a member of the Gaming Advisory Council appointed by Attorney General, handed out written testimony. (**EXHIBIT 14**).

REP. DON LARSON, HD 58, Seeley Lake, Bar and restaurant owner as well as legislator. He stated the industry believes in fair regulation; it is in our best interest; the issue is who pays. No one in the industry would mind this if the state would bear the cost of conversion. He said his 9 machines represent 8% of his income. That 8% subsidizes the rest of his business and keeps it going. The concerns of the industry have not been addressed by the proponents: sweeping of account, phone expense, these need to be addressed before this bill is passed out of committee. I recommend a DO NOT PASS until these concerns are addressed.

Rich Miller, Owner and Operator of Best Bet, Missoula, told the committee they heard many arguments from members of the gaming industry today against the dial-up system, i.e., invasion of privacy, \$20 million expenditure to the industry, million dollar start-up costs to the state, \$477,000 continuing expense. There is one portion of this bill on which he believed everyone could agree. The dial-up system will change from mechanical meters to electronic meters as primary source of data for tax collection. This is a long overdue change to improve accuracy. The increased accuracy and validity of data will make it more useful for tax collection and enforcement activities. However, gaming control could use high resolution optical scanners with appropriate software, (same as in grocery store) and they could scan this audit tape that we submit to them now on a quarterly basis. The audit tape duplicates everything the dial-up system proposes to get out of the machine. The cost of high speed scanners and the proper software are less than \$50,000. SB 187 is premature and

should be tabled. Gaming control needs to go back and rethink the solution to the problems.

Judge DuBach, Montana, claimed he was one of the small operators who would have to replace his machines. He had a quote of \$150 from the telephone company.

Diane Jo Lickens, Montana Bar, Great Falls, Cattle Street Tavern Association, had a meeting with her association. 48-2 opposed the bill.

Bob Lincoln, Somers, has been in business 22 years, 2/3 of his machines would not be able to be upgraded. The total cost would be over \$48,000 to bring his business in line. He complained that was a great expense to pay when he had been audited several times, and passed. He has always paid his fair share.

Jim Johnson, Red Lodge, new to the industry, said he operated Golden Bear Saloon for one year. He is in debt which makes it difficult to be in business. He owns 9 of his machines. A changeover would cost him at least \$7,100 and it would be tough for him. He spoke on behalf of the **Chrome Bar, Absarokee**, whose cost would be \$5,300. **Buckeye Bar, Bridger**, with 10 machines, would have costs of \$25,000. None of them can afford this.

Paul Geiss, Central Montana Tavern Association, stated the members oppose the bill reluctantly, because of the unfunded mandate. Based on the figures he received from his distributors and the figures from the state on the tax credit coming up, he has concerns. He has 70 machines and his cost will be \$200,000. He said in his area, Harlowton, Lewistown, Stanford, Roundup, the total cost would be over \$1 million. This is clearly a negative mandate at this point. The association has no problem doing something that will give them credibility, but the price tag is unreachable for them.

Randy Reger, related he was here in 1987 when the legislature decided to change the specifications on Keno machines. The cost was supposed to be \$600; it was actually \$2,400 per machine. This session we were told it would be \$300 by the Department of Justice. The vendors said between \$600-\$800. Other vendors have said \$2800. Replacement of machines costs \$5000 each. We don't know what our costs are and they don't either.

Don Lytle, Haps Bar, Helena, said he had 11 machines that would cost him \$5000 per machine. The cost comes to \$55,000 to replace and update.

Chuck Anderson, Manager Gold Nugget Casino, Kalispell, stated the casino employed 80 persons and it had 20 machines. **Mr. Anderson** said they had a unique situation because all of their wiring was put underground. We would have to tear up carpet and concrete for 150 feet of conduit. An estimate of \$16-19,000 would be needed to upgrade to this system. In managing 80 employees, one

of their main concerns was employee theft. He explained that the area of strongest confidence is in their current system with the machines. When there is a shortage, I don't worry about the machines because I know they're accurate. In 8 years we've had 3 audits and we came up with a \$300 shortage. This system is cost effective and who is going to pay. President Bush wanted 800 B-2 bombers but he couldn't afford it. I don't think we can afford a gold plated accounting system.

Bill McIntyre, Owner, Pug Mahon's, Billings, said 75% of gross revenue comes from food, not a casino. He has 5 machines which will cost \$25,000 to \$30,000 to replace. He can't afford this. The bill will take small operators, as himself, back to the vendors. This is unfair.

Greg Reich, Poplar, told the committee he has 12 machines and 22 employees. Eight of the machines would have to be scrapped and he can't afford new ones. If he doesn't buy new ones he will lose business, and all of his clients will go to tribal machines, where they can advertise and the payouts are bigger.

Dennis Casey, Executive Director, Gaming Industry Association, claims there is a logical and reasonable approach that can be taken to this issue. We all agree that the present system needs to be improved. The regulator could examine the different ways, including the dial-up, but not limited to the dial-up. This examination would give information to all of us that we need before we can have this discussion in a legislative audit. We do reject the notion that the only solution is 23 new employees or dial-up. **Mr. Miller** has suggested one of them and he suspects there are others that could be explored. The purpose is not to stall the system; it is an intelligent approach. The fiscal note said the first machines will be hooked up on July 1, 1997. We should go through a complete examination of various systems and determine which is best, define in detail the cost, postponement of 3-6 months could occur. Certainly that is not unreasonable when you are talking about the millions of dollars this will cost. He said we would all have the details and be talking from the same script, instead of numbers such as \$6 million up to \$20 million. We urge that the cost be paid by the state. We suggest that we slow down and take the logical steps as any business would, and work together to accomplish the goal that we all want.

Tom Bauer, Ravalli County Tavern Association, Stevi West Bowl, Stevensville, believed this bill is unfair. There is too much added cost to our business which increases our overheads.

Jim Grubbs, Main Street Casino, stated he has been in business since 1987 and found it ironic that Ms. Engstedt is willing to gamble with the future of him and his employees. Her gamble is to believe that the dial-up system will produce 3.5 million. He submitted the system would not receive that kind of money. The present reporting system is fair. In 1992 he had a three year audit, discovered millions of dollars, and my total tax was \$80.

Ralph Ferrero, Gallatin County, remarked he had a small bar in downtown Bozeman. Senator Emerson is familiar with my operation, I gave him a tour of all my machines. If this system is implemented it will cost me at least \$90,000 to upgrade.

Sandy Keith, Red Rooster, Butte, told the committee he had 8 machines that will have to be replaced at a cost of \$55,000. He thought the members were not sent to the legislature to create another bureaucracy. That is what this system will create.

Sarah Herold, Capital City Bowl, Helena, has been in business for 37 years, struggling to keep her head above water. She said it will cost them approximately \$30,000 to get themselves in compliance. This is an unfunded mandate. Please vote no.

Barbara Morris, Jorgenson's Restaurant, represents Tri-County Tavern Association (Jefferson, Broadwater and Lewis and Clark), noted the establishment was the only one in Helena that belongs to the Hotel and Restaurant Employees Union. She said their machines pay for a significant part of wages. The total net income for the year on the whole establishment is under 6%. Oppose this bill.

Informational Testimony: None.

Questions From Committee Members and Responses:

SEN. BENEDICT directed a question to Attorney General Mazurek.

SEN. BENEDICT said he has observed the fiscal note ends up discussing the fiscal impact on local and state governments, but there is no mention of the fiscal impact on businesses. It appeared that, under revenues, this would be about a \$1.1 million hit to the General Fund in 1998 and 1999, thus decreasing the General Fund. **Attorney General Mazurek** said he didn't think so. He believes this is an increase in revenue. He suggested questions on the fiscal note, in terms of projections, be directed to the budget office and Mr. Lewis. If you look at the fiscal impact to local government, there is a cost shown as a gambling tax credit which would go to the industry and then there is a net gain. If you look at long range effects, it suggests that there will be significant increases. If you have questions how those numbers were arrived at, please ask Mr. Lewis. We have attempted to estimate what we think the cost per machine would be. The cost of the board modification. There are fluctuations, depending on which system is used, IBM, VLT, IGT, or another. We tried to take into consideration the cost for upgrading.

SEN. BENEDICT restated that he was not talking about the fiscal impact to local government. He was talking about the impact of \$553,000/year for two years on the 1998 and 1999 net General Fund. Is the credit going to be prorated between local and state governments so the local governments are affected by the tax credit and lose the arguable new revenue of about \$2.3 million?

Attorney General Mazurek replied he didn't think that is correct. The credit is paid by the projected increase in collections. Growth and increase in collections pays for the credit. I do not see in the fiscal note any General Fund impact. **SEN. BENEDICT** stated that he would argue that point at length because there is a General Fund impact of \$583,000 per year for 2 years. Although it looks like the gambling tax will increase, we will still have less General Fund than we would have if we hadn't done this.

SEN. BENEDICT stated we have a \$300 credit towards the cost of the new video gambling machine. Please inform us about how much a new gambling machine will cost for those operators.

Attorney General Mazurek said he would rely on people in the industry who have said the cost is \$5,000-\$6,000. For this reason there is a grandfather proposal, allowing 5 years from now to continue to operate those machines. The machines are dropping off at the rate of 300 year. I realize that cost is something we need to address. We are trying to do this. We are not insensitive to what this will cost the industry, we are trying our best to recognize that. We also recognize that we are writing a check to manufacturers here and we are doing our best to find out what it will cost.

SEN. BENEDICT asked why the negotiations had broken down; both sides must be looked over. He said, from his perspective, we have increased the proposal amount we would offer for the credit. We offered to make other concessions and we were close. However, the offer was acceptable to some in the industry, but not to all. They elected to come here as a group and oppose the bill. He stated he was encouraged by the conversation they had with the representatives in the industry. We have a legal and ethical obligation to be fair in this process. We want to talk to the manufacturers but we don't want to let a manufacturer design our system. We have to be fair.

SEN. SPRAGUE to **Mr. Akey**: He heard everyone mentioning that the system needs to be improved. Now we shall determine how to improve it, but I perceive a big gap in communication. Can you tell me why there is such a gap in the estimated costs of upgrade? **Mr. Akey** replied there are a wide variety of machines in the marketplace today. However, some manufacturers are no longer in business so their machines can't be converted. It is difficult to give specifics if we aren't sure of the type of system. Until we have that design specified for us, it is difficult for us to say what it will cost to convert a machine.

SEN. SPRAGUE remarked to **Mrs. Jessup** he heard some big numbers that are a return on investment, for lack of a better term. We are reinvesting tax money for a return on investment and the numbers are \$3.5 million. Please tell me how industry will generate this \$3.5 million. **Mrs. Jessup** replied that they have tried to be consistent in saying the system doesn't provide us with adequate information to let us know whether we are collecting the proper amount of taxes. We experience a problem

verifying revenue. **Mrs. Jessup** continued saying it is difficult for us to say this is a dollar amount that we expect to get. When we do an audit, for example, we collect several times more than we refund. Most of the problems are inadvertent mistakes. The revenue numbers in the fiscal note are derived from basic information that we provided, along with the legislative auditors, to the budget office. The central problem appears to be a proliferation of many smaller problems we can't verify. We can't provide adequate verification. An example: If we can't find tapes we can't verify how much income is due. We then have to use historical basis for that machine and guess the activity for the month. That definitely isn't a good way to verify.

SEN. KLAMPE asked **Leo Giacometto** if the quote of Governor Racicot's in the Montana Magazine, which they had received from the opponents, was accurate. **Mr. Giacometto** replied that it is the Governor's wish. **SEN. KLAMPE** questioned what is the Governor's proposal in terms of the level of tax credit to be given to make this cost neutral. **Mr. Giacometto** replied that we have a fiscal note which indicates the \$3.5 million/year. He continued by saying our proposal is working through negotiations with the Attorney General and the industry. We can't say exactly how that should be - 2 years, 1 year, 3 years. We are saying only that it should be revenue neutral. **SEN. KLAMPE** stated he could see it is revenue neutral for the state but it didn't seem to be so for the industry. **Mr. Giacometto** said as long as there is a verification of the actual cost in the contract, with the amount of money coming in (\$3.5 million) if one were to do tax credit over a time span, it could be revenue neutral to both.

CHAIRMAN HERTEL LEFT THE MEETING AND TURNED THE CHAIR OVER TO VICE CHAIRMAN BENEDICT.

SEN. KLAMPE said to **Mr. Staples** that we heard from the Governor's representative that it could be cost neutral for the industry with the tax break; do you concur with this? **Mr. Staples** replied he didn't think that was what **Mr. Giacometto** said. What he did say was this - with the current fiscal analyst estimates of what this will elicit in terms of extra income, he believes a tax credit could be achieved that would equate to cost neutrality. **Mr. Giacometto** did not say that the current tax offer was sufficient. He asked him if that was what he said? **Mr. Giacometto** replied that without being able to look at the specifics of the bill and not wanting to step on the Attorney General's toes, he doesn't know which tax credit offer it would take to be revenue neutral for the industry. We have an estimate of the excess over \$3 million that could come in to realize a revenue neutral situation for the state. If one spreads that over 1-3 years, looking at the actual cost, I do believe we can come up with revenue neutral for the industry. He didn't know what that tax credit would be.

{Tape: 2; Side: A}

ACTING CHAIRMAN BENEDICT asked **Mr. Giacometto** if the Governor would support an amendment to SB 187 which states all costs of conversion, and retrofit would be borne by the state. **Mr. Giacometto** said no. We need to see what the actual cost is for those machines. There are many different machines. We have no idea what the actual cost would be. It would be imprudent for the state to say it will cover all costs until we actually have them written up. We would like to see all the costs addressed. We will have work with each group to get it verified.

SEN. EMERSON asked **Joe Mazurek, Attorney General** how many machines they found that had been tampered with. **Mr. Mazurek** said he was unable to give an actual number. However, **Mrs. Jessup** said, if for some reason meters have stopped or shut down, it is not uncommon for the hard and soft meters not to match. **Mr. Mazurek** replied that based on the audit finding, we have a much higher mechanical breakdown rate than other states that are similarly situated. We don't have the capability to answer these questions with a degree of accuracy because of our limits. **SEN. EMERSON** asked if this was actually a rigging of the machines, have they ever actually found where the machines have been rigged. **Mr. Mazurek** replied not that he knows of. **SEN. EMERSON** asked if anyone knew of a way to rig the machines. **Mrs. Jessup** said there are ways to do that but they are not alleging that has happened, but it can be done. One can take meters out, change them, and put different meters in. This amounts to inadvertent errors or a discrepancy between the two meters. We do not allege that this is done deliberately. But the potential is there. The problems that we do have are difficult to ferret out until several months passed. Then, it is arduous to recreate the circumstances that caused the problem. The dial-up system would alert us to problems sooner. The biggest problem is clearing the meters, and that can be caused by a number of things. With dial-up we would know what happened within 24 hours and we could let the owner know that they have a problem.

SEN. EMERSON wanted to know if this can be done on purpose. **Mrs. Jessup** said those situations would be addressed as a violation. We have had some cases of tampering where the switches that control the cash access portion of the meters have been deliberately tampered with. Sometimes it is down for the reason of trying to save paper on the printer. It can hide history on the meter. It destroys information we need to verify records.

SEN. MILLER to Rick Miller: Elaborate on alternatives. **Mr. Miller** explained that the information the dial-up will gather is in the top 6 or 7 lines of the audit tape, which includes serial number, date, time ticket printed, version or program number. It is possible to scan this data with an optical scanner, translate it into data base and have the same information. The dial-up will cost us \$20 million to gather. This system would be less than \$50,000. **Miller** asked if this answers **Mrs. Jessup** concerns of meter break down. It will give everything the dial-up will give, if gathered often enough.

SEN. SPRAGUE to **Dave Lewis**: What is the industry allowed on the depreciation life of the machine? **Mr. Lewis** doesn't know. The only item of concern on the fiscal note we looked at was the audit report and saw that each audit yielded about \$4,100 in income per establishment. We took half of that times the 1,700 establishments involved and got \$3.5 million.

Closing by Sponsor:

SEN. BROWN stated there has been much useful information for the committee from both sides. **Mr. Akey** warned this would be a technological challenge, difficult to accomplish. The bill proposes a study to be followed by the implementation of a dial-up system. We will be taking a look before we leap into this. 90% of the machines in Montana are compatible to dial-up. The others would be grandfathered in. Remember, the bill provides a tax credit for the cost of modifying the machines, the level of which is still being negotiated. They would not necessarily have to replace these incompatible machines with brand new machines; there are used ones out there. The phase in period is 5 years long. The Department of Justice has bent over backwards to make this workable in the negotiations process. There has been no allegation of skimming or cheating, but the suspicion will linger there as long as it is impossible for the Department of Justice to adequately verify data. The audit report claims it would take 65 years to audit all machines; how can we know this for sure. The history of this activity propagates that suspicion. It is unreasonable to assume that everything is going perfectly in Montana. With the dial-up, we could police this system beyond suspicion. This generates 0.5 billion a year of economic activity in Montana. The audit report shows that 28-38% of the time the machines are not accurate. The amount of money seems infinitesimal to ensure that the public's interest is being taken care of in regard to the local government to the people who play the machines. Why is the MTA lobbying so hard against this? They could place themselves beyond suspicion if we could get this proposal on the books. Mr. Staples said the cost is \$600-\$800 per machine to be compatible. But **SEN. BROWN** continued saying we can't expect the taxpayers of Montana to make that subsidy when we have an extremely profitable industry. Certainly they can share in the cost of making the machines compatible. He pointed out gross figures on machines. He doesn't think the accountants audit could be accurate with only 12 businesses participating. He knows of no state that has the high speed scanner; virtually all have the dial-up. The scanner does not check to see if the machine is adequately paying out and thus does not protect the consumer. The state can't do its job until it can adequately monitor. Please DO PASS.

ADJOURNMENT

Adjournment: The meeting adjourned at 9:55 a.m.


SEN. JOHN HERTEL, Chairman


LYNETTE LAVIN, Secretary

JH/11

ROLL CALL

DATE _____

1-31-95

SEN:1995
wp.rollcall.man
CS-09

Report Summary

Introduction

Our performance audit concentrated on the regulation and monitoring of video gambling machines in Montana. The Department of Justice, Gambling Control Division is responsible for regulating most gambling activities in Montana.

Our audit recommends improvements in the division's regulation and monitoring of video gambling machines. Corrective action by the Department of Justice should improve overall effectiveness of regulatory functions. The following sections provide background information and summarize the results of our performance audit.

Background

A video gambling machine is an electronic coin-operated game of chance played on a video screen. There are currently three different types of video gambling machines allowed to operate in the state: keno, draw poker and bingo. Video gambling is the most prevalent form of gambling in the state. During fiscal year 1992-93, the public wagered \$397.5 million on video gambling activities. This accounts for 87 percent of all legal gambling dollars wagered in Montana. Video gambling machine wagers have increased 58 percent since fiscal year 1989-90 when \$251.8 million was wagered. Over 14,500 video gambling machines currently operate in the state. This number has more than doubled during the last six fiscal years.

Montana currently uses a manual system to report and collect taxes levied on video gambling proceeds. Video gambling machine operators and vendors are required to submit this tax on a quarterly basis. Play and income data is collected via meters which are located in each video gambling machine. Tax is then computed on a machine-by-machine basis.

Division monitoring of video gambling machines falls into two main areas: physical inspections of machines, and reviews of gambling machine records including tax returns. We found that these division activities are not an efficient or effective means of regulating and monitoring video gambling machines.

Report Summary

Division Inspections of Video Gambling Machines

According to division management, division-conducted inspections of gambling machines are a key factor in regulating video gambling. Physical inspections of video gambling machines provide assurance that machine play is fair, the public is protected, and reporting for tax purposes is accurate. We found several areas where division inspections of video gambling machines could be improved.

Investigators Should Conduct More Machine Inspections

During our audit, we reviewed the division's machine inspection records. Only four percent of video gambling machines are inspected each year. The division should establish a centralized management information system for compiling data gathered during gambling machine inspections. This inspection-related management information should be distributed to division staff. In addition, the division should use this system to provide a means of scheduling machine inspections.

Machine Programs not Routinely Tested

The North American Gaming Regulators Association indicates inspections of video gambling machines are to incorporate an analysis of machine operation including testing of each machine's Erasable and Programmable Read-Only Memory (EPROM). An EPROM is a small computer chip inside the video gambling machine containing the program which controls machine operation. During our review, we noted investigators do not thoroughly test video gambling machine operations. Our review found investigators tested the EPROM on only 13 percent of machines they inspected. The division's machine inspections could be improved by developing a formal policy that requires EPROM testing be a standard part of video gambling machine inspections. The division should also develop documented procedures for conducting video gambling machine inspections including EPROM testing.

**Gambling Machine
Taxation**

One of our audit objectives was to determine the effectiveness and efficiency of the process used for collecting tax revenues from video gambling activities in the state. We also evaluated the division's procedures for monitoring these activities. One of the means used to accomplish this was a review of video gambling machine tax returns. Based upon this review we identified the following concerns with the existing system for reporting and collecting tax revenues:

1. Returns are not always properly completed and mathematical errors exist;
2. Documentation of gambling machine income is often missing and inadequate;
3. All machine play is not accounted for;
4. Mechanical and electronic meters repeatedly do not balance;
5. Frequent machine service is apparent; and,
6. Often the correct tax is not paid by gambling establishments.

The system the state uses to report video gambling machine proceeds and taxes is not effective. Our review showed a large portion, 28.7 to 38.4 percent, of gambling establishments pay an incorrect amount of tax on video gambling machine proceeds. An additional 18 to 22 percent of other establishments could be paying an improper tax amount. We found it is difficult to verify machine revenue and taxes paid as the gaming industry does not always provide adequate documentation with video gambling machine tax returns. Our review of video gambling machine tax returns showed that the current tax reporting system does not work as intended.

A number of factors contribute to an improper amount of tax being paid by gambling establishments on the proceeds of video gambling machines. The following sections of the report summary address the causes of problems we found with the tax reporting system and provide recommendations to improve this system. We discuss interim changes which could improve

Report Summary

regulation and the last section recommends a long term solution to the regulation problems inherent with the current system.

Interim Improvements

The current video gambling tax reporting system is not effective or efficient. Our review of tax returns revealed the existing tax reporting system is not effective for ensuring the proper amount of tax is paid on the proceeds of video gambling machines. Our review also revealed the current tax reporting system is not efficient. It is a manual, labor intensive system. It requires an excessive amount of work by both the gambling industry and the division. The reporting system is a time consuming process for gambling establishments. In addition, the division must manually review extensive records as part of its monitoring efforts.

Options for improvement of the current tax reporting system fall into two areas: improvements to the existing manual system and a long-term solution. If the division is going to continue using the current tax reporting system and existing resources, there are some improvements which can be made. Improvements to the existing tax reporting system include:

1. Using penalties and other statutory sanctions to gain better industry compliance.
2. Improving documentation of compliance problems and enforcement status to identify repeat offenders.
3. Expanding the machine service data base to allow additional analysis of service performed on video gambling machines.
4. Increasing staff to provide better regulation.

These changes would improve the tax reporting system; however, the manual system will continue to have inherent problems. The entire system of regulation would be better served by changing to an automated monitoring system.

