

SENATE  
BILL NO. 187

INTRODUCED BY *Bob Brown, Rick Debraun, Guerin, Mackay, Hays*

*Jeff* BY REQUEST OF THE GOVERNOR AND THE DEPARTMENT OF JUSTICE  
*Swanson, Nitch, Wiseman, Eick* *Waters*  
*Cobb*

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 THE REQUIREMENT THAT MACHINE SPECIFICATIONS MUST BE SUBSTANTIALLY THE SAME AS THE SPECIFICATIONS REQUIRED ON SEPTEMBER 30, 1989; PROVIDING A TAX CREDIT; AMENDING SECTIONS 23-5-610 AND 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 that 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.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

**NEW SECTION. Section 1. Automated accounting and reporting system.** For the purposes 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 23-5-610, MCA, is amended to read:

"23-5-610. Video gambling machine gross income tax -- records -- distribution -- quarterly

1 **statement and payment -- credit.** (1) A licensed operator issued a permit under this part shall pay to the  
2 department a video gambling machine tax of 15% of the gross income from each video gambling machine  
3 licensed under this part. A licensed operator may deduct from the gross income amounts equal to amounts  
4 stolen from machines if the amounts stolen are not repaid by insurance or under a court order, if a law  
5 enforcement agency investigated the theft, and if the theft is the result of either unauthorized entry and  
6 physical removal of the money from the machines or of machine tampering and the amounts stolen are  
7 documented.

8 (2) (a) A licensed operator is entitled to a tax credit for each video gambling machine for which a  
9 permit has been issued under this part if:

10 (i) the permit was issued for the machine on or before July 1, 1994, and the machine was in play  
11 for at least 180 continuous days prior to that date;

12 (ii) the department has given notice to the licensed operator that video gambling machines for which  
13 a permit has been issued must be upgraded to be made capable of communicating with an automated  
14 accounting and reporting system established under [section 1];

15 (iii) the machine is incapable of communicating with the automated accounting and reporting system  
16 operated by the department; and

17 (iv) the licensed operator incurs actual costs for conversion of the machine to make it compatible  
18 with the automated accounting and reporting system operated by the department.

19 (b) The amount of the tax credit allowed for each machine under subsection (2)(a) is:

20 (i) \$300 for video gambling machines with an income for the 12-month period ending June 30,  
21 1994, that was under \$10,000;

22 (ii) \$225 for video gambling machines with an income for the 12-month period ending June 30,  
23 1994, that was \$10,000 to \$19,999; and

24 (iii) \$150 for video gambling machines with an income for the 12-month period ending June 30,  
25 1994, that was \$20,000 or more.

26 (c) A licensed operator with a video gambling machine that is incapable of being made compatible  
27 with an automated accounting and reporting system operated by the department is entitled to a tax credit  
28 of up to \$300 toward the cost of a new video gambling machine if the incompatible machine is replaced  
29 with a compatible machine and a new permit is not requested or issued for the incompatible machine.

30 (d) If a tax credit is claimed under subsection (2)(a) or (2)(c), one-half of the allowable credit is to

1 be deducted from that portion of the licensed operator's tax liability for the taxable year in which the  
 2 conversion or replacement costs were incurred and the other half is to be deducted from the tax liability  
 3 for the following taxable year. If the amount of the tax credit exceeds the licensed operator's tax liability  
 4 for the taxable year, the amount that exceeds the liability may be carried over for credit against the  
 5 operator's tax liability in the next succeeding taxable year or years until the total allowable amount of the  
 6 tax credit has been deducted from tax liability. However, a credit may not be carried over beyond the third  
 7 taxable year succeeding the taxable year in which the conversion or replacement costs were incurred.

8 (e) A tax credit allowed under this section may not be transferred to any other licensed operator  
 9 or machine owner or to any other video gambling machine.

10 ~~(2)~~(3) A licensed operator issued a permit under this part shall keep a record of the gross income  
 11 from each machine in the form the department may require. The records must at all times during the  
 12 business hours of the licensee be subject to inspection by the department.

13 ~~(3)~~(4) A licensed operator issued a permit under this part shall, within 15 days after the end of each  
 14 quarter, complete and deliver to the department a statement showing the total gross income from each  
 15 video gambling machine licensed to the operator, together with the total amount due the state as video  
 16 gambling machine gross income tax for the preceding quarter. The statement must contain other relevant  
 17 information as the department may require.

18 ~~(4)~~(5) (a) The department shall, in accordance with the provisions of 15-1-501(6), forward one-third  
 19 of the tax collected under subsection ~~(3)~~ (4) to the general fund.

20 (b) The department shall, in accordance with the provisions of 15-1-501(6), forward the remaining  
 21 two-thirds of the tax collected under subsection ~~(3)~~ (4) to the treasurer of the county or the clerk, finance  
 22 officer, or treasurer of the city or town in which the licensed machine is located, for deposit to the county  
 23 or municipal treasury. Counties are not entitled to proceeds from taxes on income from video gambling  
 24 machines located in incorporated cities and towns. The two-thirds local government portion of tax  
 25 collected under subsection ~~(3)~~ (4) is statutorily appropriated to the department as provided in 17-7-502 for  
 26 deposit to the county or municipal treasury."

27  
 28 **Section 3.** Section 23-5-621, MCA, is amended to read:

29 "23-5-621. **Video gambling machine specifications -- rules.** (1) The department shall adopt rules  
 30 that implement [section 1], describing describe the video gambling machines authorized by this part, and

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

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

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

8 (b) ensure the security and integrity of the automated accounting and reporting system and of the  
 9 video gambling machines connected to the system;

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

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

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

16  
 17 NEW SECTION. Section 4. Coordination instruction. [This act] is void if House Bill No. 2 is not  
 18 passed and approved with a line item appropriation to implement [section 1] or no other bill is passed and  
 19 approved with a specific appropriation to implement [section 1].

20  
 21 NEW SECTION. Section 5. Codification instruction. [Section 1] is intended to be codified as an  
 22 integral part of Title 23, chapter 5, part 6, and the provisions of Title 23, chapter 5, apply to [section 1].

23  
 24 NEW SECTION. Section 6. Effective date. [This act] is effective on passage and approval.

25 -END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for SB0187, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:

An act authorizing the Department of Justice to operate and maintain an automated accounting and reporting system for video gambling machines (VGMs).

ASSUMPTIONS:

1. Study and implementation on a dial-up system will begin July 1, 1995, with the first VGMs placed on the system on July 1, 1997. By January 1, 1998, all VGM revenue will be reported electronically.
2. For consistency in calculations for FY97 and beyond, there are estimated to be 15,000 VGMs and 1,700 gambling establishments in Montana. Although state general fund and local gambling tax revenues will most likely increase as a result of anticipated industry growth, such growth is not the result of this bill and is not considered in this fiscal note.
3. The Legislative Auditor estimated that 21 additional revenue agents could perform 12 audits per year, or 252 more total audits annually, recovering approximately \$4,100 per audit, or \$1,033,000 additional annual gambling tax revenue. On the other hand, the dial-up system would perform 100% audits every year on 1,700 establishments. But, the average return per audit is assumed to be approximately half (\$2,050) since small establishments would be audited along with the large. Thus, the dial-up system would produce an estimated \$3,485,000 (1,700 X \$2,050) additional gambling tax revenue per year, which would be split one-third to the state general fund and two-thirds to the county/city general funds. Because the system is being implemented during the first six months of FY98, it is projected that 75% of this revenue will be collected in FY98.
4. The tax credit offered in the bill will have a total impact of reducing gambling tax revenue by approximately \$3.5 million. One-half of the credit will be applied to gambling tax returns by VGMs owners in FY98, and the remaining one-half in FY99.
5. Two FTEs (grade 16) will be needed in the 1999 biennium at a cost of \$99,000 in FY98 and \$84,000 in FY99.
6. Estimated FY96 expenditures of \$50,000 are for study, initial implementation and site preparation.
7. The FY97 estimated expenditures are \$900,000. This is primarily for the purchase of central computer hardware and software to operate the system.
8. The estimated fund balance of the gambling state special revenue account at July 1, 1995, plus the estimated increase in machine fee revenues from anticipated growth, will be sufficient to fund the Department of Justice operating costs of this bill.