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Report Summary

Long Term Solution

The stand-alone system Montana currently uses is a manual and labor intensive monitoring system. It is not capable of effectively nor efficiently monitoring over 14,500 machines in a state as large as Montana. This is evident by the number of problems we noted with tax returns and video gambling machines during our audit. These problems included: inaccurate tax returns; missing tax return documentation; mechanical and electrical meters not balancing; incomplete tax returns; resetting of meters; and, math errors by establishments and vendors when determining the amount of tax due. We also found video gambling machines operating in the gambling establishments are not always operating according to state specifications. It is just not feasible for division staff to physically inspect all the gambling machines in the state to ensure proper operation.

The more effective and efficient system for monitoring video gambling activities and revenues would be an automated system. One type of automated system which is capable of monitoring video gambling programs as large as Montana's is a dial-up system. This system requires a central computer to "dial out" to gambling machines on a scheduled basis in order to obtain play and revenue statistics. A dial-up system would provide an effective monitoring system with minimal employees. This would also improve the integrity of video gambling by ensuring the public and gambling industry is protected and by enhancing the accountability of public funds. Such a system would be more effective in identifying problems.

It is important to note that a dial-up system monitors the same activities as Montana's current manual system is intended to do. The difference is the dial-up system monitors these activities more thoroughly, efficiently and effectively.

If the current system had increased staffing and improved controls in place, it would be a more effective system and could accomplish things similar to a dial-up system. However, the lack of controls prevent the current system from meeting statutory intent. Automating would provide a system which better meets the intent of Montana's public policy law regarding gambling activities. This is accomplished by providing a level of

Report Summary

monitoring which ensures the public, state and gambling industry are protected from unfair and illegal activities.

The manual monitoring system currently utilized by the department is the cause of most of the problems we found during our review. Therefore, the Department of Justice should implement an automated system. The department should determine what type of data a dial-up system should provide, the most efficient means of operating the system, and how system implementation costs should be recovered. The department will also need to determine how job duties and staffing levels of division employees would be affected. It appears the automated system would not entail an increase in staffing, but instead a change of duties and subsequent training. In addition, the department should determine the time-line for dial-up system implementation. Since implementation of such a system will take time, the department should present its plan to the next regular legislative session.

Gaming joins fray

Computer monitoring proposed

By CHARLES S. JOHNSON
IR State Bureau

Attorney General Joe Mazurek on Friday rallied support for his plan to electronically monitor the state's 15,000 video gambling machines and, as a concession to bar owners, proposed tax credits to help pay for modifying the devices.

Mazurek, a Democrat, picked up an endorsement of his "dial-up" computer monitoring proposal from Republican Gov. Marc Racicot, his immediate predecessor as attorney general, at a press conference.

Senate President Bob Brown, R-Whitefish, was present to announce he's sponsoring the bill, while a bipartisan group of lawmakers stood behind them in support.

But earlier, in a room on another floor in the Capitol, tavern and casino owners attacked Mazurek's plan as costly and unnecessary at a hearing on whether to give the Justice Department money to conduct a study before putting the electronic monitoring plan in place. No action was taken.

Montana Tavern Association lobbyist Mark Staples, looking around the appropriations subcommittee table, read reports of what selected bar and casino owners in each of the legislators' areas estimated they would have to pay to modify their gaming machines or buy new ones if the plan is approved.

He and Dennis Casey of the

Of machines and money

Here are some facts and figures about gambling in Montana compiled by the state Justice Department's Gambling Control Division.

In fiscal 1994, which ended June 30, 1994, Montanans and other spent about \$505 million on the major forms of gambling in the state. Eighty-eight percent or \$444.5 million was spent on video gambling machines.

Of this \$444.5 million spent on machines, 55 percent was paid out in prizes to leave a gross income of more than \$200 million for the gambling industry. Of that \$200 million, 15 percent or \$30 million went to taxes, with the state collecting \$10 million and local governments getting \$20 million.

About 15,000 video gambling machines operate in Montana at any time and produce an average of \$6,500 in gross income per machine annually.

But some machines are far more lucrative than others. Eight machines in fiscal 1994 produced gross income topping \$100,000 apiece.

The highest was one machine in Missoula at \$164,632, followed by one in Great Falls at \$128,578, two in Billings at \$112,599 and \$110,452, two in Helena at \$110,279 and \$110,112 and two more in Billings at \$106,079 and \$105,685.

In fiscal 1994, 16 casinos, all with the maximum 20 machines, had gross incomes from video gambling machines of more than \$1 million each. The highest was \$1.5 million gross income in Helena.

The report said 104 establishments, all with the maximum 20 machines, had gross incomes from video gaming machines of more than \$500,000 each.

The names of the specific casinos and bars with the lucrative machines cannot be publicly released under state law, Justice Department officials said.

Gaming Industry Association of Montana questioned the need for the computerized monitoring of machines when there is no evidence of cheating and asked how machine owners could afford to pay for them.

The competing actions on both floors of the Capitol were the opening salvos in the major gambling issue of the session and a test of Mazurek's political mettle against the powerful, well-funded tavern and gambling industries.

"My own assessment is we have a very difficult battle on

our hands," Mazurek said. "They are a very strong force to be reckoned with in the halls of the Capitol."

At issue is how the Justice Department can monitor the \$444.5 million that drops through the state's 15,000 video gambling machines in 1,600 locations each year.

Mazurek recommended the dial-up system after legislative auditors concluded in January 1994 that the Justice Department couldn't inspect gambling machines regularly and that the tax reporting system doesn't work.

Learn To Ski

\$5 This Sunday

Great Divide

Saunders Jewelry Design

D I A M O N D S

"All work done in the store"

Some things should never change... like style, quality and service.



SENATE BUSINESS & INDUSTRY

EXHIBIT NO.

DATE 1-31-95

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ON FILE

VIDEO GAMBLING MACHINE TAX DISTRIBUTION FY 94

DATE 1/31/95BILL NO. SB 187

SELECTED JURISDICTIONS

CITY/COUNTY	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER	TOTAL
02 Cascade Co	\$57,295	\$61,735	\$59,538	\$63,383	\$241,951
Belt	\$5,654	\$5,163	\$4,631	\$5,183	\$20,631
Cascade	\$3,715	\$4,617	\$4,091	\$4,125	\$16,548
Great Falls	\$544,800	\$529,952	\$580,797	\$572,870	\$2,228,419
Neihart	\$377	\$286	\$229	\$261	\$1,153
03 Yellowstone Co	\$50,646	\$53,134	\$54,966	\$51,358	\$210,104
Billings	\$812,840	\$876,489	\$890,213	\$844,408	\$3,423,950
Broadview	\$2,650	\$1,685	\$2,020	\$1,749	\$8,104
Laurel	\$53,179	\$52,256	\$53,733	\$53,306	\$212,474
06 Gallatin Co	\$33,427	\$34,342	\$36,560	\$34,661	\$138,990
Belgrade	\$25,592	\$23,045	\$24,855	\$24,983	\$98,475
Bozeman	\$114,027	\$114,020	\$118,002	\$126,782	\$472,831
Manhattan	\$6,504	\$5,108	\$5,996	\$5,249	\$22,857
Three Forks	\$7,035	\$5,981	\$5,838	\$5,641	\$24,495
W Yellowstone	\$23,976	\$13,124	\$16,893	\$16,482	\$70,475
08 Fergus Co	\$8,871	\$7,995	\$7,387	\$8,041	\$32,294
Denton	\$376	\$777	\$424	\$608	\$2,185
Grass Range	\$1,214	\$1,269	\$1,549	\$1,175	\$5,207
Lewistown	\$56,425	\$55,230	\$57,865	\$57,340	\$226,860
Moore	\$433	\$500	\$322	\$581	\$1,836
Winifred	\$441	\$666	\$604	\$497	\$2,208
13 Ravalli Co	\$22,712	\$22,000	\$21,662	\$23,360	\$89,734
Darby	\$3,641	\$3,242	\$3,361	\$3,118	\$13,362
Hamilton	\$52,610	\$51,357	\$65,743	\$64,099	\$233,809
Stevensville	\$7,683	\$8,548	\$7,841	\$9,535	\$33,607
56 Lincoln Co	\$84,024	\$64,413	\$71,238	\$70,552	\$290,227
Eureka	\$11,279	\$10,643	\$10,289	\$9,493	\$41,704
Libby	\$38,794	\$41,853	\$45,207	\$47,423	\$173,277
Rexford	\$4,019	\$1,062	\$662	\$1,943	\$7,686
Troy	\$14,261	\$11,854	\$12,732	\$13,640	\$52,487

SENATE BUSINESS & INDUSTRY

EXHIBIT NO. 4 3DATE 1-31-95BILL NO. SB 187

SENATE BUSINESS & INDUSTRY

EXHIBIT NO. # 4

DATE 1/31/95

BILL NO. SB 187

Amendment to Senate Bill 187
First Reading Copy

Requested by Department of Justice
Prepared by
Beth Baker, Department of Justice

1. Page 1, line 20.
Following "system."

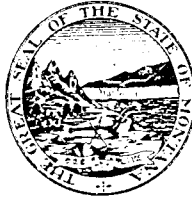
Insert: "The rules should also provide that funds may not be transferred electronically without the consent of the licensed operator."

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. #
DATE 1-31-95
BILL NO. SB 187

*Presented by
attorney Gen. Joe Mugurik*

STATE OF MONTANA
DEPARTMENT OF JUSTICE
GAMBLING CONTROL DIVISION

Joseph P. Mazurek
Attorney General



STATE BUSINESS & INDUSTRY
EXHIBIT NO. 4-A
DATE 1-31-95
BILL NO. SB 187
2687 Airport Road
PO Box 201424
Helena, MT 59620-1424

MONTANA VIDEO GAMBLING MACHINE DIAL-UP ISSUES
Study Group Report
Compiled by Wilbur W. Rehmann
January 19, 1995

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APPENDIX

- A: Department of Justice outline of Dial-up review and study group.
- B: Proposed Dial-up bill.
- C: Brief history of gambling in Montana.
- D: Machine upgrade costs.
- E: Manufacturer market share.
- F: Request for Preliminary Planning Information

EXECUTIVE SUMMARY

At the recommendation of the Legislative Auditor, Attorney General Joe Mazurek instructed the Gambling Control Division to begin examining the issues raised in the January 1994 Performance Audit Report on the *Regulation and Monitoring of Video Gambling Machines*.

The Audit report identified the following problems and made the following recommendation:

- I. The Division needs to inspect machines more frequently and needs to include EPROM testing in all inspections. (The Division currently is able to inspect machines once every seven years.)
- II. The current tax reporting system does not work as intended; 28.7 to 38.4 percent of gambling establishments pay an incorrect amount of tax on video gambling machine proceeds and an additional 18 to 22 percent of other establishments could be paying an improper amount. Given the current staffing levels, we project it will take the Division 65 years to complete a field audit of all establishments.

AUDIT RECOMMENDATION - One type of automated system capable of monitoring video gambling activities and revenues is a dial-up system. This system requires a central computer to "dial-out" to gambling machines on a scheduled basis (every 24 hours) in order to obtain pay and revenue statistics. This would also improve the integrity of video gambling by ensuring that both the public and the gambling industry are protected and by enhancing the accountability of public funds.

The Division began a comprehensive review of automated accounting and reporting systems in the summer of 1994 and staff made site visits to South Dakota and the Province of Saskatchewan, two jurisdictions where automated systems are being used to monitor video gambling machine play and to account for tax revenues.

The Division's review also examined the gambling industry in Montana and the cost associated with installing a dial-up system -- both to the state and to the private operator or establishment.

This report shows that:

- Technology, both hardware and software, exists to implement a dial-up system in Montana without having to create an entirely new system. There are several large manufacturers who have installed operating dial-up systems in a number of states and provinces.
- The security and integrity of the data collected can be absolutely assured through a dial-up system.
- Dial-up is a cost effective way to monitor and regulate video gambling and collect taxes.

Estimated costs associated with a dial-up system are summarized as follows:

•	Central system (state owned)	- Start-up costs	\$1.3 million	
		- Annual costs	\$ 477,920	
•	Network	- Start-up costs	\$ 180,000	
•	Establishment	- Start-up costs	upgrade	Low High
			modem	\$350 \$700
		- Annual phone line costs		\$277 \$1557
				\$312

EXHIBIT 4A
DATE 1-31-95
SB 187

- **All estab. (15,000 VGM, 1,700 locations)**

	<u>Low</u>	<u>High</u>
Total start-up costs	\$5.7million	\$13.1million

The gambling industry in Montana generated over \$200.3 million in gross income from video gambling machines in FY 1994 and in the first quarter of FY 1995, tax revenues totaled \$8 million, up from \$7.4 million a year ago in the same quarter. By comparison, total video gambling machine tax revenue in all of 1988 was \$10 million. Gambling is a growth industry in Montana. In FY 1994, eight video gambling machines generated over \$100,000 each and 16 casinos (all with 20 machines) had a gross machine income of more than \$1million each. Another 104 casinos had a gross machine income of over \$500,000 each from machines.

Implementing a dial-up automated accounting and reporting system will provide better and more accurate information and ensure compliance with the laws of Montana. To do the job by hand would take another 25 employees.

The system can be implemented and paid for with existing gambling revenue. No new taxes are necessary. The video gambling machine modifications necessary to "hook-up" to the central system could require a small reinvestment on the part of the owner of between \$300 - \$600 per machine, less than 10% of the small (1 - 5 machines) operator's annual average machine income from one machine bringing in \$6,500. It will take an even smaller reinvestment, about 3%, from a 20 machine establishment based on the average annual income of \$24,000 per machine.

Everyone benefits from adopting automation:

- The state receives accurate and timely data to fulfill its regulatory and revenue responsibilities.
- Video machine owners have accurate and quick records for business purposes.
- The gambling public is assured of fair play at legal odds.
- The taxpayers are assured that the gambling industry is paying its fair share of taxes.

Glossary of Terms:

VGM	This stands for Video Gambling Machine and is the actual video poker/keno machine itself.
Site Controller	A communication device, or "black box," located in each establishment that provides for automated billing and cash ticket validation. The site controller communicates with the central computer system. Cash ticket validation can prevent forgery. Site controllers may or may not be needed, depending on the system selected.
Central System	The main computer, located in Helena and used to poll the VGMs, store the data, print invoices, print reports, etc.
Meters	Each VGM has hard (mechanical) and soft (electronic) meters that are used to count usage. Hard meters are similar to the odometer in a car. They are simple mechanical counters. Soft meters are counters that are part of the computer program and actually reside in the VGM's memory. They are susceptible to being reset by static electricity, machine repairs and maintenance.
EPROMS	Erasable Programmable Read Only Memory. EPROMS are memory chips used to store game programs. Machine manufacturers can make major changes in the way a machine behaves by changing the EPROMS.

INTRODUCTION:

The Department of Justice is proposing to study and implement an automated accounting and reporting system, commonly called "dial-up," to more efficiently ensure that gambling establishments pay the correct video gambling machine tax and that machine play is fair and legal.

Concern over the fairness and integrity of tax collection and machine play was raised by the Legislative Auditor in the January 1994 Performance Audit Report entitled, Regulation and Monitoring of Video Gambling Machines. The Auditor's findings and recommendations are summarized below:

- I. The Division needs to inspect machines more frequently and needs to include EPROM testing in all inspections. (The Division currently is able to inspect each machine once every seven years.)

II. The current tax reporting system does not work as intended; 28.7 to 38.4 percent of gambling establishments pay an incorrect amount of tax on video gambling machine proceeds and an additional 18 to 22 percent of other establishments could be paying an improper amount. Given the current staffing levels we project it will take the Division 65 years to complete a field audit of all establishments. The following concerns were identified in the audit:

1. Returns are not always properly completed and mathematical errors exist;
2. Documentation of gambling machine income is often missing and inadequate;
3. All machine play is unaccounted for;
4. Mechanical and electronic meters repeatedly do not balance;
5. Frequent machine service is apparent; and,
6. Often the correct tax is not paid by gambling establishments.

AUDIT RECOMMENDATION - One type of automated system capable of monitoring video gambling activities and revenues is a dial-up system. This system requires a central computer to "dial-out" to gambling machines on a scheduled basis (every 24 hours) in order to obtain pay and revenue statistics. This would also improve the integrity of video gambling by ensuring that both the public and the gambling industry are protected and by enhancing the accountability of public funds.

AUDIT ALTERNATIVE (ADDITIONAL STAFF) - The Auditor noted that if the Department did not propose a dial-up accounting and reporting system, it would be necessary to add 23 FTE staff positions in order to achieve a similar level of accuracy, fairness and integrity to the state's collection and oversight of gambling revenue.

Because of dramatic expansion in the gambling industry since the Performance Audit was completed over a year ago, the Division has added two more FTE positions to this recommendation in order to keep pace with growth in the gambling industry. If such a plan were adopted as an alternative to the dial-up system, it would require not only an initial lump sum cost for the 25 new staff positions and equipment, but also a need for

additional office space, supplies and travel expenses. The start-up costs of the additional FTE positions would be approximately \$1.4 million, and the annual costs for the positions and expenses would be approximately \$1million.

The Department is proceeding with a proposal for an automated accounting and reporting dial-up system because of the cost savings and efficiency it would allow, compared to adding 25 new FTE staff positions.

In response to the Auditor's report, the Division has begun a review process of an automated accounting and reporting dial-up system. The attached **Appendix A** is a proposed outline for the Department's on-going review and recommendations. This report is a summary of the current information available.

A proposed dial-up bill prepared by the Department is attached as **Appendix B**. In addition, a \$950,000 appropriation for a dial-up study and implementation of the system is included in the Department's budget request and has been approved by the Governor's Office.

DESCRIPTION OF A "DIAL-UP" SYSTEM:

The first central accounting and reporting dial-up system created and installed in this country was in South Dakota in 1989. Since that time, Louisiana and Oregon have installed central accounting and reporting systems. South Carolina and Delaware are in the process of installing a system, and New Mexico is currently discussing legalized video gambling and a central system. Western Canadian provinces, including Alberta and Saskatchewan also have installed central systems. The trend within regulatory jurisdictions, is to make a central accounting and reporting system a part of the move to legalize video gambling. All licensed VGMs manufactured today, available in Montana, are capable of meeting dial-up standards. Only a small number of machines in Montana, 1,525, are either impossible or too expensive to upgrade.

A dial-up system would not require any change in existing statute or rules about the type of information the Department of Justice requires establishments and licensees to provide it would simply use technology to get the existing information faster and more efficiently. A dial-up system will not solve every problem that exists, but it will enable the Gambling Control Division to identify problems the next day rather than five to six months after quarterly reports are submitted.

A central accounting and reporting dial-up system consists of three components:

Central computer - Since the advent of the first system in South Dakota, there are numerous off-the-shelf central computer systems available. The

central unit consists of the actual computer and hard drives, a personal computer to test software and to log-on to the main computer, a remote polling site which controls the telecommunication, and modems to dial-out to video gambling machines once every 24 hours. Software programs enable the computer to dial-out once every 24 hours, communicate, receive and store data, check EPROMs, and to convert data into reports and issue invoices. The software must also be capable of maintaining the security and confidentiality of the information.

Telecommunications Network - A series of phone lines capable of data transmission to any location in Montana. The state currently has a number of networks, such as, the state phone network and METNET, run by the Office of Public Instruction, which cover part of the state or serve certain institutions and may be available for use. The Department of Administration, Information Services Division, is currently working on setting up a comprehensive statewide telecommunications network, called SummitNet, that may be available in the next few years. If SummitNet is available by the time a dial-up system is scheduled to go online, then almost all phone calls will be local calls with a minimal charge. In addition, private long-distance companies such as US West, MCI, TRI-Touch America and Sprint could provide the service.

Location equipment - Each gambling establishment and its video gambling machines will be connected to the network by a standard business phone line. A modem in one of the machines or located in a "site controller" (depending on the specific manufacturer central computer system and the specific type of system design that meets the needs of Montana), is used to provide a way of intelligently communicating with the central computer. Each video gambling machine must be capable of communicating its electronic meter readings, by modem, once every 24 hours.

Estimated Summary Costs (without Site Controller):

	<u>Start-up, one-time costs</u>	<u>Annual costs</u>
Central computer	\$1.3 million	\$477,920
Network	-0-	\$180,000
Establishment		
VGM upgrade (per VGM)	\$350	
Modem, cables, phone	<u>\$277</u>	\$312
Sub-total	\$627	

Estimated Establishment Costs (without site controller) for 15,000 VGMs: \$5.7 million

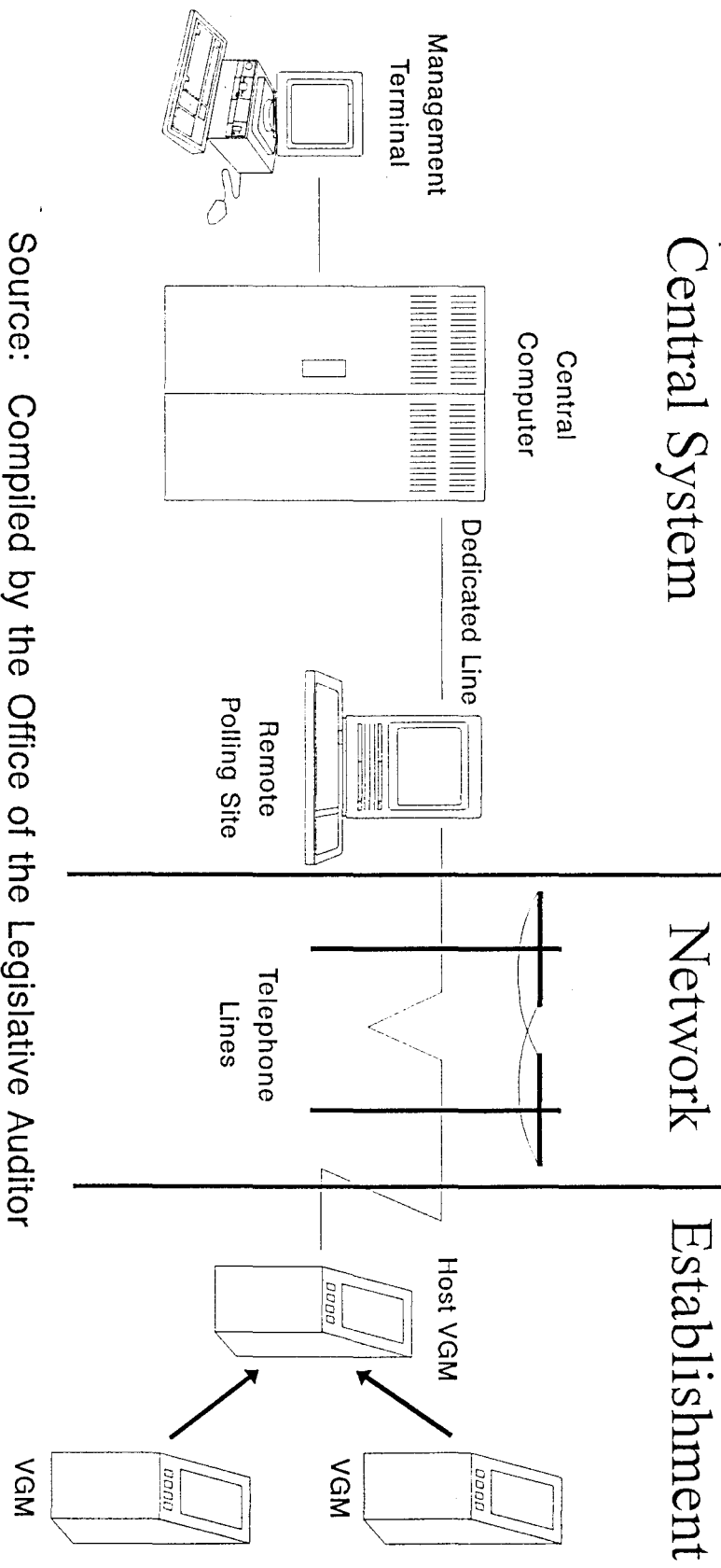
ADVANTAGES of a DIAL-UP SYSTEM:

Owner/operator:

- automatic accounting of all machine play
- cash in and cash out
- player game preferences
- reduced paperwork, fewer forms to fill out
- assures correct tax reporting and payment
- 24 hour notification of illegal entry into machines
- increased accuracy of accounting

Public/taxpayer:

- verify correct EPROM to assure fair and legal play
- resolves problems with meters not matching
- documents VGM income every 24 hours
- provides notice of machine service
- reduces problems with electronic meters zeroing out
- assures correct tax reporting and payment
- significantly reduces the need for desk and field audits
- less costly solution to adding large number of employees.