(Continued)

Dave Lewis 1-25-95  
DAVE LEWIS, BUDGET DIRECTOR      DATE  
Office of Budget and Program Planning

Bob Brown  
BOB BROWN, PRIMARY SPONSOR      DATE

Fiscal Note for SB0187, as introduced

**SB187**

(Continued)

FISCAL IMPACT:STATE GOVERNMENT IMPACT:Expenditures:

Department of Justice Gambling Control Division:	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>
FTE	-	-	2.00	2.00
Personal services	0	0	84,000	84,000
Operating expense	50,000	0	194,000	194,000
Equipment		<u>900,000</u>	<u>0</u>	<u>0</u>
Total	50,000	900,000	278,000	278,000

Funding (expenditures):

Gambling SSR (02)	50,000	900,000	278,000	278,000
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Revenues:

Gambling tax (01)	-	-	871,000	1,162,000
Gambling tax credit (01)	-	-	<u>(583,000)</u>	<u>(583,000)</u>
Net General Fund impact	-	-	288,000	579,000

FISCAL IMPACT - LOCAL GOVERNMENT:Revenue:

Gambling tax	0	0	1,742,000	2,323,000
Gambling tax credit	<u>0</u>	<u>0</u>	<u>(1,167,000)</u>	<u>(1,167,000)</u>
Total	0	0	575,000	1,156,000

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Two-thirds of the gambling tax revenue is distributed to cities and counties on a quarterly basis by the Department of Justice. The allocation is made based upon the tax revenue in the particular location. See the above table for total local government fiscal impact.

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

By FY2000, the tax credit would all be claimed and the estimated net effect would be increases in general funds of: state - \$1,162,000, and counties/cities - \$2,320,000. This effect should maintain itself into the future.

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for SB0187, amended by committee

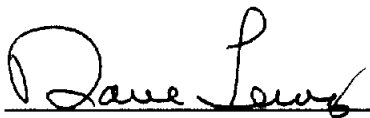
DESCRIPTION OF PROPOSED LEGISLATION:

An act authorizing the Department of Justice to operate and maintain an automated accounting and reporting system for video gambling machines (VGMs).

ASSUMPTIONS:

1. Study and implementation on a dial-up system will begin July 1, 1995, with the first VGMs placed on the system on July 1, 1997. By January 1, 1998, all VGM revenue will be reported electronically.
2. For consistency in calculations for FY97 and beyond, there are estimated to be 15,000 VGMs and 1,700 gambling establishments in Montana. Although state general fund and local gambling tax revenues will most likely increase as a result of anticipated industry growth, such growth is not the result of this bill and is not considered in this fiscal note.
3. The Legislative Auditor estimated that 21 additional revenue agents could perform 12 audits per year, or 252 more total audits annually, recovering approximately \$4,100 per audit, or \$1,033,000 additional annual gambling tax revenue. On the other hand, the dial-up system would perform 100% audits every year on 1,700 establishments. But, the average return per audit is assumed to be approximately half (\$2,050) since small establishments would be audited along with the large. Thus, the dial-up system would produce an estimated \$3,485,000 (1,700 X \$2,050) additional gambling tax revenue per year, which would be split one-third to the state general fund and two-thirds to the county/city general funds. Because the system is being implemented during the first six months of FY98, it is projected that 75% of this revenue will be collected in FY98.
4. The tax credit offered in the bill will have a total impact of reducing gambling tax revenue by approximately \$9.0 million (15,000 VGMs x \$600), and will be an offset to tax revenue, one-third (\$3,000,000) general fund, two-thirds (\$6,000,000) local government. The credit will be recognized over a 3 year calendar period (4 fiscal years), with 1/12 of the total credit taken every quarter, starting with the quarter ending March 31, 1998.
5. The 1,500 "grandfathered" VGMs will be totally replaced, and the tax credit taken by June 30, 2001.
6. Two FTEs (grade 16) will be needed in the 1999 biennium and beyond, at a cost of \$84,000 per year. Operating costs of \$194,000 per year is primarily for additional hardware and software maintenance, and installation and maintenance of phone lines.
7. Estimated FY96 expenditures of \$50,000 are for study, initial implementation and site preparation.
8. The FY97 estimated expenditures of \$900,000, is primarily for the purchase of central computer hardware and software to operate the system.
9. The estimated fund balance of the gambling state special revenue account at July 1, 1995, plus the estimated increase in machine fee revenues from anticipated growth, will be sufficient to fund the Department of Justice operating costs of this bill.