Source: Compiled by the Office of the Legislative Auditor

STAFFING REQUIREMENTS WITH A DIAL-UP SYSTEM:

One of the questions the Department is seeking to answer in this preliminary inquiry is whether the current Division staffing level is adequate to implement and operate a dial-up system. Based on information obtained in both Saskatchewan and South Dakota, it appears that the Division's proposed modified staffing levels (in current budget request) would be adequate to meet Montana's needs with two notable exceptions: a Communications Specialist and a Systems analyst. The following is an analysis of staff functions with dial-up, a discussion of the ability of modified staff levels to handle the duties, and a cost estimate for an additional FTE that may be necessary to implement the system.

Dial-Up Functions. Seven basic staff functions were identified in both Saskatchewan and South Dakota. Evaluations are made in terms of current staff levels, existing personnel, and modified staff levels with the additional FTEs (necessary with or without dial-up) requested in this biennium budget.

1. Machine Testing. This function is already performed by division staff. It is assumed that **current level** staff could continue to handle this function under a dial-up system.

2. Machine Inspection. This function is already performed by division staff, though inadequately as noted by the Legislative Auditor. It is assumed that current budget proposed **modified** staff levels could continue to perform the function under a dial-up system.

3. Machine Audit. This function is already performed by division staff. It is assumed that current budget proposed **modified** staff levels could continue to perform the function.

4. Help-desk or Hot-Line Operators. This function, as performed by Saskatchewan and South Dakota staff, involves taking calls from operators on machine problems and helping trouble shoot the problems. It also involves taking meter information over the phone prior to service in which meters are zeroed, relaying meter readings to audit personnel, and updating the meter information on the system to account for changes. Hot-Line operators also initiate standard system reports and monitor problem resolution. The trouble shooting aspect was more important in Saskatchewan because the Province owns the machines as well as the central system and is responsible for maintenance. In South Dakota, Hot-Line duties seemed to be more limited to information relay, data entry, initiating computer reports, and monitoring non-reporting terminals. South Dakota does not own the machines.

If the state adopts Hot Line functions similar to South Dakota, the current budget proposed **modified** staff levels may be appropriate. Division Compliance Specialists currently identify problems, communicate with operators to resolve the problems, followup to make certain problems are corrected and run reports.

5. Licensing. Both of the jurisdictions performed a licensing function. Current division staffing levels can handle the work load. If anything, a dial-up system would help automate the process and speed permitting approval to the establishment.

New positions required:

6. Communications. Both Saskatchewan and South Dakota retained the services of a communications specialist: someone to trouble-shoot communications problems (malfunction of modems and/or machine linkage to central system). The Department of Justice will have to seek legislative authorization in the next biennium for this task. This position will require a person with specific skills and experience in telecommunications and computer programming. The performance of this function may require resources over and above the proposed modified levels. Division technical personnel could probably handle the technical nature of the job but the division projects a workload in other areas of on-going responsibility that would make it impossible respond to problems with the immediacy required.

The cost of a Communications Specialist would be approximately \$49,400 in the first year and \$42,000 the second year, without equipment replacement thereafter.

	<u>Yr 1</u>	<u>Yr 2</u>
1 Grade 16 Salary	\$30,000	\$30,000
Benefits	\$7,000	\$7,000
Operating Exp.	\$5,000	\$5,000
Equipment		
PC	\$3,200	
Office	\$1,200	
Cell Phone	\$100	
Lap Top	<u>\$2,900</u>	
Total	\$49,400	\$42,000

7. Systems Analyst. Saskatchewan retains the services of a systems analyst to review system software, ensure that vendor-provided software is performing to jurisdictional specifications, trouble shoot any problems immediately, and develop systems information programs to report data that meets the needs of management and operators. The performance of this function would require resources over and above current and modified levels. As was related under Task No. 6 above, Division technical personnel could handle the technical nature of the job but Division workloads in other areas of responsibility would make it impossible to respond to problems with the immediacy required without additional staff.

The cost of a Systems Analyst would be approximately \$49,400 in the first year and \$42,000, in the second without equipment replacement thereafter.

		<u>Yr 1</u>	<u>Yr 2</u>
1 Grade 16	Salary	\$30,000	\$30,000
	Benefits	\$7,000	\$7,000
Equipment			
	PC	\$3,200	
	Office	\$1,200	
	Cell Phone	\$100	
	Lap Top	<u>\$2,900</u>	
Total		\$49,400	<u>\$42,000</u>

Telecommunications Cost Estimates:

There are a number of possible configurations for Dial-Up networks that would use the State network. Two possibilities exist: local which uses long distance calls from Helena and remote, which utilizes remote polling sites and places local calls via SummitNet.

A preliminary estimate of a local network, using the state network, proved to be very expensive; nighttime calls from Helena to Missoula cost 14.4 cents for the first minute and calls from Helena to Kalispell cost 16 cents for the first minute. By comparison, South Dakota pays 8 cents a minute using a common carrier. Montana should negotiate rates to achieve a more cost-effective rate from a common carrier.

A remote network proved to be very promising with the potential implementation of SummitNet, a wide area phone/data network that utilizes remote located asynchronous servers to locally reach almost the entire state. The asynch servers support Transmission Control Protocol/Internet Protocol (TCP/IP) protocol on the Helena (central system) side and either SLIP (synchronous link interface protocol) or PPP(point to point protocol) on the machine side. SummitNet is projected to be completed in mid FY96, just in time for dial-up.

The TCP/IP central system protocol and the SLIP or PPP machine protocol could be part of the Request For Proposals for a dial-up system. It is possible that some of the potential vendors support TCP/IP as part of their turnkey package. The Division generated a demographic report that grouped all establishments by city/county and listed each establishment's phone number prefix. The Department of Administration's Information Services Division is reviewing this to determine which establishments can be reached locally via SummitNet. The Division also firmed up the cost of a flat business-line installation; it is \$61.40 from US West. The monthly rate is \$25.96. These costs will vary with different providers and subject to negotiation.

GAMBLING INDUSTRY OVERVIEW:

Public policy in Montana has vacillated greatly from periods of wide-open gambling to hard prohibition. The current policy, which sanctions privately-owned, limited gambling regulated by the State, is a relatively recent development in our history. The Montana Department of Justice began regulating statewide gambling in 1989. A history of gambling in Montana is attached as **Appendix C**.

The picture of the Montana's gambling industry that emerges from recent statistics is, no longer one of a small "mom and pop" industry. Today, gambling in Montana is dominated by large casinos with very profitable operations. These casinos are 20-machine establishments whose VGMs have an annual individual machine average machine gross income of \$24,300, and a small but significant and profitable group of Route Operators who dominate the ownership and distribution of video gambling machines.

A number of smaller establishments with one to five machines, still exist. These machines show a significant average gross machine income of approximately \$6,500 per year per machine. Even small establishments, those with only three VGMs, realize an average gross machine income of approximately \$20,000 per year.

The gambling industry is a significant part of the Montana economy. Players wagered approximately \$400 million on video gambling machines in FY 1994. Total gross machine income (after payouts) was approximately \$180 million. Reported tax revenue in FY 1994 was approximately \$30 million, split equally in thirds between the state general fund, city and county governments. By comparison, the state lottery generated approximately \$36.8 million.

These statistics become important when the state considers who should pay for upgrading existing machines to dial-up standards. The Division projects that the upgrade for three VGMs may be a one-time cost to an establishment of approximately \$1,300, with an annual cost of \$.24/day for approximately one minute of phone time.

The following paragraphs provide a more detailed overview of the Montana gambling industry today. In order to understand the industry and its regulation by the Department of Justice the following gambling license categories are defined:

Location Operator	Must hold a valid on-premise liquor license and may own or lease and make available for public play up to 20 video gambling machines.
Route Operator	A person who purchases gambling equipment from a licensed manufacturer, route operator, or distributor and leases it to an operator, for use by the public.

Distributor A person who purchases or obtains gambling equipment from a manufacturer, distributor, route operator, or operator and sells it to a licensed distributor, route operator or operator.

Manufacturer A person who assembles from raw materials or sub-parts a completed piece of equipment of any kind to be used as a gambling device, and who sells the equipment directly to a licensed distributor, route operator, or operator.

As of **January 4, 1995**, the following number and type of gambling establishments were in operation:

On-Premise Liquor	1,487
Convenience Stores (Grandfathered locations)	54
<u>Fraternal, non-profits</u>	<u>60</u>
TOTAL GAMBLING ESTABLISHMENTS	1,601

By far, most gambling locations (**1,487**) are located in for-profit gambling establishments that also have on-premise liquor licenses. These establishments are allowed to make available for public play up to 20 video gambling machines (either poker or keno machines in any combination up to 20).

As of January 4, 1995, **253** of the **1,601** establishments contained 20 video gambling machines, the maximum allowable for public play. **There are the following number of different sized establishments by number of VGMs:**

<u>Number of VGMs</u>	<u>Number of estab.</u>
1-4 machines	412
<u>5-9 machines</u>	<u>561</u>
sub-total(less than 10)	973
10-14 machines	245
15-19 machines	130
<u>20 machines</u>	<u>253</u>
sub-total(10 to 20)	628
TOTAL ESTABLISHMENTS	1,601

As of January 4, 1995, 14,958 machines were licensed for play in Montana -- compared to just 8,462 machines licensed in 1988, when the state first began licensing both video poker and keno machines.

Route operators own nearly two-thirds of these 14,958 machines, while the remaining third

is owned by the establishment in which they are located. In addition, the six largest route operators in the state owned 4,588 machines. **This amounts to nearly one-half of all machines owned by route operators and one-third of all machines licensed for play in Montana.**

VGMs OWNED BY RT. OP. 9,977
VGMs OWNED BY ESTAB. 4,981

TOTAL NUMBER OF VGMs 14,958

VGM Producing Revenue:

The **average gross income per video gambling machine**, for establishments (814 establishments out of 1,601) that operated all their machines a full four quarters of FY 1994 was:

<u>Machines</u>	<u># of Estb.</u>	<u>Total VGMs</u>	<u>AVG. Income/machine/yr</u>
1 - 4	314	857	\$6,555.02
5 - 9	287	1,839	\$7,813.66
10 - 15	92	1,057	\$9,524.23
15 - 20	121	2,309	\$24,300.97

As a group, Route Operators own a significant portion of the machines in Montana. Average net income per machine for machines that were in operation a full four quarters in FY 1994.

<u>Machines</u>	<u>Rt.OP</u>	<u>Total VGMs</u>	<u>AVG.Income/machine/yr.</u>
1 - 50 machines	"	1194	\$18,066.35
51 - 100 machines	"	890	\$12,439.33
151- 200 machines	"	1289	\$10,598.90
201- 250 machines	"	231	\$16,862.68
251- 300 machines	"	261	\$11,846.45
301+ machines	"	3150	\$14,893.86

In order to understand the magnitude of the potential profit-generating power of VGMs it is important to look not only at average machine income per year but also the upper end of the spectrum. There were eight VGMs that produced record high gross income, over \$100,000 each in FY 94:

		<u>FY1994 Net</u>
Missoula	1 machine	\$164,632
Great Falls	1 machine	\$128,578
Billings	1 machine	\$112,599
Billings	1 machine	\$110,452

Helena	1 machine	\$110,279
Helena	1 machine	\$110,112
Billings	1 machine	\$106,079
Billings	1 machine	\$105,685

In FY 1994, **16 establishments** (all with 20 machines) had a gross income from video gambling machines of more than **\$1,000,000 each**. Of those 16, the highest was **\$1.5 million gross income** located in Helena and the lowest of the 16 was **\$1,000,000** located in Butte.

In FY 1994, **104 establishments** (all with 20 machines) had a gross income from video gambling machines of over **\$500,000 each**.

VGMs Not Upgradeable to Dial-up Standards:

Currently, 1,525 out of 14,958 video gambling machines in Montana are not capable of being upgraded or would be too costly to be upgraded to dial-up standards (**APPENDIX D**). These machines are being eliminated or phased out by establishments and route operators on a regular basis, and in two years' time (when dial-up may be a reality) that number will likely have fallen significantly. Every license renewal period, the Division finds that owners have removed a number of these machines from the market and we expect this trend to continue. In FY 1994, by comparison, approximately 1,800 VGMs were incapable of being upgraded to dial-up standards.

The number of VGMs in smaller gambling establishments (those with **five or fewer** machines) that **are not upgradeable to dial-up standards**, is as follows:

	<u>Number of VGMs</u>
Route Operator owned machines	77
Establishment owned machines	<u>21</u>
TOTAL VGMs (In smaller establishments) NOT FEASIBLE TO UPGRADE	98

The total number of VGMs that are not upgradeable to dial-up standards are:

	<u>Number of VGMs</u>
Route Operator owned machines	1,050
Establishment owned machines	<u>475</u>
TOTAL NUMBER OF VGMs NOT FEASIBLE TO UPGRADE	1,525

Life expectancy varies with each individual machine type, and machines are often replaced for marketing reasons rather than for any physical malfunction. Newer machines offer more varied and interesting graphics, game play, and increased ease of operation and

maintenance. The industry depreciates machines over a three to five-year period.

GAMBLING CONTROL DIVISION TAX AND AUDIT FUNCTIONS:

The Gambling Control Division is faced with the tremendous task of trying to monitor, regulate and control approximately 15,000 machines in 1,600 locations across Montana. In addition, the paperwork generated by the current manual reporting system creates an ever increasing workload for Division staff. The functions performed by the Audit and Tax Program of the Gambling Control Division under the current manual system that would be improved and made more efficient by converting to an automated accounting and reporting dial-up system are as follows:

1. **Field Audits** - Revenue Agents conduct not only machine field audits but also license investigation reviews. If no other tasks were assigned to them but field audits, they could complete approximately 30 per year. Because of other responsibilities and tasks, it is difficult to predict how many actual field audits will be completed in a year. Currently a backlog of 84 video gambling machine field audits existed at the end of FY 1994. Without additional staff it would take approximately two years to complete these audits. Current workloads prevent completion.

2. **Staff Workloads** - Because of the current number of FTEs allocated to the Tax and Audit program, the following responsibilities are in significant backlog: completion of 300 to 400 financial reviews of license renewal updates per year; financial review on 350 to 400 new and amended license applications per year; and follow-up financial review on 133 conditional licenses issued in the past four-and-a-half years.

3. **Service Reports** - Approximately 20,000 service reports are filed each year for such activities as meters that have been zeroed out, software upgrade or change, meters that don't match and scrambled electronic meters. Often, service reports are illegible or unreadable because the licensee, route operator, or service person has haphazardly completed the form. We have no way of knowing how many problems are not reported.

4. **Non-filers** - Approximately 160 to 240 locations fail to file quarterly reports each year. Correspondence is required to determine the problem and penalty assessment and correspondence follow-up is required on each per year. It commonly takes up to four letters--plus a penalty--to get offenders to respond and pay.

5. **Data input** - Inputting quarterly reporting information on each video gambling machine takes the two Compliance Specialists about two weeks per quarter or a total of eight weeks per year. This time is spent simply inputting the data from the written quarterly reports. This must be done before we can analyze the information or attempt to decipher or discern any problems with the numbers submitted. The Division receives and processes approximately 60,000 quarterly reports each year.

6. **Problem letters** - The Compliance Specialists identify filing and recordkeeping problems with quarterly reports and send out approximately 2,900 problem letters per year, representing 40% to 45% of locations licensed to operate video gambling machines. At present there are approximately 50 unresolved problems a year mainly due to licensees selling their establishments and leaving the industry. Problems arise when the internal machine accounting systems and audit tapes become garbled in the beginning or middle of the quarter and the operator fails to identify and correct the problem until notified by Compliance Specialists at the end of the quarter. Many of the machines allowed to run without corrections during this time simply cannot be audited for this period of time.

7. **Office Audits** - The current system's problems require 2,400 to 3,200 quarterly desk audits per year representing 16,000 to 23,000 of the 60,000 machine quarterly reports filed annually. When asked for tapes and service reports, licensees frequently send a whole tape roll and ask the Division to find the specific accounting ticket that was requested. In November 1994, for example, one licensee sent in a 12 cubic foot box which contained tape rolls from all their machines for the past year. Such activity requires more staff time to either return and delay the audit or attempt to search the material and put other tasks on hold until the requested information is located. All of this staff activity requires follow-up with the licensee. Consequently, substantial time lapses before the audits can begin and be completed.

TECHNICAL DATA:

Of the 14,598 machines currently licensed and operating in Montana, most though not all machines are capable of being upgraded to dial-up standards. 1,525 currently licensed video gambling machines are either too costly to upgrade or technically impossible to upgrade (See **Appendix D**).

The cost of the upgrade conversion is subject to some variation, depending on the manufacturer. In theory, video gambling machine manufacturers could charge whatever they wanted because they consider the hardware and software as proprietary. However, during staff site visits to the Province of Saskatchewan and South Dakota, we asked regulatory personnel the price paid for the same model of machines that are sold in Montana without the so-called proprietary dial-up hardware and software. **In both jurisdictions, the price was either the same or lower than that paid for the same machine in Montana.** So whatever price the manufacturers charge in Montana, the actual cost should not be significant.

The Gambling Control Division's testing lab estimates that the cost of modifications needed to upgrade a machine average approximately \$300 per machine. Representatives of one manufacturer estimate a cost of \$600 per machine and another representative estimates a cost of \$600 to \$700 per machine. We do know that almost all of the manufacturers licensed in Montana also sell machines in other jurisdictions where dial-up

capable video gambling machines are required.

Manufacturers licensed to sell video gambling machines and their percentage of market share are attached in **Appendix E**.

OTHER STATES and PROVINCES SUMMARY:

Table 1

Comparison of Video Gambling Among Various States

	Fiscal Year 1992-93				
	Montana	Louisiana	S. Dakota	Oregon	Nevada
Type of Tax Reporting System	Manual	Dial-up	Dial-up	On-Line	Manual
Number of Video Gambling Machines	14,000	10,000	6,928	5,633	15,000*
Max. Number of Machines/Establishment	20	3	10	5	15
State Population	799,000	4 million	700,000	3 million	1 million
Gross Revenue Tax Rate	15%	22.5%	35%	65%	\$250/yr+ Qrtly Fees
Total Dollars Wagered (in millions)	\$397.5	\$430	\$392	\$347	N/A
Per video gambling machine	\$28,393	\$43,000	\$56,582	\$61,601	N/A
Per Capita	\$497	\$108	\$560	\$116	N/A
Total Gross Income (in millions)	\$178.9	\$189	\$141	\$172.4	N/A
Per video gambling machine	\$12,779	\$18,900	\$20,352	\$30,605	N/A
Per capita	\$224	\$47	\$201	\$57	N/A
Total Tax Revenue (in millions)	\$26.8	\$42.5	\$49.3	\$113.5	N/A
Per video gambling machine	\$1,914	\$4,250	\$7,116	\$20,149	N/A
Per capita	\$34	\$11	\$70	\$38	N/A

* Restricted establishments only

Source: Compiled by the Office of the Legislative Auditor

Site Visit Review:

In September 1994, the Gambling Control Division sent out a Request for Preliminary

Planning Information for a Video Gambling Machine Central Accounting System (Dial-Up), attached as **Appendix F**. The Division received detailed responses from three major manufacturers of video lottery/machine equipment and several responses from other interested companies that merely indicated interest. The three detailed responses were received from International Game Technology - NA(IGT), Video Lottery Technologies, Inc.(VLT), and GTECH Corporation. The responses contain proprietary information and will only be available for public review if released by the manufacturer.

After reviewing the responses, the Division undertook site visits to two neighboring jurisdictions that currently operate automated accounting and reporting dial-up systems, South Dakota and the Province of Saskatchewan. During the site visits, Division staff submitted numerous questions concerning the systems and reviewed the actual operation of the accounting and reporting systems including:

1. Central system hardware and software, maintenance and upgrades, and associated costs.
2. Telecommunications, networks, hardware and software and associated costs.
3. Staffing requirements, position descriptions, and costs.
4. Location equipment, requirements and costs.
5. Identified problems or improvements recommended.

Saskatchewan System Summary:

Saskatchewan has a dial-up system supplied by GTECH. It uses 2400 baud modems to dial up approximately 540 sites and download from approximately 3,000 machines nightly. It's based on a DEC mini-computer running the Video Lottery System operating system. The data is in an SQL based Sybase database. There are two identical DEC mini's; System A is the main one and System B is for backup and testing. There's a separate 486-based PC running Sybase that is used to off-load the data from the DEC machines and to run complex reports.

The province owns all VGMs and places them in locations that have an existing provincial liquor permit. Each location operator may have up to ten machines in an establishment. The province keeps 85% of the revenue generated by the VGMs and allows the location operator to keep 15%.

South Dakota System Summary:

South Dakota uses a RISC-based Stratus system supplied by VLT. Which could also be

classified as a mini-computer. It has six Remote Polling Computers which are 386-based PC compatibles, each with six serial ports and attached modems to do the nightly polling. They are located at the central site next to the Stratus. It has a separate 486 based computer running Unix and an Informix data base to run reports. This is used to hold a copy of the data to be used for complex queries. It is much easier to do complex queries on an SQL-based (Informix) database than on the Stratus. This also off-loads the work to keep the Stratus free to do polling.

In South Dakota, route operators own all the machines and lease them to locations. The state receives a tax of 35% of net income from VGMs.

Down time caused by Central System problems:

Saskatchewan reported no incidents of problems with VGMs being down due to central system errors. If there is a problem in the central system, location VGMs play would be unaffected because the central system does not control machine play but only takes meter readings.

South Dakota had one incident in five years that was caused by changes in the central system. The incident occurred when a new VGM protocol was sent out to one manufacturers machines. The establishment VGMs didn't recognize the new protocol and automatically shut themselves off and were down for approximately eight hours. The incident was due to a South Dakota Lottery procedural problem. Procedures to insure that such an incident will not occur in the future were initiated immediately by the South Dakota Lottery and there have been no repeat incidents. Similar procedures should be a part of Montana's operating system.

Machine Technical Support:

In Saskatchewan, the Province owns all the machines and only allows their technicians to work on a machine.

In South Dakota, route operators are licensed/trained and responsible for all maintenance and upgrades of machines. If a problem occurs and an establishment owner calls the South Dakota Lottery support line, they are referred to their route operator.

Montana should review, as a part of the detailed dial-up study, the issue of technical support and training.

Dial-Up Cost Estimate Breakdown

January, 1995

(page 1 of 1)

One Time Central System Costs

<i>Description</i>	<i>Qty</i>	<i>Unit Cost</i>	<i>One Time Cost</i>
Cent. Sys. (hdwr/sftwr/install/trng)			\$1,250,000
Site Preparation (security, a/c, raised floor, etc.)			\$50,000
Flat Bus Phone Line Install	60 ea.	\$61	\$3,660
Help Desk Misc.			\$5,000
Equipment (Communications FTE)			\$7,400
Equipment (System Administrator FTE)			\$7,400
One Time Cost Total			\$1,323,460

Annual Central System Costs

<i>Description</i>	<i>Qty</i>	<i>Unit Cost</i>	<i>Annual Cost</i>
1 FTE (Communications)			\$42,000
1 FTE (System Administrator)			\$42,000
Flat Business Phone Lines	12 mos.	\$1,560	\$18,720
Operating Costs (space, power, supplies, etc.)			\$25,200
Hardware & Software Upgrades			\$200,000
Hardware & Software Maintenance			\$150,000
Annual Cost Total			\$477,920

Network Costs

<i>Description</i>	<i>Qty</i>	<i>Unit Cost</i>	<i>One Time Cost</i>
Long Distance *	12 mos.	\$15,000	\$180,000

* Assumes commercial provider, subject to negotiations

* This estimate is the "worst case" scenario

* The use of the State SummitNet Network would significantly reduce these costs

Dial-Up Cost Estimate Breakdown

January, 1995

(page 2 of 2)

One Time Cost Per Establishment

<i>Description</i>	<i>w/o Site Controller</i>	<i>w/ Site Controller</i>
Establishment communications equipment	\$277	\$1,557
<i>Per machine upgrade cost (multiply cost by number of machines in establishment)</i>	\$350	\$700

One Time Cost For All Establishments Combined

<i>Description</i>	<i>w/o Site Controller</i>	<i>w/ Site Controller</i>
Communications equipment (\$277 w/o site controller and \$1,557 w/site controller) and machine upgrades (\$350 for each machine site controller and \$700 for each machine w/ site controller)	\$5,720,900	\$13,146,900

Annual Cost Per Establishment

<i>Description</i>	<i>w/o Site Controller</i>	<i>w/ Site Controller</i>
Flat Business Phone Line	\$312	\$312

Annual Cost For All Establishments Combined

<i>Description</i>	<i>w/o Site Controller</i>	<i>w/ Site Controller</i>
Flat Business Phone Line	\$530,400	\$530,400

All Cost estimates do not include labor for installation.

All Cost estimates utilize RFI estimates of 15000 machines and 1700 establishments.

Impact of Dialup Expenses on Current Level Special Revenue

Without Long Distance Line Charges

Current & Modified Exp.	FY 95	FY 96	FY 97	FY 98
FTEs	42	48	48	48
Personal Services	\$1,497,816	\$1,573,187	\$1,580,558	\$1,580,558
Operating Expenses	\$365,439	\$648,878	\$603,665	\$603,665
Equipment	\$66,862	\$136,804	\$88,500	\$88,500
Debt Service	<u>\$2,844</u>	<u>\$2,898</u>	<u>\$0</u>	<u>\$0</u>
Total Curr. & Mod. Exp.	\$1,932,961	\$2,361,767	\$2,272,723	\$2,272,723
Dialup Expenses				
Start Up				
Operating	\$0	\$50,000	\$0	\$0
Equipment & Software	\$0	\$0	\$1,273,460	\$0
On-Going				
Personal Services	\$0	\$0	\$0	\$84,000
Operating	\$0	\$0	\$0	\$193,920
Equip & Software	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$200,000</u>
Total Dialup Expenses	\$0	\$50,000	\$1,273,460	\$477,920
Total Exp.	\$1,932,961	\$2,411,767	\$3,546,183	\$2,750,643
Revenues				
Gen Fund-Liquor	\$318,973	\$495,828	\$476,793	\$476,793
State Special	\$2,092,198	\$2,265,398	\$2,457,698	\$2,728,044
Fund Balance Prior Year	<u>\$270,730</u>	<u>\$748,940</u>	<u>\$1,098,399</u>	<u>\$486,707</u>
Total Revenue	\$2,681,901	\$3,510,166	\$4,032,890	\$3,691,544
Fund Balance	\$748,940	\$1,098,399	\$486,707	\$940,901

Impact of a Dialup System on Current Level Special Revenue

With Long Distance Line Charges

Current & Modified Exp.	FY 95	FY 96	FY 97	FY 98
FTEs	42	48	48	48
Personal Services	\$1,497,816	\$1,573,187	\$1,580,558	\$1,580,558
Operating Expenses	\$365,439	\$648,878	\$603,665	\$603,665
Equipment	\$66,862	\$136,804	\$88,500	\$88,500
Debt Service	<u>\$2,844</u>	<u>\$2,898</u>	<u>\$0</u>	<u>\$0</u>
Total Curr. & Mod. Exp.	\$1,932,961	\$2,361,767	\$2,272,723	\$2,272,723
Dialup Expenses				
Start-up				
Operating	\$0	\$50,000	\$0	\$0
Equipment	\$0	\$0	\$1,273,460	\$0
On-going				
Personal Services	\$0	\$0	\$0	\$84,000
Operating	\$0	\$0	\$0	\$373,920
Equip & Software	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$200,000</u>
Total Dialup Expenses	\$0	\$50,000	\$1,273,460	\$657,920
Total Exp.	\$1,932,961	\$2,411,767	\$3,546,183	\$2,930,643
Revenues				
Gen Fund-Liquor	\$318,973	\$495,828	\$476,793	\$476,793
State Special	\$2,092,198	\$2,265,398	\$2,457,698	\$2,728,044
Fund Balance Prior Year	<u>\$270,730</u>	<u>\$748,940</u>	<u>\$1,098,399</u>	<u>\$486,707</u>
Total Revenue	\$2,681,901	\$3,510,166	\$4,032,890	\$3,691,544
Fund Balance	\$748,940	\$1,098,399	\$486,707	\$760,901

Impact of a Dialup System on Current Level Special Revenue

Without Long Distance Line Charges With OBPP Limit

Current & Modified Exp.	FY 95	FY 96	FY 97	FY 98
FTEs	42	48	48	48
Personal Services	\$1,497,816	\$1,573,187	\$1,580,558	\$1,580,558
Operating Expenses	\$365,439	\$648,878	\$603,665	\$603,665
Equipment	\$66,862	\$136,804	\$88,500	\$88,500
Debt Service	<u>\$2,844</u>	<u>\$2,898</u>	<u>\$0</u>	<u>\$0</u>
Total Curr. & Mod. Exp.	\$1,932,961	\$2,361,767	\$2,272,723	\$2,272,723
Dialup Expenses				
Start-up				
Operating	\$0	\$50,000	\$0	\$0
Equipment & Software	\$0	\$0	\$900,000	\$373,460
On-going				
Personal Services	\$0	\$0	\$0	\$84,000
Operating	\$0	\$0	\$0	\$193,920
Equip & Software	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$200,000</u>
Total Dialup Expenses	\$0	\$50,000	\$900,000	\$851,380
Total Exp.	\$1,932,961	\$2,411,767	\$3,172,723	\$3,124,103
Revenues				
Gen Fund-Liquor	\$318,973	\$495,828	\$476,793	\$476,793
State Special	\$2,092,198	\$2,265,398	\$2,457,698	\$2,728,044
Fund Balance Prior Year	<u>\$270,730</u>	<u>\$748,940</u>	<u>\$1,098,399</u>	<u>\$860,167</u>
Total Revenue	\$2,681,901	\$3,510,166	\$4,032,890	\$4,065,004
Fund Balance	\$748,940	\$1,098,399	\$860,167	\$940,901

Impact of a Dialup System on Current Level Special Revenue

With Long Distance Line Charges With OBPP Limits

Current & Modified Exp.	FY 95	FY 96	FY 97	FY 98
FTEs	42	48	48	48
Personal Services	\$1,497,816	\$1,573,187	\$1,580,558	\$1,580,558
Operating Expenses	\$365,439	\$648,878	\$603,665	\$603,665
Equipment	\$66,862	\$136,804	\$88,500	\$88,500
Debt Service	<u>\$2,844</u>	<u>\$2,898</u>	<u>\$0</u>	<u>\$0</u>
Total Curr. & Mod. Exp.	\$1,932,961	\$2,361,767	\$2,272,723	\$2,272,723
Dialup Expenses				
Start-up				
Operating	\$0	\$50,000	\$0	\$0
Equipment & Software	\$0	\$0	\$900,000	\$373,460
On-going				
Personal Services	\$0	\$0	\$0	\$84,000
Operating	\$0	\$0	\$0	\$373,920
Equip & Software	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$200,000</u>
Total Dialup Expenses	\$0	\$50,000	\$900,000	\$1,031,380
Total Exp.	\$1,932,961	\$2,411,767	\$3,172,723	\$3,304,103
Revenues				
Gen Fund-Liquor	\$318,973	\$495,828	\$476,793	\$476,793
State Special	\$2,092,198	\$2,265,398	\$2,457,698	\$2,728,044
Fund Balance Prior Year	<u>\$270,730</u>	<u>\$748,940</u>	<u>\$1,098,399</u>	<u>\$860,167</u>
Total Revenue	\$2,681,901	\$3,510,166	\$4,032,890	\$4,065,004
Fund Balance	\$748,940	\$1,098,399	\$860,167	\$760,901

TO: Department Dial-up study group participants
FROM: Joseph P. Mazurek, Attorney General
DATE: 12/23/94
SUBJECT: Dial-up work group

I would like to establish an advisory dial-up working group responsible for examining and recommending long-range strategies and priorities to the Attorney General related to a dial-up central computer system in the Gambling Control Division of the Department of Justice.

The establishment of this advisory work group is the result of recommendations that I received from the GCD, gambling industry representatives and interested members of the public. The fundamental question is, "What is the best possible kind of dial-up system for the state of Montana, what will it look like in detail and how much will it cost?"

I believe that the creation of an administrative level advisory working group for dial-up issues would be a very important part of setting Department priorities and keeping our strategic planning process up-to-date.

In order to give this recommendation an institutional frame work within the Department of Justice, I would like to suggest the attached document. What I have outlined is the structure, responsibilities and process for an advisory working group. Before I finalize the document, I would very much like to have your comments, suggestions and proposed amendments.

DEPARTMENT OF JUSTICE
Dial-up Working Group

(1) **Creation of an Advisory Dial-up Working Group.** The Attorney General will solicit participation from representatives of the interested public, gambling industry, the Montana Lottery, Information Services Division of D of A, Computer Services Division of D of J and the Gambling Control Division.

(2) **Purpose and Goals.** The purpose of the working group is to assist the Gambling Control Division in establishing a dial-up computer system strategic plan for the Department of Justice. This plan should encompass:

- (a) broad public policy needs related to fair and equitable revenue reporting and collection and integrity of machine play;
- (b) long-term direction for increasing the accuracy and fairness of revenue collections;
- (c) long-term direction for increasing the frequency of video gambling machine inspection; and
- (d) the effective review and implementation of a detailed strategic plan for dial-up computer information system implementation in the Department of Justice.
- (e) establishment of priorities and provide advice on long-term strategic planning for the use of a dial-up computer system in the Gambling Control Division in order to:
 - (i) provide better overall coordination among the various divisions;
 - (ii) serve the public better by a more efficient and fair method of revenue collection and more frequent machine inspection; and
 - (iii) provide assurance to the public that gambling in Montana is conducted according to the Constitution and statute.

It is the goal of the dial-up strategic plan to assure coordination of Department resources, the establishment of fair and equitable revenue collection and the establishment of automated oversight of video gambling machines enhancing the department's ability to assure the gambling public that their play is based upon statutory limits prescribed by the Legislature.

(3) **Composition of the work group.** The advisory working group is composed of representatives of the Attorney General's office, GCD, CS&PD, ISD of Department of Administration, the Montana Lottery,

the gambling industry and interested members of the public. The Administrator of the GCD shall serve as chair. The group shall meet as needed to develop, review and comment on the dial-up strategic plan.

(4) Dial-up Plan. The group shall develop and recommend to the Attorney General a Department of Justice plan that contains a statement of the problem (Identified by the Legislative Auditor), a review of dial-up systems in other states and provinces, a review of existing literature on dial-up, and immediate and long-term goals, directions and priorities and cost estimates. In developing and maintaining this plan, the working group shall:

- (a) develop an outline of existing industry technology and profiles of video gambling machines, hardware and software, and ownership statistics;
- (b) develop and maintain a description of the functions or services for which the Department of Justice is responsible that would, through application or improvement of computer technology, provide better service and accountability to the public, the gambling industry, and the Department;
- (c) develop and maintain a ranking of needs, taking into consideration the relative effectiveness and probable cost of dial-up alternative systems; and
- (d) develop and maintain a general description of existing revenue collection programs and machine inspection programs and plans for assuring confidentiality and security of data and information technology resources.

(5) Technical Support. The Administrator of the Gambling Control Division shall provide technical staff support to the working group.

Computer Services and Planning Division staff shall assist the Gambling Control Division by developing or having developed analyses of existing and alternative information systems; providing technical solutions and advice related to the projects identified by the group; assisting in assessing benefits and costs of optional solutions; apprising the group of developments and directions in the industry and in state and local government; and providing other assistance as requested.

(6) Recommendation of the Plan. The Dial-up Computer Strategic Plan and amendments thereto, will be discussed and reviewed by the working group at meetings called by the Gambling Division Administrator. The group shall make written comments and recommendations for the plan to the Attorney General.

(7) Implementation. The Dial-up computer plan shall be used as a framework for a detailed study the Department will conduct in 1995

(pending Legislative approval), and to develop an RFP for submission to interested manufacturers for implementation of a dial-up computer system for Montana.

Diary

Draft Copy

Printed 2:59 pm on December 23, 1994

APPENDIX B

LC0177

SENATE BUSINESS & INDUSTRY

**** Bill No. ***

EXHIBIT NO. AC

Introduced By *****

DATE 1/31/95By Request of the Department of Justice BILL NO. SB 187

A Bill for an Act entitled: "An Act authorizing the department of justice to operate and maintain an automated accounting and reporting system for video gambling machines; abolishing a requirement that machine specifications must be substantially the same as the specifications required on September 30, 1989; amending section 23-5-621, MCA; and providing an immediate effective date."

STATEMENT OF INTENT

A statement of intent is required for this bill in order to provide guidelines for the adoption of rules by the department of justice to implement the automated accounting and reporting system provided for in [section 1]. The department's rules for an automated system should provide for simplified exchange of video gambling machine revenue information the department is entitled by law to receive. The rules should provide for inspection of machine components and require, except when there is imminent peril to the integrity of the system or when necessary to prevent or detect criminal activity, prior notification to a licensee before a machine is disabled for malfunctions or violations detected by use of the automated accounting and reporting system.

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Printed 2:59 pm on December 23, 1994

Be it enacted by the Legislature of the State of Montana:

NEW SECTION. Section 1. Automated accounting and reporting system. For the purpose of performing its duties under this chapter, simplifying the reporting of video gambling machine revenue data, and preserving the integrity of video gambling machines within its jurisdiction, the department may operate and maintain an automated accounting and reporting system for video gambling machines.

Section 2. Section 23-5-621, MCA, is amended to read:

"23-5-621. Video gambling machine specifications -- rules.

(1) The department shall adopt rules implementing [section 1]. describing the video gambling machines authorized by this part, and stating the specifications for video gambling machines authorized by this part. ~~The specifications in the rules must substantially follow the specifications contained in 23-5-606 and 23-5-609 as those sections read on September 30, 1989.~~ The department shall adopt rules allowing video gambling machines to be imported into this state and used for the purposes of trade shows, exhibitions, and similar activities.

(2) The department's rules for an automated accounting and reporting system shall:

(a) provide for confidentiality of information received through the system within the limits prescribed by 23-5-115(6) and 23-5-116;

(b) ensure the security and integrity of the automated

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Printed 2:59 pm on December 23, 1994

EXHIBIT 4C
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SB187

accounting and reporting system and of the video gambling machines connected to the system;

(c) limit and prescribe the circumstances for electronic transfer of funds for payment of taxes, fees, or penalties to the department;

(d) limit and prescribe the circumstances under which machines may be disabled for malfunctions or violations detected by use of the automated system; and

(e) allow a reasonable period of time, not to exceed 3 years, for previously approved machines that are not capable of being made compatible with the system to operate after the system becomes operational.*

{Internal References to 23-5-621: None.}

NEW SECTION. Section 3. Coordination instruction. [This act] is void if [House Bill 2] is not passed and approved with a line item appropriation to implement [section 1] and no other bill is passed and approved with a specific appropriation to implement [section 1].

NEW SECTION. Section 4. {standard} Codification instruction. [Section 1] is intended to be codified as an integral part of Title 23, chapter 5, part 6, and the provisions of Title 23 apply to [section 1].

ch. 5,

NEW SECTION. Section 5. {standard} Effective date. [This act] is effective on passage and approval.

Brief History of Gambling in Montana

- 1889 Montana's new Constitution makes all forms of gambling illegal. However, illegal gambling halls exist throughout the state. Nationally, scandals in lottery sales resulted in an anti-gambling crusade.
- 1910 Gambling is deemed illegal in every western state.
- 1933 Prohibition is repealed. Bars reopen and gambling resurfaces. Pull-tabs become popular.
- 1937 State legislature passes the Hickey Act which legalizes various table games in various locations if licensed by the counties.
- 1945 State legislature legalizes slot machines for non-profit organizations. Illegal slots are located throughout the state.
- 1949 State legislature allocates \$20,000 to enforce gambling laws; then Attorney General Arnold Olson complies.
- 1950 State Supreme Court rules that slot machines and punch boards are illegal under the state constitution. An initiative to legalize gambling is defeated by voters 4-1.
- 1972 A Constitutional Convention referendum to give the legislature and the people authority to approve or disapprove gambling is passed by the voters.
- 1973 State Legislature passes the Card Game, Bingo, Raffles and Sports Pool Act.
- 1976 State Supreme Court legalizes video keno as a form of live bingo.
- 1983 Initiative-92, which would establish a Gaming Commission and a limited list of games allowed by counties, is defeated by the voters.
- 1985 State Legislature passes the Video Poker Machine Act. Allowed under this law: five poker machines per liquor license, unlimited keno machines; license fees per machine, no tax. In 1986, 2,887 video poker licenses were issued.
- 1986 State lottery is approved by the voters.
- 1988 Tax established on gross income from video gambling machines. One third goes to the state general fund; two-thirds goes to local government.
- 1989 State legislature passes SB-431 which centralizes gambling regulation at the state level and consolidates all gambling statutes. Department of Justice is assigned regulatory/enforcement/taxation duties.
- 1991 State legislature authorizes a total of 20 video gambling machines per liquor license. Senate Judiciary Committee rejects a blackjack bill.
- 1993 Senate Judiciary Committee rejects increase in payout on poker machines from \$100 to \$800. No new forms of gambling proposed or approved by the state legislature. Nationally, gambling is exploding as a result of state and federal law changes.

(GCD/1994; compiled from other sources)

STATE OF MONTANA
DEPARTMENT OF JUSTICE
 GAMBLING CONTROL DIVISION

SENATE BUSINESS & INDUSTRY

EXHIBIT NO. 40DATE 1/31/95BILL NO. SB 187

Joseph P. Mazurek
 Attorney General



2687 Airport Road
 PO Box 201424
 Helena, MT 59620-1424

MEMORANDUM

TO: Wilbur Rehmann, Administrative Assistant
 Gambling Control Division

FROM: Ben Kamerzell, Supervisor
 Technical Services

DATE: January 4, 1995

SUBJECT: Machine Upgrade Costs For Dial-Up

14,958 video gambling machines are active in the State of Montana as of January 4, 1995. Each machine can be upgraded but, is it feasible to upgrade?

Dial-Up modifications are defined as substantial modifications and must meet all of the specific law or rule requirements in effect at the time of submission. One of the rule requirements states each machine must pass a static test. Early machine models were not subject to static testing and would most likely fail without major modifications.

The cost of upgrading an older machine with a major modification and dial-up capability, would exceed it's value. The models identified below were approved in 1985 or 1986 and are valued at an average of \$300 per machine. The models identified below are determined not feasible to upgrade.

<u>Manufacturer</u>	<u>Model</u>	<u># Licensed as of 01/05/95</u>
Big City Amusement	GB-1	75
Electro Sport (ESI)	all models	921
Int. Game Tech. (IGT)	7570C/CTP	371
Little Reno Corp.	CT-01	2
Merit Industries	FG9141	27
Mills Jennings	GMDPMT	2
Richard Larsen Vend.	SU-01	6
Rocky Mtn. Video	RMP-1	20
Status	90	<u>18</u>
	Total	1,442

Feasibility is also determined by the cost of modifying a particular machine model. The modification cost is calculated by dividing the hardware/software development costs by the number of

MACHINE UPGRADE COSTS FOR DIAL-UP

January 5, 1995

(page 2 of 2)

machines to be modified and adding the actual cost of the hardware, installation labor and profit. Because the hardware/software development costs are similar from mfg. to mfg., the potential quantity of the model determines the cost; the greater the quantity, the more feasible to modify. Machine models that are not feasible to upgrade due to the small quantities of a specific model are listed below.

<u>Manufacturer</u>	<u>Model</u>	<u># Licensed as of 01/05/95</u>
American Coin	401, 402	4
Aristocrat	MA7020	50
Ram Star	RS1501, RS1601	22
SMS	DR. POKER	7
	Total	83

Machine models that are feasible to upgrade due to dial-up capability and quantities of a specific model are listed below.

<u>Manufacturer</u>	<u>Model</u>	<u># Licensed as of 01/05/95</u>
Bally	MK1B, MP1C, VPOKB3-LT	353
Big City Amusement	E43, 42LL, BCA 44	96
Big Ten Electronics (GII)	K13PR-1.0, P13PR-1.8	1,081
Dynamo	DLBT19CP, DLBP19UP	803
Int. Game Tech. (IGT)	D1060C/CV, D1070C/CV, D3670C, EA84CV	4,313
Merit	F30124, F30125, F32037, F32040, F32041, FG9148	2,375
Mills Jennings	MTKNOS, GMDPMTS, PKNOREF	969
SMK Corporation	201, 201-34, 201-40, 201-41	43
US Games	POG-19CSTS	69
Video Lottery (VLC)	8723, 8731, 8724M	3,303
Williams (WMS)	72601	28
	Total	13,433

13,433 machines or 90% of the current market is feasible to upgrade. The estimated average cost of upgrading a machine is \$300.

Each machine within an establishment would need to be modified to communicate intelligently with a dial-up system. A typical modification would include both hardware and software to enable the communication with a dial-up system.

PRODUCED BY MONTANA DEPARTMENT OF JUSTICE
 MANUFACTURER MARKET SHARE
 FY 95 - ACTIVE MACHINES
 As of 01/09/1995

SENATE BUSINESS & INDUSTRY
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 DATE 1/31/95
 BILL NO. SB 187

MANUFACTURER	POKER	KENO	BINGO	TOTAL	%
AMERICAN COIN	1	3	0	4	.027 %
ARISTOCRAT	50	0	0	50	.335 %
BALLY MANUFACTURING	169	184	0	353	2.365 %
BIG CITY AMUSEMENT	111	60	0	171	1.145 %
BIG TEN ELECTRONICS	335	727	0	1062	7.114 %
DYNAMO CORPORATION	347	459	0	806	5.399 %
ELECTROSPORT	913	0	0	913	6.116 %
GAMING INTERNATIONAL INC.	1	14	0	15	.100 %
INTERNATIONAL GAME TECHNOLOGY	2114	2564	0	4678	31.337 %
LITTLE RENO CORP.	2	0	0	2	.013 %
MERIT INDUSTRIES	1521	875	0	2396	16.050 %
MILLS JENNINGS	64	905	0	969	6.491 %
RAM STAR	2	20	0	22	.147 %
LARSEN VENDING	6	0	0	6	.040 %
ROCKY MOUNTAIN VIDEO	19	0	0	19	.127 %
SMK	16	27	0	43	.288 %
SMS	7	0	0	7	.047 %
STATUS	18	0	0	18	.121 %
U. S. GAMES	4	67	0	71	.476 %
VIDEO LOTTERY CONSULTANTS	1248	2047	0	3295	22.073 %
WILLIAMS GAMING	7	21	0	28	.188 %
TOTALS	6955	7973	0	14928	

STATE OF MONTANA
DEPARTMENT OF JUSTICE
GAMBLING CONTROL DIVISION

Joseph P. Mazurek
Attorney General



2687 Airport Road
PO Box 201424
Helena, MT 59620-1424

September 21, 1994

REQUEST FOR PRELIMINARY PLANNING INFORMATION
FOR A VIDEO GAMBLING MACHINE CENTRAL ACCOUNTING SYSTEM (DIAL-UP)

You are invited to submit information for use by the State in preliminary planning in accordance with the requirements of this solicitation which are contained herein.

The information must be submitted in writing. Any/all questions concerning this request must also be submitted in writing. Firms submitting this information must not contact any state employee, verbally or in person in regard to this request. If such contact is made, the firm will be disqualified from submitting a bid on any future Video Gambling Machine Central Accounting System (Dial-up) RFP by the State of Montana. The Department will make available all questions and the Department's response to all firms. The objective of this solicitation is to assist the Division in developing a proposal to study and define a computerized central accounting system network (dial-up) to submit to the 1995 Legislature. The Division's request for estimated costs will of necessity be a broad range and may not bear any relation to the eventual costs as required in the RFP. These cost estimates will be used for internal planning purposes only.

If you cannot respond to this request, please explain.

This solicitation does not commit the State of Montana to award a contract, to pay any costs incurred in the preparation of the information, or to procure or contract for articles of goods or services. The State reserves the right to accept or reject any or all statements received as a result of this request. Neither the State nor any agent thereof on behalf of the State will be obligated in any way by any response to this request.

SUBMISSION DEADLINE: OCTOBER 17, 1994.

MAIL TO: JANET JESSUP, ADMINISTRATOR, GAMBLING CONTROL DIVISION,
PRELIMINARY PLANNING INFORMATION, 2687 AIRPORT RD., HELENA, MT
59620-1424

GENERAL SYSTEM REQUIREMENTS

The objective of this solicitation is to assist the Division in developing a proposal to study and define a computerized central accounting system network (dial-up) to submit to the 1995 Legislature. The Division's request for estimated costs will of necessity be a broad range and may not bear any relation to the eventual costs as required in the RFP. These estimates will be used for internal planning purposes only.

The enclosed general information is provided in order to introduce the State's general needs and requirements. The following is not an all inclusive description of the network's requirements, but is merely general information for the purpose of this request.

The video gambling machine central accounting system network will connect with approximately 15,000 video gambling machines located in approximately 1,700 locations across the state. The types of machines and manufacturers and approximate numbers are included in **Appendix A** of this document.

The State of Montana allows up to 20 video gambling machines in any one location or premise, MONT. CODE ANN. § 23-5-611 Machine permit qualifications -- limitations.

Besides the central system hardware, either "turnkey" or customized to run on an existing State of Montana computer platform, the information shall include local controllers at each location, modems, remote polling sites if needed, intelligent communication up to each video gambling machine and estimates of annual support, staff and maintenance costs.

Existing State of Montana computers and their platforms are described as follows:

- Department of Administration, Data Center, Site A, located in the Mitchell building, Helena, MT. APPENDIX B
- Department of Justice, Site B, located in the National Guard Armory, Helena, MT. APPENDIX C
- Department of Commerce, Montana Lottery, located on North Montana Avenue, Helena, MT. APPENDIX D
- Department of Justice, Gambling Control Division, located at 2687 Airport Rd., Helena, MT. Computer hardware includes UNIX NCR 3430, Dual Pentium, which is not anticipated to be available for this use.

CENTRAL SYSTEM SOFTWARE AND HARDWARE

The State of Montana requests information on: A. central system hardware and software that could be customized to run on existing computer platforms (Appendices B, C, D) or an explanation as to why a central system could not be customized to fit on any of the existing platforms; B. a cost estimate for such a customized application; C. a comparison between a customized system and your "turn-key" system.

The information must include a central computer system which is capable of: A. polling each video gambling machine daily, B. maintaining video game machine information, C. providing management reports as necessary, D. verifying game EPROMs.

The central system must provide the ability to check the status of and disable, or enable a machine. In addition, all communication must provide a high level of security. The central system capabilities must include but not be limited to producing various management reports; detailed financial and security reports by city, county, premise/location, date/time, and machine. Encryption or other high level security must be provided.

In addition, the State of Montana also requests information/description of the hardware and software for a stand-alone "turn-key" central system with the same system capabilities as the customized system. A comparison between the "turn-key" and the customized system must be included.

Respondent must describe the central system's backup, recovery and disaster capabilities for both turn-key and customized systems.

LOCAL CONTROLLER

Each location may have up to 20 video gambling machines. Each local controller must be capable of intelligently communicating with 20 video gambling machines. The local controller must include but not be limited to intelligent communication capabilities with the central system, remote polling site (if utilized) and each video gambling machine. And it must be capable of disabling and enabling each machine, storing log entries, and storing information. If a local controller is not included please explain and/or describe an alternative.

MODEM REQUIREMENTS

Modems will be required to communicate from the location controller and the central system and from the central system to the location controller. All modems must comply with the FCC and shall be UL tested and approved. Modems shall be capable of, but not limited to, the following; auto dial and answer at central site and

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location, connect to remote polling sites if recommended, encryption or other security measures and error checking.

PRELIMINARY COST ESTIMATES

Provide a cost estimate of both a turn-key stand-alone system and a customized system that utilizes one of the State's existing computer systems described in APPENDICES B,C,D. The cost estimate must include unit costs for the location controllers, remote polling sites(if required) and modems at approximately 1,700 locations. The preliminary cost estimate shall be provided in the form attached as APPENDIX E.

APPENDIX A

MANUFACTURER MARKET SHARE
 FY 95 - ACTIVE MACHINES
 As of 09/20/1994

MANUFACTURER	POKER	KENO	BINGO	TOTAL	%
American Coin	1	3	0	4	.027 %
Aristocrat	50	0	0	50	.341 %
Bally Manufacturing	173	186	0	359	2.447 %
Big City Amusement	110	56	0	166	1.131 %
Big Ten Electronics	351	769	0	1120	7.634 %
Dynamo Corporation	296	365	0	661	4.505 %
Electroport	935	0	0	935	6.373 %
International Game Technology	2106	2511	0	4617	31.470 %
Little Reno Corp.	3	0	0	3	.020 %
Merit Industries	1521	875	0	2396	16.332 %
Mills Jennings	65	904	0	969	6.605 %
Ram Star	2	21	0	23	.157 %
Larsen Vending	6	0	0	6	.041 %
Rocky Mountain Video	20	0	0	20	.136 %
SMK	19	31	0	50	.341 %
SMS	8	0	0	8	.055 %
Status	19	0	0	19	.130 %
U. S. Games	0	35	0	35	.239 %
Video Lottery Consultants	1213	1990	0	3203	21.832 %
Williams Gaming	7	20	0	27	.184 %
TOTALS	6905	7766	0	14671	

/manupkb%

APPENDIX B

DATA CENTER HARDWARE CONFIGURATION

Description of Site A located in the Mitchell Building, Helena, MT.

- | | | |
|----|---|--|
| 1 | 3090-400J CPU
512 MB CENTRAL STORAGE
512 MB EXPANDED STORAGE
64 PARALLEL CHANNELS
4 ESCON CHANNELS
PR/SM
DASD and TAPE PARALLEL CHANNELS OPERATE AT 4 MEGABYTES/SECOND | SENATE BUSINESS & INDUSTRY
EXHIBIT NO. <u>AF</u>
DATE <u>1/31/95</u>
BILL NO. <u>SB 187</u> |
| 2 | 3390-2 DASD (97.5 GIGABYTES)
2 3390-A28 UNIT (30.0 GB)
3 3390-B2C UNITS (67.5 GB)
4 CHANNEL PATHS TO ALL 3390s
ATTACHED TO CPU VIA 3990 MODEL 3 DASD CONTROLLER | |
| 3 | 3380K DASD (120.0 GIGABYTES)
16 UNITS CONFIGURED IN FOUR STRINGS
4 CHANNEL PATHS TO ALL 3380K UNITS
ATTACHED TO CPU VIA 3990 MODEL 3 DASD CONTROLLER | |
| 4 | DASD CONTROLLERS
2 3990 MODEL 3 DASD CONTROLLERS WITH 64 MB CACHE EACH
1 3990 MODEL 3 DASD CONTROLLER WITH 128 MB CACHE (TENTATIVE
INSTALLATION DATE EARLY MARCH 1994) | |
| 5 | 3490 CARTRIDGE TAPE DRIVES WITH AUTOLOADERS
16 3490 CARTRIDGE DRIVES CONFIGURED IN TWO STRINGS
2 3490-A02 CARTRIDGE TAPE CONTROLLERS
4 3490-B04 UNITS (2 B04s attached to each A02)
2 ESCON CHANNELS TO EACH STRING
2 PARALLEL CHANNELS PATHS TO EACH STRING FOR BACKUP (DISABLED) | |
| 6 | 3420 TAPE DRIVES
6 3420 MODEL 8 DRIVES CONFIGURED IN TWO STRINGS
RECORDING DENSITY CAN BE EITHER 1600 OR 6250 BPI
2 CHANNEL PATHS TO EACH STRING
2 3803 MODEL 2 TAPE CONTROLLERS WITH 2 CHANNEL SWITCHERS
(We will be removing 3420 drives conversion to 3490s proceeds) | |
| 7 | PRINTERS
2 4245 MODEL 20 IMPACT PRINTERS
3 3825 LASER PRINTERS
1 3816-1D LASER PRINTERS | |
| 8 | TP CONTROLLER
1 3725 TP CONTROLLER
1 3745 TP CONTROLLER | |
| 9 | OTHER CONTROLLERS
SEVERAL (16) 317x CONTROL UNITS | |
| 10 | PR/SM FEATURE INSTALLED WITH 2 ACTIVE LPARS
PRODUCTION LPAR: 95% PROCESSOR; 256MB CENTRAL; 256MB EXPANDED
TEST LPAR: 5% PROCESSOR; 256MB CENTRAL; 256MB EXPANDED | |

DEPARTMENT OF JUSTICE DATA CENTER HARDWARE CONFIGURATION

Description of Site B located in the National Guard Armory, Helena, MT.

IBM 4381-92E
64 Mb Central Storage
12 Channels

3380 Standard DASD - 20.2 Gigabytes:
Eight (8) units configured in two strings.
Two (2) channel path to all 3380 standards.
Attached to CPU via 3380 Model-3 DASD controller.

Tape Drives:
Five (5) 3420 Model 6 and 8 configured in one string.
Recording density can be either 1600 or 6250 BPI.
One channel path to the string.

Printers:
One (1) 4245 Mod 12 Impact Printer.

Teleprocessing Controller:
One (1) 3725 communications controller.

Other Controllers:
One (1) 3274 control unit.

APPENDIX D
MONTANA LOTTERY HARDWARE CONFIGURATION

Description of Montana Instant Lottery System located at 2525 North Montana Avenue, Helena, Montana:

Stratus Computer Package
P51-V VAR Package:

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DATE 1-31-95
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Duplexed G860 CPU
Duplexed M603 32 MB Memory
Duplexed K420 IOP-II
2 D615 StrataPak Disk
3.2 GB (1 x 3.2) & K121 Adapter
1 T601-003 DAT Tape Drive & K122 Adapter
1 K103 Console/RSN Adapter
1 K104 Ethernet Adapter
1 B278-25 E-Net Cable
1 K111 Nul Async Adapter (4 ports)
1 K118-D12 16-port Async Adapter
1 V103A Console Terminal
1 B102-50 Terminal Cable

Additional Hardware:

K101 Multicom Line Adapter Full Sync
K107-01 Pertec Tape Adapter including AW-000351-12 Cable
K107-01 Pertec Tape Adapter including AW-000351-15 Cable
K118-d12 16-port Async Adapter

Software:

S0000V1005 VOS Virtual Op System
S0064V1005 PC/Connect - Host
S0066V1005 PC/Connect - 2
S0235V1005 OS TCP/IP Protocol
S0237V1005 OS TCP/IP Utilities
S0003V1005 RJE
S0006V1006 TPF Trans. Proc
S0008V1005 FMS Forms Management
S0020V1005 Cobol
S0026V1005 Fortran
S0040V1005 Full Screen Editor
S0080V1005 Debugging Support
S0090V1005 DES Subroutines

Modem:

C319 High speed RNS Modem

APPENDIX E
PRELIMINARY COST ESTIMATES

1. Location controller and peripheral hardware (per unit):

2. Modem (per unit):

3. Remote Polling Site, with communications hardware and software:

4. Central Computer System, with communications hardware and software (Designate custom or turn-key):

5. Yearly maintenance and support:

6. Other (describe):

APPENDIX F
STATE OF MONTANA INFORMATION SERVICES
GENERAL STANDARDS

EXHIBIT 4F
DATE 1-31-95
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GENERAL:

The Department of Administration, Information Services Division (ISD) has been given the authority, by the Legislature to create information system standards for all state agencies. They approve virtually all hardware, and recently, software purchases. There is a high interest in improving data sharing and reducing redundancy in information systems throughout the state. It's ISD's responsibility to create standards and work with agencies to implement standards in order to achieve these goals. Vendors who are bidding on information systems for the state, need to be aware of these standards. The following is a quick overview of current standards.

WIDE AREA NETWORK:

The Department of Administration Information Services Division operates an IBM 3090 mainframe at the Mitchell Building located in the Capitol Complex. (See Appendix A for technical specifications) It's backed up by an IBM 4381 mainframe located in the basement of the Armory (corner of Main St. and Lyndale) that is operated by the Department of Justice.

These two mainframe systems are the focal points of the SNA Wide Area Network that covers the entire state. The physical network is a combination of state owned and leased T1, 56 Kb and 9600 bps phone lines. Attachmate's Extra! 3270 products are the 3270 standard for PC/LAN connectivity to the host mainframes.

This is primarily an SNA network but recently the state has incorporated several Cisco Multi-Protocol routers. These are used to provide TCP/IP connectivity to the major cities. It's been estimated that TCP/IP connectivity to all points in Montana will take 5 to 10 years.

Within the Capitol Complex (within a few blocks of the Capitol) and to a few other buildings in Helena there is a token ring backbone. This provides high speed direct connection to the mainframe as well as a direct connection for the many Novell file servers (approximately 50) in this area. The backbone is in the process of being upgraded to optical fiber. It runs at 16 megabits/second, while most local rings run at 4 mbps.

LOCAL AREA NETWORKS:

Novell Netware is the state standard for local area network operating systems. ISD provides support for Netware and Netware connectivity. Virtually all LANs are Netware or are being converted to Netware. Most are running version 3.11, although there are a few 4.0 installations. The physical network standard is token ring running on Type 3, Level 5 or Type 1 wire.

MID-RANGE SYSTEMS:

There is a state wide committee currently reviewing mid-range technology. They are looking primarily at the RS-6000, AS-400, and DEC Alpha systems. They hope to complete their work and make a recommendation to ISD for a state standard in this area within 8 months.

DATABASES:

The state mainframe uses IDMS from Computer Associates. Oracle has recently been named the new state standard for Relational Databases. In the PC area, the official state standard is R:base, but there is a wide variety of PC databases in use. The Department of Justice is primarily developing PC applications in Clipper, but there are plans to begin using Oracle.

ELECTRONIC MAIL:

The state standard is ZIP Mail. It was chosen primarily for it's ability to utilize the statewide SNA network, although it also works well on Novell file servers. ISD supports ZIP Mail connections to virtually any LAN that's connected to the Wide Area Network.

HARDWARE:

There are many state term contracts that have been set up for the purchase of PC's, printers, modems, etc. State agencies are required to purchase their equipment off of these term contracts.

STATE OF MONTANA
DEPARTMENT OF JUSTICE
GAMBLING CONTROL DIVISION

Joseph P. Mazurek
Attorney General



SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 4-G
DATE 1-31-95
BILL NO. SB 187
2687 Airport Road
PO Box 201424
Helena, MT 59620-1424

Testimony on SB187
Presented by Janet Jessup, Administrator
Gambling Control Division, Department of Justice

The proposal to implement an automated accounting and reporting system does not represent a change in what we are doing in the regulation of gambling machines but is instead a change in how we are regulating them. What we are asking for in this proposal is the ability to do our present job better, faster, more efficiently, and accurately.

As a bit of background, the statutes in place allow licensed establishments to make video gambling machines available for play to the public. Those statutes request the Department of Justice to prescribe the expected payback value of credits played by requiring the machines to have electronic accounting devices so that we can verify winning percentages. The statutes require licensed operators to keep records of the gross income from each machine "in the form the department may require"; the operator is further required to complete and deliver a statement showing the gross income due to the state and other relevant information. The operator does that now manually; we are proposing that the reporting be done using technology, not paper.

A Performance Audit conducted by the Legislative Auditor in 1992 and as reported to the Legislative Audit Committee in January 1994 concluded that the Division cannot adequately account for machine play and taxes due given the present manual reporting system. We have over 1,600 gambling establishments and approximately 15,000 operating machines located throughout the state, and the audit determined that we could not effectively nor efficiently monitor all these machines. The audit found that 28 to 38% of establishments pay an improper amount of tax and that an additional 18 to 22 percent could be paying an improper amount. The problem we have encountered in trying to determine the exact nature of the problem is that the reporting system and the quality of reports received is so inadequate that no one can accurately determine whether the state is receiving the correct information and the correct taxes. With the existing manual system, we can check machines at best every seven years; and complete establishment audits every 65 years.

The audit recommended that the Division present a plan to implement an automated or "dial-up" system to the 1995 Legislature. These systems are used in almost all states that have video gambling machines and in the Canadian provinces offering machine

play. Most jurisdictions implement dial-up when they authorize machines. We agreed with the Audit's recommendation that an automated system or dial-up is the best way to go and is significantly cheaper over the long run. That is why we are before you today.

What dial-up will do is get the information on machine play in a reliable and timely way for the Division to act upon. The technology is nothing new; we use reporting and tracking systems that are on line in many major industries, from banking to billing systems to water metering systems. Depending on the type of system implemented, it can provide better management information for machine owners and significantly decrease their paperwork as well. Casino owners will have assurance that their competitors are paying their fair share of taxes; players will have assurance that the machines are being monitored; and local governments will have confidence that they are receiving the correct amount of taxes due to them.

In contrast to the present manual, paper and labor-intensive system, a dial-up system -- using present technology -- allows the machines to "talk" to a central computer to report machine play -- cash in, games played, credits won, and cash out. This information is what is now reported to us four times each year using the quarterly reports. The only difference is that it is reported electronically each 24 hours, so it is faster, more reliable, and easier. When problems develop, we will know sooner and can contact the establishment and alert them. It does not provide access to any other portion of the establishment's operations or financial systems. The state will not have the authority to arbitrarily shut down machines or to affect machine play during customer use. If the central computer goes down, the machines are not affected; what is affected is the central computer's ability to receive information.

We have requested a total of \$950,000 for a study to identify the best system for Montana's specific needs and to begin implementation during the next biennium. We anticipate that the study will be a very small portion of the total expenditure. We are very aware of the concerns that the gambling industry has over the impact of a dial-up system on their businesses, and we want to make sure that we have adequately studied the options and systems available to us and can carefully plan for the implementation of the system to minimize start-up problems. This is why we have asked for a study phase; we can't simply switch on a dial-up system one day and then walk away from it.

The technology itself will not resolve all the compliance and audit issues before us; people will still be needed to process and act on the data provided by automation. Dial-up will improve the basic data on machine activity that we have to work with; it will not eliminate the need for human beings to assure compliance, address identified problems and audit needs, and to respond to inquiries from machine owners. But we will be able to do all of that much more rapidly using more reliable data.

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Page Three
Testimony, SB187

This fall we issued a request for information to obtain additional technical data on existing technology in the market place. In addition, DOJ technical and administrative staff recently visited South Dakota and Saskatchewan to learn more about their current dial-up systems. The information we have gathered has just been compiled in the report which we have handed out to you today. We believe that this information will enable the State to make a more informed choice concerning the proposal we have brought to the legislature.

DEPARTMENT OF JUSTICE
Senate Bill 187: Dial-up

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 5
DATE 1-31-95
BILL NO. SB 187

Purpose

To enable the State of Montana to study and select an automated accounting and reporting system for video gambling machines.

Proposal

SB 187 was requested by the Governor and the Attorney General and is sponsored by Senate President Bob Brown. The bill would replace the current manual system of auditing video gambling machine revenue with a more efficient and accurate automated system. This system, which is also called "dial-up," uses technology that has been available for a number of years and is widely used in other states and Canadian provinces. All modern machines are designed to accommodate communication requirements.

Why we need it

The present accounting system of video gambling machine play is manual -- requiring extensive paperwork by both the operator and the state. This process is cumbersome and inefficient. A recent legislative audit concluded that -- using the current system -- the State *cannot verify machine play, machine revenue, or taxes due*. The audit found that up to 38 percent of gambling establishments pay an incorrect amount of tax, and an additional 18 to 22 percent could be paying an improper amount. The Legislative Auditor recommended that a proposal for a dial-up system be submitted to the 1995 Legislature; the alternative identified in the audit to achieve an acceptable level of compliance was to add 23 additional employees.

→ *15,000 machines in more than 1,600 locations throughout the state currently report an income of more than \$200 million for the industry, resulting in over \$30 million in taxes. Total wagering on the machines is estimated at \$450 million.*

What it does

Dial-up will report machine play information -- which now is manually reported and submitted on paper quarterly reports -- much faster and much more reliably. Dial-up also will report machine play -- credits in, credits played, credits won, and credits paid -- *electronically*, in a matter of seconds. And it assures players that machine play is fair.

Who pays for it

The bill provides **tax credits** for machine owners who already have made investments in machines. These credits are intended to provide the most benefit to the "small-scale" owners. Estimates based on information received from other states and from manufacturers indicate the reasonable conversion cost at approximately \$350 per machine, not including any phone line upgrades. Using existing fee-based funding sources, the state will absorb the cost of the central system. A study will determine the technical requirements for the most cost-effective system for Montana.

What happens to older machines

Our records show that 900 of the nearly 15,000 machines now in operation cannot be converted and conversion for another 600 would not be cost effective. The bill allows these older machines to operate for up to three years after implementation of dial-up, which could result in a "grandfathering" for the next five years. But market competition is eliminating these machines each month, and few are expected to be in play when automation is implemented. All modern machines are convertible; 90 percent of machines in play at this time will not have to be replaced at all.

What it will cost

Estimated start-up costs associated with a basic dial-up system are summarized as follows:

State costs:

→	Study	\$50,000
→	Initial Implementation	\$900,000

Machine-related costs:

→	One-time conversion cost	\$350
→	One-time modem (one/location)	\$277
→	Annual phone line costs (one/establishment)	\$312

Benefits

Everyone benefits from adopting automation:

- The state receives accurate and timely data to fulfill its regulatory and revenue responsibilities.
- Video machine owners have accurate and quick records for business purposes.
- The gambling public is assured of fair play at legal odds.
- The taxpayers are assured that the gambling industry is paying its fair share of taxes.

SENATE BILL 187: Additional Information

DIAL-UP WILL NOT:

1. Dial-up will not sweep accounts. In other words, it will not have the ability to compel electronic transfer of funds for payment of taxes, permit fees, etc.
2. Dial-up will not look at someone's business by computer. It will simply take a meter reading showing cash in, games played, credits won, and cash out -- the same information businesses provide now.
3. Dial-up will not lead to excessive phone charges and may actually be a local call. The cost of the nightly phone call will be borne by the state.
4. Dial-up will not tie up business phone lines. Calls will last less than half a minute. In fact, in other states using similar systems, calls take no more than one or two seconds.
5. Dial-up's central system will not shut off a machine without prior notification to the licensee. The licensee will have to time to correct deficiencies.
6. A malfunction in Dial-up's central system will not affect machine play. Machine play will not be interrupted should the central system shut down.

DIAL-UP WILL:

1. Dial-up will benefit licensed operators through reduced paperwork, more accurate record-keeping, better management information and fairness in tax collections.
2. Dial-up will provide faster, more efficient service to the industry. Without it, the state would need to hire 25 additional employees to achieve an acceptable level of fairness and accuracy.
3. The Dial-up Hot-Line could operate 12 to 16 hours a day to answer questions and allow licensees time to make repairs to machines, change meters, logic boards etc.
4. Dial-up's central system will treat all machine manufacturers equally. The system shall not offer a price or other advantage to one machine over another.
5. Dial-up will provide the state and taxpayers with a more efficient and accurate method of accounting for tax revenue.
6. Dial-up will assure players that they are playing legal games with the correct payout tables.

Report Summary

Introduction

Our performance audit concentrated on the regulation and monitoring of video gambling machines in Montana. The Department of Justice, Gambling Control Division is responsible for regulating most gambling activities in Montana.

Our audit recommends improvements in the division's regulation and monitoring of video gambling machines. Corrective action by the Department of Justice should improve overall effectiveness of regulatory functions. The following sections provide background information and summarize the results of our performance audit.

Background

A video gambling machine is an electronic coin-operated game of chance played on a video screen. There are currently three different types of video gambling machines allowed to operate in the state: keno, draw poker and bingo. Video gambling is the most prevalent form of gambling in the state. During fiscal year 1992-93, the public wagered \$397.5 million on video gambling activities. This accounts for 87 percent of all legal gambling dollars wagered in Montana. Video gambling machine wagers have increased 58 percent since fiscal year 1989-90 when \$251.8 million was wagered. Over 14,500 video gambling machines currently operate in the state. This number has more than doubled during the last six fiscal years.

Montana currently uses a manual system to report and collect taxes levied on video gambling proceeds. Video gambling machine operators and vendors are required to submit this tax on a quarterly basis. Play and income data is collected via meters which are located in each video gambling machine. Tax is then computed on a machine-by-machine basis.

Division monitoring of video gambling machines falls into two main areas: physical inspections of machines, and reviews of gambling machine records including tax returns. We found that these division activities are not an efficient or effective means of regulating and monitoring video gambling machines.

Report Summary

Division Inspections of Video Gambling Machines

According to division management, division-conducted inspections of gambling machines are a key factor in regulating video gambling. Physical inspections of video gambling machines provide assurance that machine play is fair, the public is protected, and reporting for tax purposes is accurate. We found several areas where division inspections of video gambling machines could be improved.

Investigators Should Conduct More Machine Inspections

During our audit, we reviewed the division's machine inspection records. Only four percent of video gambling machines are inspected each year. The division should establish a centralized management information system for compiling data gathered during gambling machine inspections. This inspection-related management information should be distributed to division staff. In addition, the division should use this system to provide a means of scheduling machine inspections.

Machine Programs not Routinely Tested

The North American Gaming Regulators Association indicates inspections of video gambling machines are to incorporate an analysis of machine operation including testing of each machine's Erasable and Programmable Read-Only Memory (EPROM). An EPROM is a small computer chip inside the video gambling machine containing the program which controls machine operation. During our review, we noted investigators do not thoroughly test video gambling machine operations. Our review found investigators tested the EPROM on only 13 percent of machines they inspected. The division's machine inspections could be improved by developing a formal policy that requires EPROM testing be a standard part of video gambling machine inspections. The division should also develop documented procedures for conducting video gambling machine inspections including EPROM testing.

Report Summary

**Gambling Machine
Taxation**

One of our audit objectives was to determine the effectiveness and efficiency of the process used for collecting tax revenues from video gambling activities in the state. We also evaluated the division's procedures for monitoring these activities. One of the means used to accomplish this was a review of video gambling machine tax returns. Based upon this review we identified the following concerns with the existing system for reporting and collecting tax revenues:

1. Returns are not always properly completed and mathematical errors exist;
2. Documentation of gambling machine income is often missing and inadequate;
3. All machine play is not accounted for;
4. Mechanical and electronic meters repeatedly do not balance;
5. Frequent machine service is apparent; and,
6. Often the correct tax is not paid by gambling establishments.

The system the state uses to report video gambling machine proceeds and taxes is not effective. Our review showed a large portion, 28.7 to 38.4 percent, of gambling establishments pay an incorrect amount of tax on video gambling machine proceeds. An additional 18 to 22 percent of other establishments could be paying an improper tax amount. We found it is difficult to verify machine revenue and taxes paid as the gaming industry does not always provide adequate documentation with video gambling machine tax returns. Our review of video gambling machine tax returns showed that the current tax reporting system does not work as intended.

A number of factors contribute to an improper amount of tax being paid by gambling establishments on the proceeds of video gambling machines. The following sections of the report summary address the causes of problems we found with the tax reporting system and provide recommendations to improve this system. We discuss interim changes which could improve

Report Summary

regulation and the last section recommends a long term solution to the regulation problems inherent with the current system.

Interim Improvements

The current video gambling tax reporting system is not effective or efficient. Our review of tax returns revealed the existing tax reporting system is not effective for ensuring the proper amount of tax is paid on the proceeds of video gambling machines. Our review also revealed the current tax reporting system is not efficient. It is a manual, labor intensive system. It requires an excessive amount of work by both the gambling industry and the division. The reporting system is a time consuming process for gambling establishments. In addition, the division must manually review extensive records as part of its monitoring efforts.

Options for improvement of the current tax reporting system fall into two areas: improvements to the existing manual system and a long-term solution. If the division is going to continue using the current tax reporting system and existing resources, there are some improvements which can be made. Improvements to the existing tax reporting system include:

1. Using penalties and other statutory sanctions to gain better industry compliance.
2. Improving documentation of compliance problems and enforcement status to identify repeat offenders.
3. Expanding the machine service data base to allow additional analysis of service performed on video gambling machines.
4. Increasing staff to provide better regulation.

These changes would improve the tax reporting system; however, the manual system will continue to have inherent problems. The entire system of regulation would be better served by changing to an automated monitoring system.

Report Summary

Long Term Solution

The stand-alone system Montana currently uses is a manual and labor intensive monitoring system. It is not capable of effectively nor efficiently monitoring over 14,500 machines in a state as large as Montana. This is evident by the number of problems we noted with tax returns and video gambling machines during our audit. These problems included: inaccurate tax returns; missing tax return documentation; mechanical and electrical meters not balancing; incomplete tax returns; resetting of meters; and, math errors by establishments and vendors when determining the amount of tax due. We also found video gambling machines operating in the gambling establishments are not always operating according to state specifications. It is just not feasible for division staff to physically inspect all the gambling machines in the state to ensure proper operation.

The more effective and efficient system for monitoring video gambling activities and revenues would be an automated system. One type of automated system which is capable of monitoring video gambling programs as large as Montana's is a dial-up system. This system requires a central computer to "dial out" to gambling machines on a scheduled basis in order to obtain play and revenue statistics. A dial-up system would provide an effective monitoring system with minimal employees. This would also improve the integrity of video gambling by ensuring the public and gambling industry is protected and by enhancing the accountability of public funds. Such a system would be more effective in identifying problems.

It is important to note that a dial-up system monitors the same activities as Montana's current manual system is intended to do. The difference is the dial-up system monitors these activities more thoroughly, efficiently and effectively.

If the current system had increased staffing and improved controls in place, it would be a more effective system and could accomplish things similar to a dial-up system. However, the lack of controls prevent the current system from meeting statutory intent. Automating would provide a system which better meets the intent of Montana's public policy law regarding gambling activities. This is accomplished by providing a level of

Report Summary

monitoring which ensures the public, state and gambling industry are protected from unfair and illegal activities.

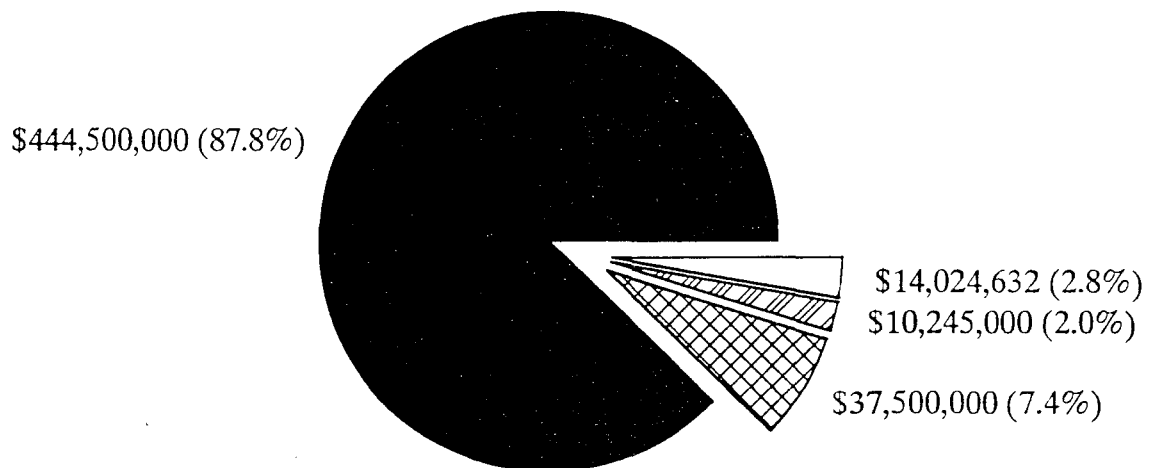
The manual monitoring system currently utilized by the department is the cause of most of the problems we found during our review. Therefore, the Department of Justice should implement an automated system. The department should determine what type of data a dial-up system should provide, the most efficient means of operating the system, and how system implementation costs should be recovered. The department will also need to determine how job duties and staffing levels of division employees would be affected. It appears the automated system would not entail an increase in staffing, but instead a change of duties and subsequent training. In addition, the department should determine the time-line for dial-up system implementation. Since implementation of such a system will take time, the department should present its plan to the next regular legislative session.

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Figure 1.

DEPARTMENT OF JUSTICE

AMOUNTS REPORTED WAGERED FY 94



TOTAL WAGERED \$506,269,632

 VIDEO GAMBLING	 STATE LOTTERY
 HORSE RACING AND SIMULCAST	 LIVE KENO AND BINGO

Figure 2.

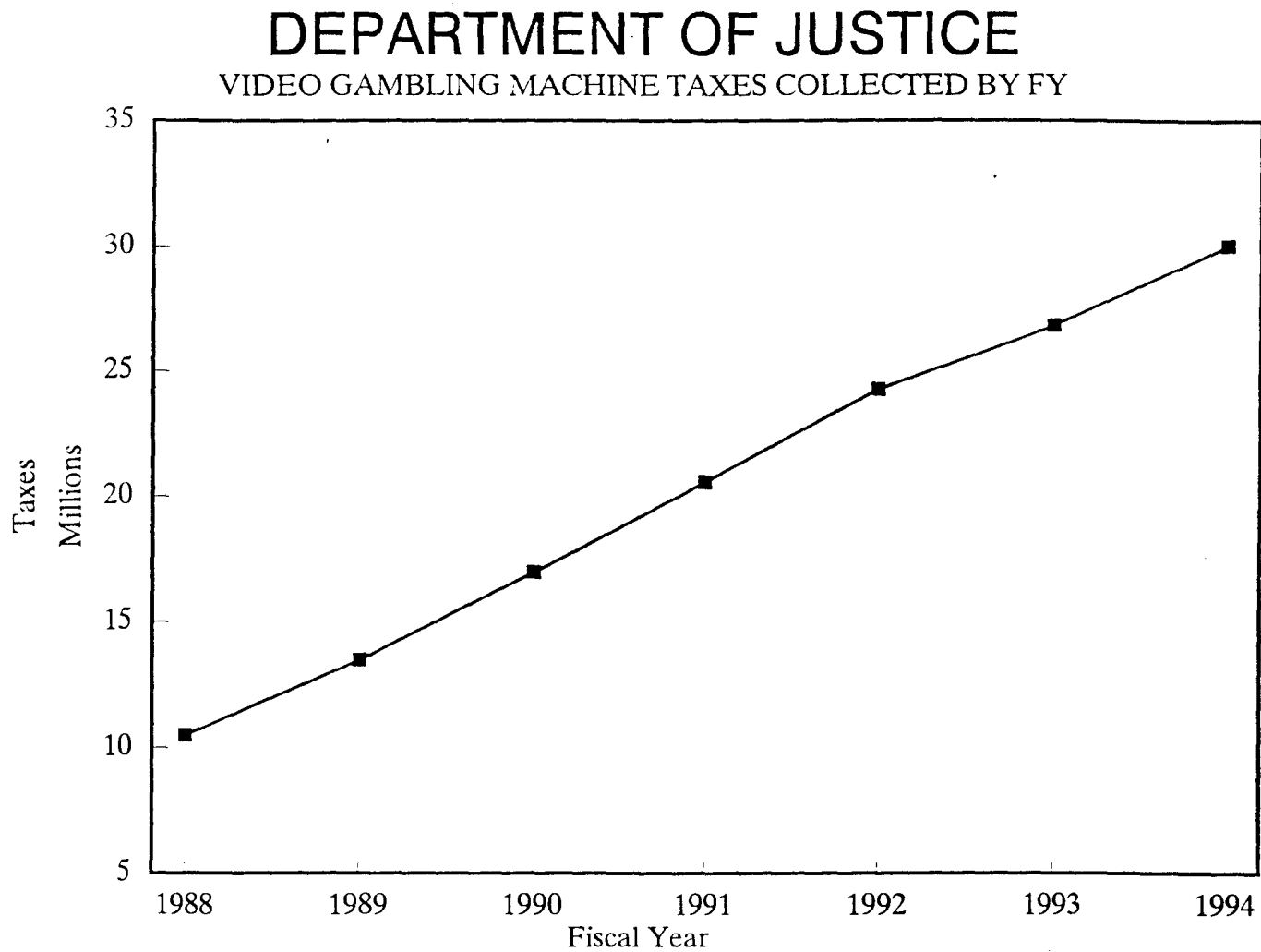


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Figure 3.

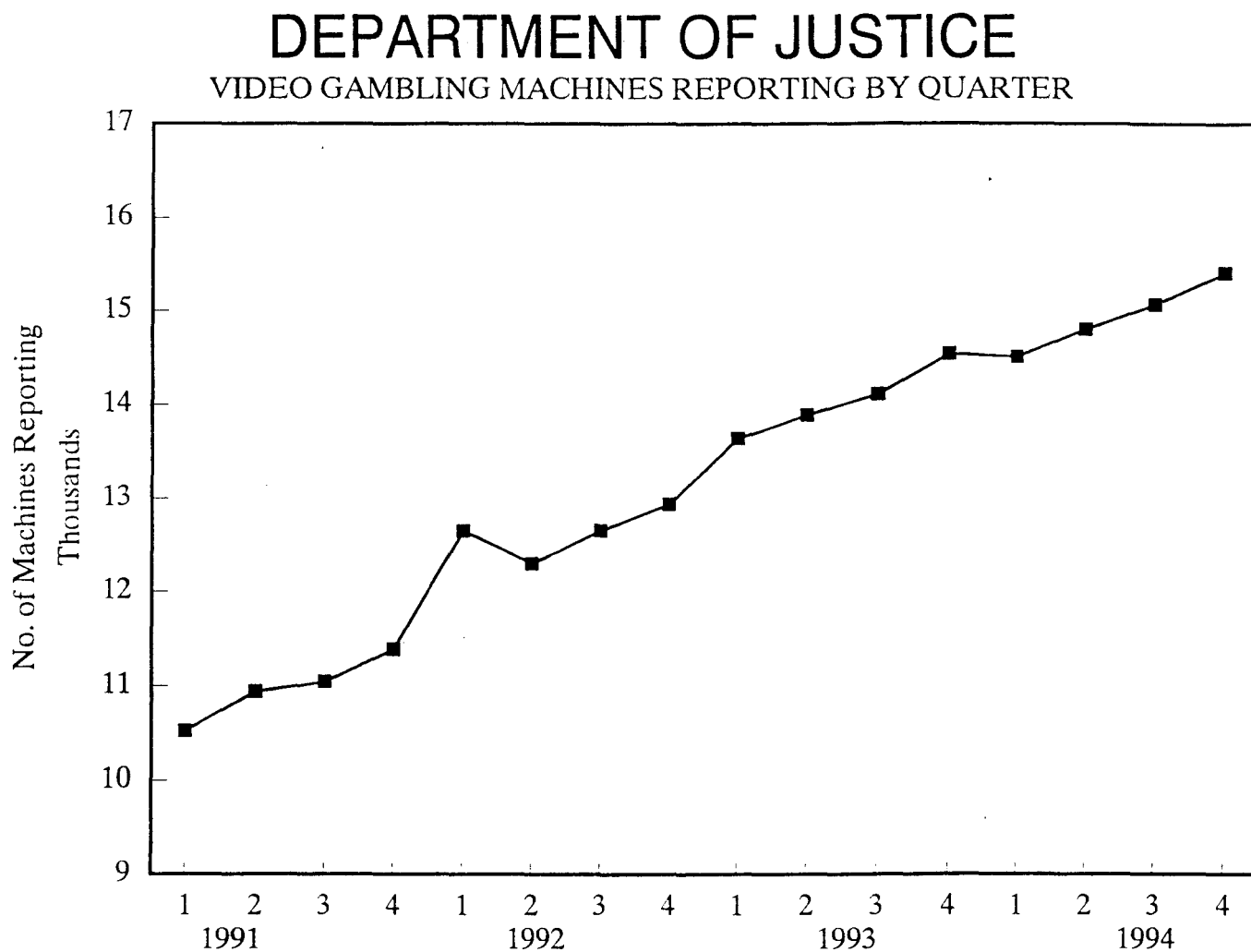


Figure 4.

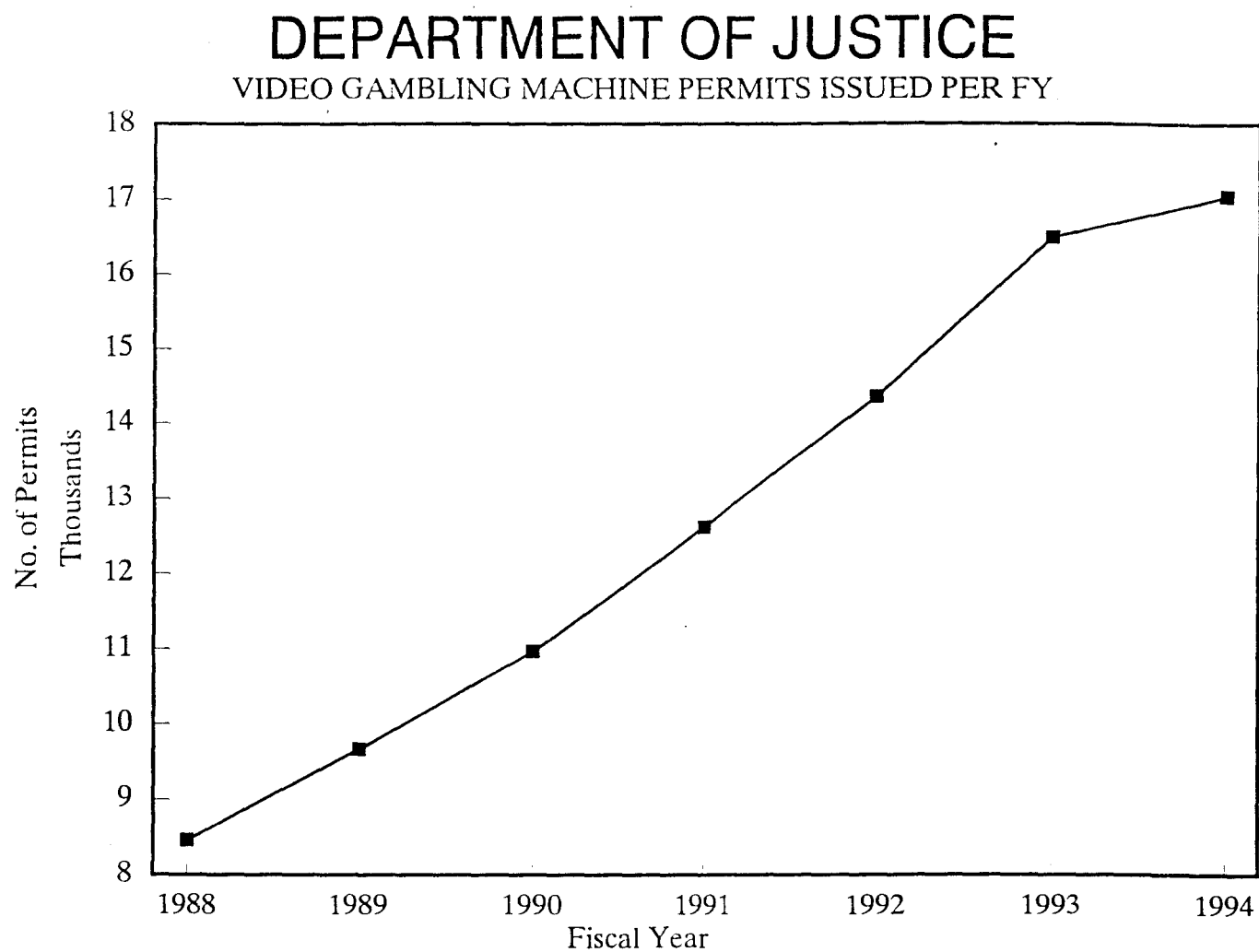
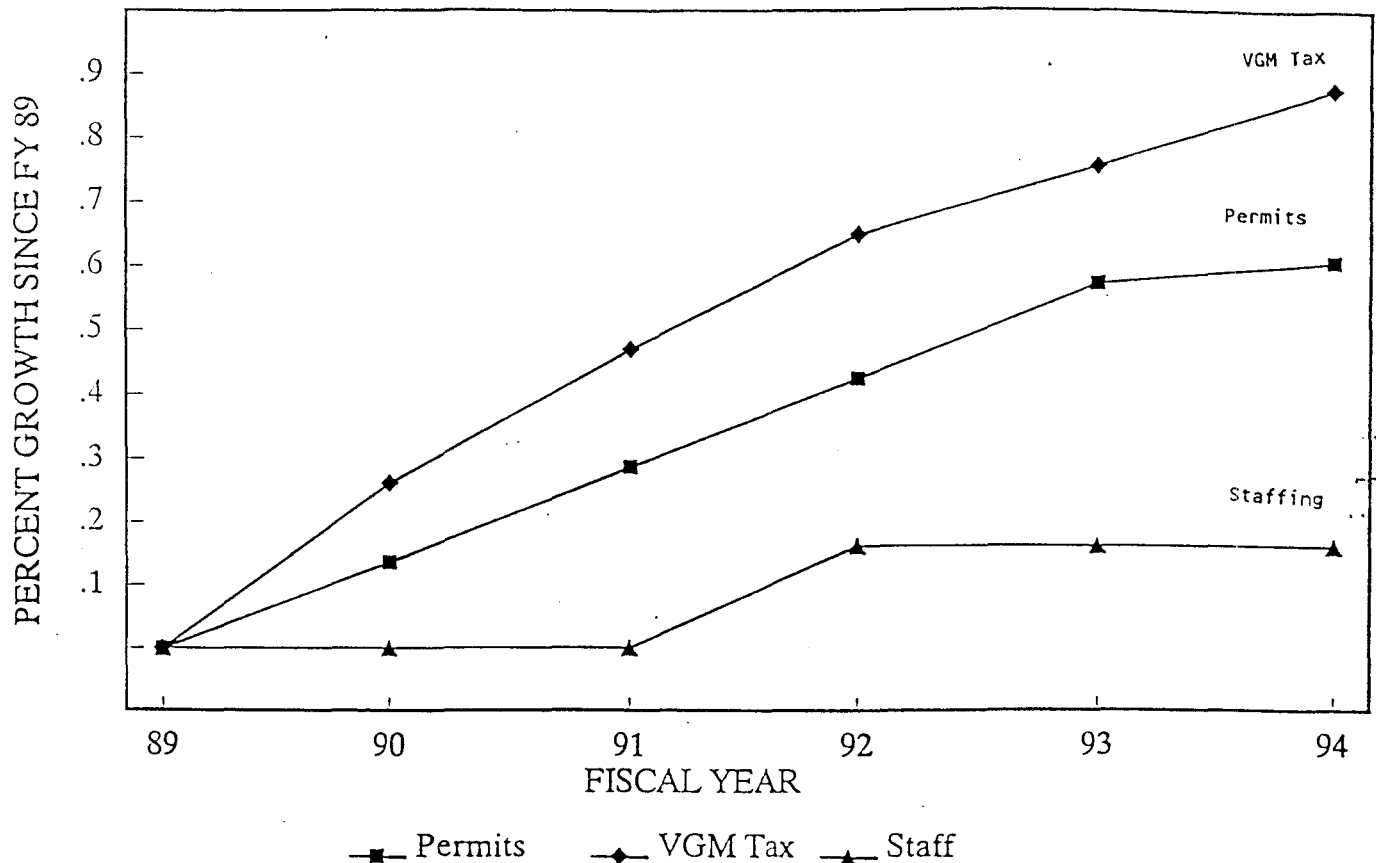


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Figure 5.

DEPARTMENT OF JUSTICE

INDUSTRY GROWTH INDICATORS COMPARED TO STAFF GROWTH



Gambling Control Division staffing levels do not include Liquor personnel as the addition of those positions was offset by the addition of Liquor duties.

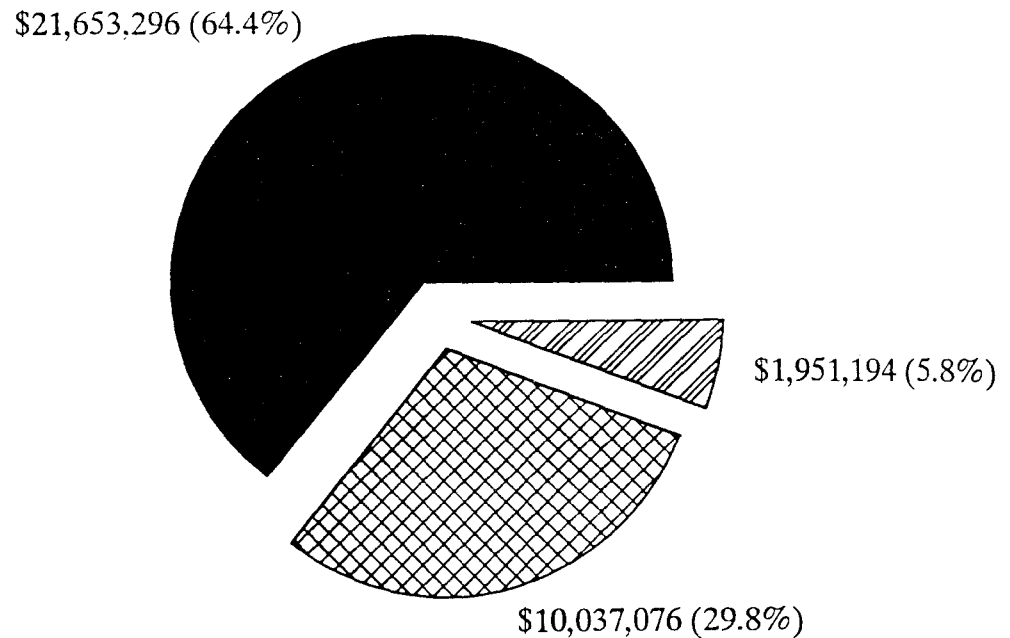
Industry Growth Indicators Compared To Staff Growth

	90	91	92	93	94
Permits	13.47%	15.04%	13.82%	14.79%	3.34%
VGM Tax	26.04%	20.89%	18.01%	10.63%	11.97%
Staffing	0.00%	0.00%	16.13%	0.00%	0.00%

Figure 6.

DEPARTMENT OF JUSTICE

DISTRIBUTIVE SHARE OF GAMBLING REVENUES, FY 94



Local Government
 State General Fund
 State Special

FY 94 Gambling Revenue Collections

Revenue Type	Local Government	St Gen Fund	State Special	Total
VGM Tax	\$20,020,454	\$10,037,076		\$30,057,530
LKB Tax	\$35,067			\$35,067
Sport Tab Tax			\$3,600	\$3,600
Lab Test Fees			\$43,957	\$43,957
Lic & Permit	\$1,597,775		\$1,903,637	\$3,501,412
Total	\$21,653,296	\$10,037,076	\$1,951,194	\$33,641,566

VGM denotes Video Gambling Machine

LKB denotes Live Keno and Bingo

Lic. & Permits denotes licensing and permit fees.

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 6
DATE 1-31-95
BILL NO. SB 187

SENATE BILL 187 - SENATE BUSINESS AND INDUSTRY

Mr. Chairman and Members of the Committee:

For the record, my name is Ellen Engstedt and I represent Don't Gamble With The Future, a statewide organization opposed to the expansion of gambling and in favor of stronger regulation of the gambling currently allowed in Montana. Our membership is comprised mostly of small business folks and their families.

A performance audit conducted by the Office of the Legislative Auditor by instruction of the Legislative Audit Committee was released in January of 1994. The audit indicated some possible problems with the accounting system used by the Department of Justice relative to the gambling industry and recommended that the department either increase its staff in the Gambling Control Division by 23 people or implement an automated dial-up system of monitoring. The gambling industry to put it mildly came unhinged. Representatives from the industry showed up in force to protest the findings of the audit and to ensure the Audit Committee that the gambling industry is, in the words of Larry Akey, "like Ivory soap, 99 percent pure".

The point of the audit was missed by the gambling industry. The goal of a performance audit is to examine an AGENCY or part of an AGENCY and determine whether it is conducting the mandates given it under Montana state law. The legislative mandate contained in the gambling statutes directed to the Gambling Control Division under the Department of Justice is "to create

and maintain a uniform regulatory climate...to protect legal public gambling activities...to protect the public...to protect the state and local governments from those who would conduct illegal gambling activities that deprive those governments of tax revenues..."

The truth of the matter is the Gambling Control Division CANNOT perform the mandates under Montana law with either its current system of manual reporting or its current level of personnel. To insist the system is working and should be left as it exists is deceitful to the public whose interests are not being protected by the current lack of regulation of the gambling industry.

The members of my organization are amazed and curious that the casino and tavern owners of Montana are so adamantly opposed to SB 187 and a dial-up monitoring system. This is a bill to automate a function that is now done manually. Same information -- different means of collection. This is not a government versus gambling industry issue. It's not big brother overtaking the little guy with big oppressive government. It's technology - using computers instead of increased people to do a job that computers were designed to do. Simple concept.

One goal of my group is to promote proper regulation of the gambling industry. The manual system installed when video gambling machines became legal by action of the Montana Legislature in 1985 cannot begin to keep up with the growth of

this industry. I will not speculate why the industry is growing at such a pace except to say it is a lucrative cash business.

A few statistics to support our position of why a dial-up system would be of value to Montana. Keep in mind, please, that in the past year \$450 MILLION was dropped into video gambling machines. \$450 MILLION. No small industry, folks.

As of January 4, 1995, there were 1,601 establishments with video gambling machines. Of that number 412 establishments have 1 to 4 machines - those are the "mom and pop" operations referred to when someone is trying to convince you these operations are all little, rural businesses that will dry up if any changes are made in accounting. In reality, about 25 percent of the total gambling establishments in Montana could qualify as small operations and it can be argued that even 1 to 4 machines can produce a great deal of revenue.

Another statistic I found interesting is that of the 14,958 licensed machines operating, route operators own nearly two-thirds of those machines while the remaining third are owned by the establishment in which they are located. Six route operators - six individuals in Montana - owned 4,588 of the 14,958 machines licensed. Six people own one-third of all licensed gambling machines in Montana.

One more statistic - average income on a machine operating all four quarters of fiscal year 1994 in an establishment with under four machines was \$6,555 per machine. In an establishment with between 15 and 20 machines operating all four quarters of

fiscal year 1994 there was an average income of \$24,300 per machine.

Back to SB 187 - the Gambling Control Division reports there are 1,525 machines in the state that could not or should not be upgraded because they are either unable to receive the upgrade or it would be too costly. There is a provision in the bill to let those machines operate for three years after dial-up would be installed, so actually there would be more of a five-year provision for those older machines.

The last and largest issue to be addressed in SB 187 is the \$300 tax credit that is proposed to help defray the cost of retrofitting the video gambling machines to enable them to hook into a computerized monitoring system.

There is a large argument going on over how much it will "really" cost to make the changes and who should pay for those costs. The small business folks who are part of Don't Gamble With The Future are grappling with the concept of having to give a tax credit for gambling machine owners when my small business people routinely face and pay for expenses imposed upon them from a variety of sources. Some of those same businesses have faced economic hardship since the beginning of video gambling in Montana because of the amount of disposable income spent on gambling rather than on other activities in our communities.

The members of my organization have searched their consciences and tried their principles and have agreed to a compromise -- we will support the limited grandfathering of the

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older machines as proposed in the bill and we will support a tax credit of a reasonable amount because we feel a dial-up monitoring system for the State of Montana is the right public policy.

Therefore, the 1,800 members of Don't Gamble With The Future do support Senator Brown, Attorney General Mazurek, and Governor Racicot in their efforts to provide sound public policy with a modernized, streamlined, efficient method of accounting for the \$450 million spent on video gambling in just the last year.

I urge your support of SB 187. Thank you.



WORKING TOGETHER:

TESTIMONY OF DAVID HEMION
LEGISLATIVE LIAISON
MONTANA ASSOCIATION OF CHURCHES
SB 187
SENATE BUSINESS & INDUSTRY COMMITTEE
JANUARY 31, 1995

The Montana Association of Churches represents eight of Montana's largest Christian denominations. These include:

American Baptist Churches of the Northwest
Christian Churches (Disciples of Christ) in Montana
Episcopal Church - Diocese of Montana
Evangelical Lutheran Church in America - Montana Synod
Presbyterian Church (U.S.A.) - Glacier and Yellowstone Presbyteries
Roman Catholic Dioceses of Great Falls/Billings and Helena
United Church of Christ - Montana and Northern Wyoming Conference
United Methodist Church - Yellowstone Conference.

In order for the Association to take a position on any issue, it must gain the unanimous support of its members. Our position, then, represents the unanimous opinion of these churches on gambling in Montana.

The Montana Association of Churches would address the issue of video gambling regulation differently than what is proposed in SB 187. For starters, we advocate a ban on all video gambling machines, although we realize that at this time that's not politically feasible or likely.

As a second option, we might propose to the Legislature that it address the inability of the Gambling Control Division to keep pace with the growth of the number of machines by placing a moratorium on any new machines. If we can't properly regulate what is here, why should we compound the problem by allowing more machines in the state?

American Baptist Churches
of the Northwest

Christian Churches
of Montana
(Disciples of Christ)

Episcopal Church
Diocese of Montana

Evangelical Lutheran
Church in America
Montana Synod

Presbyterian Church (U. S. A.)
Glacier Presbytery

Presbyterian Church (U. S. A.)
Yellowstone Presbytery

Roman Catholic Diocese
of Great Falls - Billings

Roman Catholic Diocese
of Helena

United Church
of Christ
Mt.-N. Wyo. Cont.

United Methodist Church
Yellowstone Conference

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So we come to the proposal before you to monitor the half-billion dollars of cash flowing through these machines annually with something more than the "honor system" allowed to gambling operators for reporting. If Montana continues to legalize gambling, the Association of Churches calls for its strictest regulation.

We support SB 187 and commend Governor Racicot, Attorney General Mazurek, the staff of the Gambling Control Division and the Legislative Auditor for addressing this issue. While this legislation has our support, MAC is not pleased that a tax credit has been included. It is difficult to explain to our members, especially clergy who work daily with people trapped in circumstances of deep poverty, why the state should provide tax credits to gambling operators. It's even harder to understand this tax credit when these machines are averaging more than \$13,000 annually in net revenue.

If a credit is included, we would recommend two conditions:

1. That it be a credit for only half the cost of upgrading machines to accept computer monitoring. As we understand the proposal, upgrading machines also makes them adaptable for new games and benefits owners by allowing better record keeping for their management. This principle recognizes that it is not the intent of the state to compensate gambling operators fully for this conversion.

2. That the credit be capped at \$300.

With the report of the Legislative Auditor before you documenting the lax compliance of gambling operators regarding taxes, the Association of Churches cannot accept anything but your support for SB 187 as a response to this problem.

STATEMENT OF SCOTT SEACAT
MONTANA LEGISLATIVE AUDITOR
BEFORE THE GAMING ADVISORY COUNCIL
April 7, 1994

"Mr. Chairman, I want to make one point real clear, because there was a comment on tampering. I have various obligations under federal and state law for reporting in cases of fraud, illegal acts, or cheating. We have no such instances and I want to make that absolutely clear - we had no instances of tampering or illegal acts or illegal activity, and I can assure you, as the members of the Legislature can confirm, if there would have been some, I would have pursued them. We have none."

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 8
DATE 1-31-95
BILL NO. SB 187

Office of the Legislative Auditor
Request for Information
Regulation and Monitoring of Video Gambling Machines

April 1, 1994

The following discusses several areas related to questions asked by representatives of the gambling industry. Hopefully this will provide more specific information and put the report material in context.

- 5) Math errors consisted of miscalculations when establishments or vendors completed quarterly tax forms. Errors included such things as miscalculating the total dollars and/or coins going into a machine during a quarter, miscalculating the credits paid during a quarter, and miscalculating the total taxes due when subtracting credits paid from credits that went into a machine during the quarter. The majority of errors were basic math errors in addition and subtraction. For mathematical errors we used only those errors over ten (quarter) credits. The following are the dollar amounts in error attributed only to math errors by machine in our sample: \$3, 4, 6, 7, 9, 10, 13, 14, 28, 30, 31, 37, 38, 57, 74, 122, 152, 218, 322, 409, 434, 473, 532, 632, 851 and 1151.

Gambling machines have two sets of meters: mechanical and electronic meters. The electronic meters are used to verify the credits being reported from the mechanical meters. The two sets of meters should record the same amount of play and income during a quarter. We examined tax forms and associated documents to determine if the two sets of meters recorded the same amount of play and income. In quarter credits the discrepancies are:

<u>Credit Difference:</u>	<u>Number of Machines:</u>
10 - 40	20
41 - 100	12
101 - 200	21
201 - 400	11
401 - 800	9
801 - 1200	3
1201 - 1600	2
1601 - 2000	2
2000+	7

72% less than \$100

The remainder had scrambled or zeroed meters and an exact comparison is not available.

Documentation that must be completed with the tax forms include audit tapes, mechanical meter readings and service forms where necessary. The extent of required information which is not included with video gambling tax returns was a predominant area identified during our audit. Either audit tapes, mechanical meter readings, service reports, or a combination of the three were not always provided with the tax form.

- 6) During our review of video gambling tax returns reviewed by the division we found incorrect amount of taxes were paid. Incorrect tax payments consisted of both over and under payments of video gambling machine taxes. The following gives the range and distribution of incorrect taxes:

<u>Tax Amount</u>	<u>Number Underpaid</u>	<u>Number Overpaid</u>
Less than \$10	5	5
\$ 11 - 50	7	1
\$ 51 - 100	3	3
\$ 101 - 200	1	3
\$ 201 - 500	1	5
\$ 501 - 1000	2	1
\$1001 - 1500	1	0
\$1501 - 2000	1	0
\$2001 - 2500	1	0

72% of underpay less than \$100
55% " " " \$50
while 43% of overpay more than \$500

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EXHIBIT NO. 9-A
DATE 1-31-95
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maintenance. The industry depreciates machines over a three to five-year period.

GAMBLING CONTROL DIVISION TAX AND AUDIT FUNCTIONS:

The Gambling Control Division is faced with the tremendous task of trying to monitor, regulate and control approximately 15,000 machines in 1,600 locations across Montana. In addition, the paperwork generated by the current manual reporting system creates an ever increasing workload for Division staff. The functions performed by the Audit and Tax Program of the Gambling Control Division under the current manual system that would be improved and made more efficient by converting to an automated accounting and reporting dial-up system are as follows:

1. **Field Audits** - Revenue Agents conduct not only machine field audits but also license investigation reviews. If no other tasks were assigned to them but field audits, they could complete approximately 30 per year. Because of other responsibilities and tasks, it is difficult to predict how many actual field audits will be completed in a year. Currently a backlog of 84 video gambling machine field audits existed at the end of FY 1994. Without additional staff it would take approximately two years to complete these audits. Current workloads prevent completion.

2. **Staff Workloads** - Because of the current number of FTEs allocated to the Tax and Audit program, the following responsibilities are in significant backlog: completion of 300 to 400 financial reviews of license renewal updates per year; financial review on 350 to 400 new and amended license applications per year; and follow-up financial review on 133 conditional licenses issued in the past four-and-a-half years.

3. **Service Reports** - Approximately 20,000 service reports are filed each year for such activities as meters that have been zeroed out, software upgrade or change, meters that don't match and scrambled electronic meters. Often, service reports are illegible or unreadable because the licensee, route operator, or service person has haphazardly completed the form. We have no way of knowing how many problems are not reported.

4. **Non-filers** - Approximately 160 to 240 locations fail to file quarterly reports each year. Correspondence is required to determine the problem and penalty assessment and correspondence follow-up is required on each per year. It commonly takes up to four letters--plus a penalty--to get offenders to respond and pay.

5. **Data input** - Inputting quarterly reporting information on each video gambling machine takes the two Compliance Specialists about two weeks per quarter or a total of eight weeks per year. This time is spent simply inputting the data from the written quarterly reports. This must be done before we can analyze the information or attempt to decipher or discern any problems with the numbers submitted. The Division receives and processes approximately 60,000 quarterly reports each year.

SENATE BUSINESS & INDUSTRY
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6. **Problem letters** - The Compliance Specialists identify filing and recordkeeping problems with quarterly reports and send out approximately 2,900 problem letters per year, representing 40% to 45% of locations licensed to operate video gambling machines. At present there are approximately 50 unresolved problems a year mainly due to licensees selling their establishments and leaving the industry. Problems arise when the internal machine accounting systems and audit tapes become garbled in the beginning or middle of the quarter and the operator fails to identify and correct the problem until notified by Compliance Specialists at the end of the quarter. Many of the machines allowed to run without corrections during this time simply cannot be audited for this period of time.

7. **Office Audits** - The current system's problems require 2,400 to 3,200 quarterly desk audits per year representing 16,000 to 23,000 of the 60,000 machine quarterly reports filed annually. When asked for tapes and service reports, licensees frequently send a whole tape roll and ask the Division to find the specific accounting ticket that was requested. In November 1994, for example, one licensee sent in a 12 cubic foot box which contained tape rolls from all their machines for the past year. Such activity requires more staff time to either return and delay the audit or attempt to search the material and put other tasks on hold until the requested information is located. All of this staff activity requires follow-up with the licensee. Consequently, substantial time lapses before the audits can begin and be completed.

TECHNICAL DATA:

Of the 14,598 machines currently licensed and operating in Montana, most though not all machines are capable of being upgraded to dial-up standards. 1,525 currently licensed video gambling machines are either too costly to upgrade or technically impossible to upgrade (See **Appendix D**).

The cost of the upgrade conversion is subject to some variation, depending on the manufacturer. In theory, video gambling machine manufacturers could charge whatever they wanted because they consider the hardware and software as proprietary. However, during staff site visits to the Province of Saskatchewan and South Dakota, we asked regulatory personnel the price paid for the same model of machines that are sold in Montana without the so-called proprietary dial-up hardware and software. **In both jurisdictions, the price was either the same or lower than that paid for the same machine in Montana.** So whatever price the manufacturers charge in Montana, the actual cost should not be significant.

The Gambling Control Division's testing lab estimates that the cost of modifications needed to upgrade a machine average approximately \$300 per machine. Representatives of one manufacturer estimate a cost of \$600 per machine and another representative estimates a cost of \$600 to \$700 per machine. We do know that almost all of the manufacturers licensed in Montana also sell machines in other jurisdictions where dial-up

ATE BUSINESS & INDUSTRY
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DON'T GAMBLE WITH THE FUTURE

P.O. Box 2301
Kalispell, Montana 59903-2301

Jan. 31, 1995

Good morning Mr. Chairman and Committee members

My name is Alan Raby from Kalispell and I'm here in support of Senate Bill 187 known as dial-up. I'm a small building contractor with an ever increasing awareness of the benefits of efficiency and accountability.

In any size business successful owners and managers recognize the benefits of increased efficiency; efficiency in producing a product, marketing a product and analyzing the cost/benefit ratio in accomplishing those tasks.

Relevant to this bill, the product for the gambling industry is accurate records. For the Gambling Control Division the product is accurate records. For the taxpayers, city and county governments ever more dependent on gambling tax revenues, the product is accurate records.

This dial-up bill, without a doubt, gives both machine owners and the taxpayers their money's worth.

The January '94 Legislative audit found that to provide the same level of accountability as Dial-up the Gambling Control Division would have to add 23 more employees. I look at that as 23 employees with health benefits, pension benefits, training, office space, transportation needs, and scheduling night ~~mores~~.



DON'T GAMBLE WITH THE FUTURE

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P.O. Box 2301
Kalispell, Montana 59903-2301

In a time when we expect, no demand on government to streamline and operate more efficiently an automated system such as the one proposed here today is the only way to go. With 15,000 machines across a state 600 miles east to west where is the sense in trying to provide accurate records any other way?

As businessmen and taxpayers we all demand accountability and Dial-up provides this in an infinitely more efficient manner than the current inadequate system.

I respectfully ask this committee to pass Senate Bill 187. Thank you,

Alan R. Ruby
320 Hilltop Ave.
Kalispell, Mt. 59901

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 11
DATE 1-31-95
NO. SB 187

TESTIMONY ON SENATE BILL 187

Montana Coin Machine Operators Association

Video Lottery Technologies, Inc

Before the Senate Business and Industry Committee, January 31, 1995

*presented by
Larry Akey*

Mr Chairman, members of the Committee, for the record my name is Larry Akey. I appear before you this morning on behalf of two principals.

I represent Video Lottery Technologies Inc, a manufacturer and distributor of gaming equipment and services world wide. We operate a major manufacturing facility in Bozeman, employing over 250 people with a payroll of over \$8,000,000. We also operate United Tote, the leader in the field of providing wagering equipment to the horse racing industry and headquartered in the Billings area. And we are the vendor for the State Lottery's on-line games.

Let me make it clear at the outset that VLT takes no position on SB187. We do support centralized accounting systems in other jurisdictions when they initially authorize video gaming. In fact, we have installed more central accounting systems for video games than any of our competitors. For example, the central accounting systems operated by the South Dakota Lottery, the Quebec Lottery and the Atlantic Lottery Corporation are all VLT systems. And we supply video gaming terminals in Louisiana, Oregon, Alberta and Saskatchewan, so we have extensive experience in this field. In all of these jurisdictions, the state or province included a central accounting system as a part of their initial decision to authorize video gaming.

We also know that no other jurisdiction has successfully converted an existing stand alone system to a central accounting system. I think it is worth remembering that this Legislature considered and rejected the inclusion of a central accounting system when Montana authorized video gaming a decade ago.

The proponents of SB187 point to South Carolina as another state attempting to convert existing stand alone video gaming to a central accounting system. The key word here is "attempting" -- in fact, the initial proposal for conversion would have resulted in such a shoddy system in South Carolina that our company and other major vendors elected not to bid. As a result, South Carolina had to go back to the drawing board and place their conversion plans on hold.

That is not say that conversion is impossible, only that it presents unique challenges, both to the regulators and to the industry. Again without taking a position for or against SB187, I do want to offer to the Legislature VLT's experience in addressing these challenges. If this Committee, or any other legislative body, wants more technical information to assist you in reaching your decision, we can provide that information for you -- and, although I can't speak on their behalf, I'm sure other manufacturers would also happily provide any technical assistance you may request.

I also represent the Montana Coin Machine Operators Association. In that capacity, I appear before you as a reluctant opponent to SB187.

The Coin Operators Association consists of a number of small businesses that lease video gaming equipment -- as well as other coin-operated entertainment equipment like juke boxes, pool tables, dart games and so forth -- to Montana locations. As the Department of Justice report points out, coin operators or route operators own roughly two-thirds of all the video gaming machines in the state. MCMOA members own the majority of those.

Why do I say we oppose SB187 only reluctantly? A year ago, when the Legislative Auditor first released the performance audit, we told the Audit Committee we would gladly work with the Department of Justice to develop a dial-up proposal to bring to this Legislature. Last summer, at our annual meeting we discussed our concerns with the Department staff and offered to work with them to develop a dial-up proposal to bring to this Legislature. In early October, we formally expressed our concerns to the Attorney General and offered to work with him to develop a dial-up proposal to bring to this Legislature.

Finally, in the last several weeks, the Attorney General and his staff have initiated a dialogue with the industry. Had we begun that dialogue a year ago, the Coin Machine Operators might very well have appeared before you as a proponent. We remain hopeful that, through continued dialogue, we might reach a point where SB187 can be sufficiently improved to warrant our support. Regardless of where we might eventually end up on this bill, however, we want to make it clear to you, members of the Committee, as well as to Senator Brown and the Attorney General, that our opposition here today does not in any way diminish our willingness to work with all of you in seeking an acceptable solution to our concerns.

But I must tell you quite frankly, Mr Chairman, that the exaggerated rhetoric of some of the proponents of this legislation only makes that compromise more difficult. Some of the proponents assert that you need to adopt this legislation in order to protect the integrity and security of the tax collection process. They insinuate you need this bill to halt wide spread cheating by the industry.

Let me underscore this next point as forcefully as I can: there is no one in this room more adamant about protecting the integrity and security of the tax collection process than the members of the Coin Operators Association. While we may grumble a bit when we write out our tax payments -- what other small business pays 15% of its gross income in taxes? -- we recognize paying the video gaming tax is just part of the bargaining.

If the Department has even a shred of evidence that any operator has intentionally underpaid the video gaming tax, they ought to throw the book at that operator. If my friends with Don't Gamble With the Future have even a scintilla of proof that any

operator has skimmed his machines, let them come forward.

Insinuation and innuendo doesn't cut it. If any person in this room has any evidence of cheating by any operator, let's go after them. We're with you 100%. But I'd be willing to wager, members of the Committee, no one comes forward with even a scrap of documentation to back up their claims.

That's because, Mr Chairman, as the Legislative Auditor has said repeatedly -- and let me also underscore this point -- they found absolutely no evidence of cheating, skimming or intentional underpayment. Not one shred, not one scrap, not one scintilla.

Here's one of the proponents' favorite statistics: the audit found that between 28% and 38% of gambling establishments paid an incorrect amount of taxes in the one fiscal quarter the auditors looked at. To which we say, "So what?" They have given you a fact, without telling you the truth. The establishment isn't the taxing unit. We pay taxes on machines, not on establishments.

When you look at the number of machines -- rather than establishments -- that paid an incorrect amount of tax, the number comes down 7.5% of the machines. Not as big a problem as when you use the proponents' statistics, but even saying 7.5% of the machines paid incorrectly overstates the problem.

That's because most of these inadvertent errors in payment are tiny. The auditors sampled 541 machines and found errors in payment for 41 of them. But 24 of those 41 were off by less than \$100. By the Department's own standards for materiality, only 17 out of 541 machines had material errors in taxes. And even that overstates the problem.

The audit report says that perhaps as much 2.5 % of the taxes paid in the quarter sampled might be erroneous. Less than one tenth the problem the proponents would have you believe, and even that overstates the problem.

That's because the audit report takes a \$100 underpayment and a \$100 overpayment, adds them together and says it represents a \$200 error. In fact, if you take a \$100 underpayment and a \$100 overpayment and add them together, from the state's perspective, you end up with a wash.

If you treat overpayments and underpayments as offsetting rather than additive, if you treat the sample as a single distribution rather than as two separate distributions to be added together, where do we end up?

In the one quarter the auditors sampled, the state came up about \$8,200 short of what it should have received in taxes. Out of nearly \$6.3 million owed it, the state came up \$8,200 short. Said another way, the state received 99.87% of the taxes it should have. That's better than Ivory soap -- remember 99.44% pure.

Does it really make sense to spend the millions of dollars state government will have to spend to implement the provisions of SB187 -- and the millions more the industry will have to spend to comply -- in order to collect a few thousand dollars more in taxes each quarter? I really do believe the proponents are selling you a bill of goods when they say you need to spend this money to protect the integrity of the tax collection process. If that is their only justification for this bill, they really don't have a case.

Now, I have to say the Legislative Auditor disagrees with my treatment of their data. I thought about bringing in all the charts and graphs -- putting on a mini-seminar in probability theory and Bayesian statistics -- and then I realized we haven't yet reached the point in the Session when members need to catch up on their sleep during committee meetings. So, I didn't. But let me just offer, Mr Chairman, to attend your executive session to discuss this issue with you in as much detail as you would like.

Let me make two more points quickly, Mr Chairman. First, here lately the Department has been trying to sell this idea to the people in the gaming business by telling us how much this central system will improve our productivity. In fact, a properly designed system could provide us with management information we currently have to obtain by hand. And it will simplify somewhat filing our quarterly tax reports.

But if the Department really believes the central system will provide this kind of added value to the industry, they ought to be willing to make connection to system voluntary. Call it the "Field of Dreams" theory of conversion to an automated accounting system -- "build it and they will come." In fact, I suggest the proponent's unwillingness to even consider a voluntary approach belies their claims that the industry has anything to gain by hooking up to central system.

I submit to you the only real rationale for SB187 is to improve the efficiency of the regulatory process. I don't say that in a pejorative sense. The Coin Operators fully support enhancing governmental efficiency. We have said that from the outset of this discussion. We only ask that you not do it wholly or largely on our nickel. If conversion to a central accounting system really will serve the public good, then the public ought to be willing to pay for it.

Which brings me finally to the issue of tax credits. Even the people who don't like the idea of tax credits are suggesting in the halls that the state and the industry ought to split the cost on a 50-50 basis. Others will address this issue in more depth, but let me just say that the current tax credit language in this bill -- and even dollars involved in the discussions about tax credits between industry representatives and the Attorney General over the weekend -- don't come close to paying for half of the costs of conversion.

For those reasons, Mr Chairman, the Montana Coin Machine Operators Association must reluctantly oppose SB187. We remain hopeful that this Committee can amend the legislation in ways acceptable to all the affected parties. But, in its current form, we must ask you to give this bill a "DO NOT PASS" recommendation.

"Governor Racicot said he believes using an automated monitoring system is inevitable. 'The problem at this point is that the legislature enabled people to be in operation without the system.' said Racicot. 'The industry actually offered in 1985 to put the dial-up system in place ... and the state declined.' In fairness, Racicot continued, the state should ensure that conversion to the automated system be 'cost-neutral' for the industry."

Governor Marc Racicot
MONTANA MAGAZINE
February, 1995

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 12
DATE 1-31-95
BILL NO. SB 187

presented by
Mark Staples, MT. Tavern Owners Assn.

MONTANA STYLE CASINO
Composite Profit and Loss Statement

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 13
DATE 1-31-95
BILL NO. SB 187
*presented by Don Jane
andrew zur Muehlen acct*

INCOME TAX RETURN DATA:	DOLLARS	%
-----	-----	-----
GROSS REVENUE	1,124,175	100.00%
COSTS OF GOODS SOLD	396,972	35.31%
-----	-----	-----
GROSS PROFIT BEFORE MACHINE TAX	727,202	64.69%
15% MACHINE TAX *	116,859	10.40%
-----	-----	-----
GROSS PROFIT AFTER MACHINE TAX	610,343	54.29%
-----	-----	-----
OFFICER/OWNER SALARIES **	22,036	1.96%
WAGES AND SALARIES	258,647	23.01%
REPAIRS	19,350	1.72%
BAD DEBTS	3,946	0.35%
RENTS	44,818	3.99%
OTHER TAXES	31,426	2.80%
INTEREST	20,579	1.83%
DEPRECIATION	27,190	2.42%
ADVERTISING	16,466	1.46%
PROFIT SHARING/EMPLOYEE BENEFITS	7,457	0.66%
INSURANCE	12,341	1.10%
SUPPLIES	14,324	1.27%
UTILITIES	21,671	1.93%
OTHER EXPENSES	47,570	4.23%
-----	-----	-----
TOTAL OPERATING EXPENSES	547,822	48.73%
-----	-----	-----
NET INCOME BEFORE INCOME TAXES	62,521	5.56%
=====	=====	=====

* This amount is an average from the entities federal income tax return. Quarterly machine tax returns to the State of Montana reflected \$119,223 of taxes on gross machine revenue of \$794,823. The small variance in the tax figure is due to differences in fiscal years.

** Represents the total average salaries of officers who spend an average of 78% of their time at the business and own 38% of the business. The remaining 62% of non-employee ownership interest receives a return out of the profit.

TESTIMONY IN OPPOSITION TO SB187

by Darrell Keck

Before Senate Business & Industry Committee

January 31, 1995

* * *

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 14
DATE 1-31-95
BILL NO. SB 187

My name is Darrell Keck. My wife and I are owners of the Dixie Inn, located in Shelby, and have been since machines were first legalized. We are in the supper club, lounge, AND casino business. I am the current president of the Montana Tavern Association, and serve as a member of the Gaming Advisory Council, appointed by the Attorney General.

I speak in total opposition to SB187, not only for myself, but for the hundreds of members of the Montana Tavern Association, whom I am privileged to represent. This bill would not only impose cost-prohibitive mandates upon each of us, it is a classic example of oppressive, discriminatory, and unjustified governmental interference in our segment of the small business community. This bill nourishes the very type of intrusive "Big Brother" bureaucracy that voters last November told their elected legislators they wanted eliminated.

There are a number of frightening aspects in SB187. Certainly, one is the potential for electronic raiding of bank accounts. What next? Will the state then want to hook up our tills?

Attorney General Mazurek has stated that the system "will provide the industry with accurate and quick records for their business purposes." Yet, Gambling Control has not offered to share ANY information, or this rationale, with the industry at any point, or at any time.

Operators will still need the ability to cross-check for their own security. It would be a poor business practice, indeed, to blindly assume that computer readings taken by...and interpreted by...ostensibly independent persons are infallible, particularly if the two sets of electronic meters on the machines are virtually rendered useless except in auditing under this bill. Machine tape auditing will still be required by the Department for on-site inspections to verify accuracy. So, what saving in time and money is there here for the operator? Rather, isn't this entire scheme, in reality, another ruse to draw attention away from the lack of efficiency that has followed Gambling Control for years?

Let's talk about REAL figures.

First, the Department estimates that there will be 1,500 existing machines which cannot be economically converted. The REAL figure is between 3,000 and 3,500.

Then, the Department has also grossly underestimated the cost of converting newer machines. There appears to be no disagreement that a new board is necessary. The current cost of a new board is \$800 and does not include the phone hook-up on the machine, the computer modum in each location, the phone line installation, nor the monthly phone line bill. The Department ignores this and pro-

poses instead, in SBl87, credits ranging from \$150 to a maximum of \$300.

It is inconceivable that the manufacturers will benevolently offer the industry a 65% discount, just because the state mandates the changes called for under this scheme.

Let's look at some public assertions made by Attorney General Mazurek. In justifying his flat statement that "the industry can afford it," he is quoted in the February 1995 issue of Montana Magazine as follows:

"After subtracting paid-outs, 62 machines in 1992 took in more than \$75,000 each, and the top four machines that year brought in more than \$100,000 each."

We would like to remind Mr. Mazurek that there are over 16,000 machines in Montana, most of them in the hands of small operators, and his statement therefore is unfairly based on profitability of less than 1/2 of 1% of all machines.

In this same issue of Montana Magazine, Governor Racicot is quoted as saying:

"In fairness, the State should insure that conversion to the automated system should be cost neutral for the industry." [Emphasis supplied.]

Let me, then, discuss the costs. At the beginning, Gambling Control Division said the maximum cost per machine would be \$300. This has changed several times. Which figures are we to believe? The latest estimate is:

	<u>Low</u>	<u>High</u>
Start-up (upgrade).....	350.00	700.00
Modum.....	277.00	1,557.00
Annual Phone Line.....	312.00	
Inside wire (1st 1/2 hr + \$16.40/hr. thereafter).....	61.40	
Installation.....	39.00	61.00

I would offer the following comments with respect to the Montana Video Gambling Dial-Up Issue Study Group Report, compiled by Wilbur W. Rehmann:

- (1) he contradicts himself on cost, first showing the above formula, and on the following page showing a different, lower cost figure to the operator;
- (2) cost is based on average machine income; 84% of machines are under average;
- (3) industry input was neither requested nor permitted in its preparation;
- (4) the only incorrect EPROMS found were those previously approved by the Department;
- (5) as of 1/4/95, there were 1,601 gaming establishments in Montana;

- (6) if the Attorney General wishes to create a Dial-Up Working Group, what is the matter with utilizing the Gaming Advisory Council?;
- (7) even if the coin machine operators own 65% of the machines, someone has to pay these costs; they will simply pass them on to the licensee.

The cost to operators for this scheme has been misrepresented by the Department. For my establishment alone, I would offer the following:

EXHIBIT 14
DATE 1-31-95
SB 187

- (1) I have 20 machines:

- .. One Joker 80 Poker
- .. Four Electroport Montana Pokers
- .. One B.T.E. Fortune and Favor Poker
- .. Two B.T.E. Super Progressed Nickel Kenos
- .. Three IGT Nickel Progressive Kenos
- .. Nine VLT Multi-Game Poker/Keno

- (2) The first five listed would not be able to be converted; the three B.T.E. machines are questionable, since B.T.E. is not currently manufacturing. The remaining 12 machines would all need to be updated.
- (3) The three-year grandfather clause is ridiculous since I would be required to replace machines that have given good years of service, and are still operating well.

The bottom line cost for my location, as I have been informed by reliable experts, would be as follows. I believe this to be a conservative estimate.

5 new machines @ \$7,000/ea.	\$ 35,000.00
3 machines @ \$800/ea.	2,400.00
12 machines @ \$800/ea.	9,600.00
Computer Modum (*)	(unknown)
Installation of Phone Line (*)	(unknown)
Monthly phone line cost (*)	(unknown)
(*) Estimate yearly, 1st yr.	900.00

Total educated estimate:

1st year	\$ 12,900.00
Within 3 years	<u>35,000.00</u>
Total.....	\$ 47,900.00

The oldest equipment is in the smallest, mostly rural taverns; thus, the greatest burden will be put on them if this bill passes. None of us can afford what SB187 will cost us, least of all them.

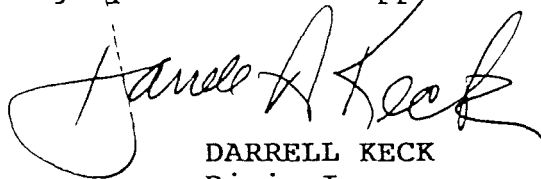
Gambling Control proclaims they have vastly improved their operation since the Legislative Audit. They say they're now able to inspect every machine once in 7 years, instead of once in 65 years... and all of this has been accomplished in less than a year's time. We suggest that they continue to concentrate on improving their own efficiency, instead of seeking punitive remedies from this Montana

small business industry to cover their shortcomings.

This Legislature has received considerable praise from the media these past weeks for its fairness doctrine...the income tax refund; no unfunded mandates to cities, towns, and counties; the efforts to downsize government.

I ask you to extend the same principles of fairness to small business in Montana. Do not impose unfunded mandates on one targeted segment of the small business community. Do not nurture the enlargement, rather than seek reduction, of government by the perpetuation of the "Big Brother" philosophy, which clearly met with resounding rejection by the voters last November.

I respectfully urge your vote in opposition to SB187.

A handwritten signature in black ink, appearing to read "Darrell A. Keck". The signature is fluid and cursive, with a large loop at the beginning and a long, sweeping tail that extends to the right.

DARRELL KECK
Dixie Inn
P. O. Box 192
Shelby, MT 59474
Ph: (406) 434-5817

DATE

January 31, 1995

SENATE COMMITTEE ON

Business & Industry

BILLS BEING HEARD TODAY:

SB 187

Senator

Bob Brown

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PLEASE PRINT

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Check One

Name	Representing	Bill No.	Support	Oppose
CHRIS WARREN	CAPITAL MUSIC INC			
ART STELLING	JEFFERS BAR HELENA	187		X
HARLEY WARNER	MONT. REL. LEC. COALITION	187	X	
DON E. FELSTET	FOUR ACES BAR CORP	187		X
SHANNON ANDERSON	FOUR ACES BAR CORP	187		X
CHESTON H BULLOCK	SILVER SADDLE BAR	187		X
ROSEHEE BULLOCK	SILVER SADDLE BAR	187		X
DICK BERG	FLEETWOOD	187		X
BILL MACINTYRE	PUGHMANS BLGS	187		X
HOWARD McEACHRON	HERE	187	X	
Alec Hansen	MUCT	187	X	
JIM GRUBBS	MAIN ST CASINO	187		X
DON LAINE	GAMING INDUSTRY ASSOC.	187	X	
John W. Hooper	Kide-A-Way Bldg	187		X

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

DATE

January 31, 1995

SENATE COMMITTEE ON

Business and Industry

BILLS BEING HEARD TODAY:

Senate Bill 187

Senator Bob Brown

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Check One

Name	Representing	Bill No.	Support	Oppose
Shen Engstent	Don't Gamble w/ the Future	187	X	
GEORGE OCHENSKI	HOTEL EMPL. RES. EMP	187	X ^{Amend}	
Chuck Anderson	Gold Nugget Kalispell	187		X
Randy Reper	" " Bldgs	187		X
Greg Strow	" " Grand Bldg	187		X
Tom Heisler	Bingo Bonanza ^{GREAT FALLS}	187		X
G.L. ANDERSON	FLYHEAD CITY TAVERN ASSN	187		X
Rich E Miller	Best Bet Casino	187		X
Colleen Mackay	Best Bet Casino	187		X
Kent Fixxington	CAN CASINO	187		X
Laurie Koutnik	Christian Coalition of MT	187		
Dois Day	Redhocke lounge	187		X
SARAH HEROLD	CAPITAL CITY BOWL	187		X
Bill Vassil	Kalispell Bar & Casino	187		X

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 SENATE COMMITTEE ON Business & Industry
 BILLS BEING HEARD TODAY: SB 187
Senator Bob Brown

Name Representing Bill No. Check One
 Support Oppose

Scott Shull	Diamond Jack's	187		X
Joe McKenney	North Central Gaming	187		X
Paul S. Gies	Native Sun Amusement	187		X
David Hemman	Mc Assoc. of Churches	187	✓	
Bill Muller	IGT-MT			
Terry Gerson	IGT-MT			
DARRELL A KECK	M.T.A.	187		X
MIKE CETRARO	PLACU-	187		X
Diane Jewel Kettig	Montana Bar			
John Carroll	Phillips - Holdings Inc	187		✓
Doug Hetchings	Superior / Mt Bar	187		✓
Dale F McMEERIN	CWU	187	✓	
Chris McMeekin	CWU	187	✓	
John McMeekin	LPD - 37			✓
MARIE HANSEN	MTA	187		✓
Sandy Keith	MTA	187		✓

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DATE January 31, 1995
 SENATE COMMITTEE ON Business and Industry
 BILLS BEING HEARD TODAY: Senate Bill 187
Senator Bob Brown

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Check One

Name	Representing	Bill No.	Support	Oppose
PHIL KISER	PARADISE Amusement	187		X
DENNIS CASEY	GIA	187		X
Alan H. Ruby	Don't Gamble With the Future	187	✓	
Jean Agather		187	✓	
Gini Oyle		187	✓	
Helen Dawson	Church Women United Don't Gamble w -	187	X	X
Bruce Townsend	MTA	187		X
Jean Townsend	MTA	187		X
Janet Pulley	self	187	X	X
James Johnson	MTA	187		X
Don Lytle	MTA	187		X
Debra Saatzer	Ten Pin Alley	187		X
Ted Day	Red Lodge Lounge	187		X
Russ DeVries	Oxford Bar House	187		

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BILLS BEING HEARD TODAY:

Name

Representing

Bill
No.

Check One

Support Oppose

[illegible]

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 SENATE COMMITTEE ON Business & Industry
 BILLS BEING HEARD TODAY: SB 187
Senator Bob Brown

Name Representing Bill No. Check One
 Support Oppose

SHARYN KLOCK	HARLOWTON MT STOCKMEN BAR	187		X
Harry Klock	Stockmen Bar Harlowton	187		X

VISITOR REGISTER

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