(Continued)

 2-16-95

DAVE LEWIS, BUDGET DIRECTOR      DATE  
Office of Budget and Program Planning

 2-16-95

BOB BROWN, PRIMARY SPONSOR      DATE

Fiscal Note for SB0187, amended by committee

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(Continued)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Two-thirds of the gambling tax revenue is distributed to cities and counties on a quarterly basis by the Department of Justice. The allocation is made based upon the tax revenue in the particular location. See the table on the following page for total local government fiscal impact.

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

By FY2002, the tax credit will all be claimed and the estimated net effect would be increases in general funds of: state - \$1,162,000, and counties/cities - \$2,323,000. This effect should maintain itself into the future.



(continued)

**FISCAL IMPACT:**

**STATE GOVERNMENT IMPACT:**

<u>Expenditures:</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>
<b>DOJ – Gambling Control Div.:</b>							
FTE	0.00	0.00	2.00	2.00	2.00	2.00	2.00
Personal services	0	0	84,000	84,000	84,000	84,000	84,000
Operating expenses	50,000	0	194,000	194,000	194,000	194,000	194,000
Equipment	0	900,000	0	0	0	0	0
<b>Total</b>	<b><u>50,000</u></b>	<b><u>900,000</u></b>	<b><u>278,000</u></b>	<b><u>278,000</u></b>	<b><u>278,000</u></b>	<b><u>278,000</u></b>	<b><u>278,000</u></b>
<b>Funding (expenditures):</b>							
Gambling SSR (02)	<u>50,000</u>	<u>900,000</u>	<u>278,000</u>	<u>278,000</u>	<u>278,000</u>	<u>278,000</u>	<u>278,000</u>
<b>Revenues:</b>							
<b>General fund:</b>							
Gambling tax (01)	0	0	871,000	1,162,000	1,162,000	1,162,000	1,162,000
Gambling tax credit (01)	<u>0</u>	<u>0</u>	<u>(500,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(500,000)</u>	<u>0</u>
<b>Net general fund impact</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>371,000</u></b>	<b><u>162,000</u></b>	<b><u>162,000</u></b>	<b><u>662,000</u></b>	<b><u>1,162,000</u></b>

**FISCAL IMPACT – LOCAL GOV'T:**

**Revenue:**

Gambling tax	0	0	1,742,000	2,323,000	2,323,000	2,323,000	2,323,000
Gambling tax credit	0	0	(1,000,000)	(2,000,000)	(2,000,000)	(1,000,000)	0
<b>Total</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>742,000</u></b>	<b><u>323,000</u></b>	<b><u>323,000</u></b>	<b><u>1,323,000</u></b>	<b><u>2,323,000</u></b>

## 1 SENATE BILL NO. 187

2 INTRODUCED BY BROWN, PECK, R. JOHNSON, EWER, HARPER, CRIPPEN, MCKEE, SOFT,

3 SWANSON, HERTEL, WISEMAN, ECK, WATERMAN, COBB

4 BY REQUEST OF THE GOVERNOR AND THE DEPARTMENT OF JUSTICE

5  
6 A BILL FOR AN ACT ENTITLED: "AN ACT AUTHORIZING THE DEPARTMENT OF JUSTICE TO OPERATE  
7 AND MAINTAIN AN AUTOMATED ACCOUNTING AND REPORTING SYSTEM FOR VIDEO GAMBLING  
8 MACHINES; ABOLISHING THE REQUIREMENT THAT MACHINE SPECIFICATIONS MUST BE  
9 SUBSTANTIALLY THE SAME AS THE SPECIFICATIONS REQUIRED ON SEPTEMBER 30, 1989; ASSIGNING  
10 RESPONSIBILITY FOR PAYMENT OF VIDEO GAMBLING MACHINE TAXES TO THE OWNER OF THE  
11 MACHINE; PROVIDING A TAX CREDIT TO THE MACHINE OWNER; AMENDING SECTIONS 23-5-116,  
12 23-5-602, 23-5-610, AND 23-5-621, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE DATES."

## 14 STATEMENT OF INTENT

15 A statement of intent is required for this bill in order to provide guidelines for the adoption of rules  
16 by the department of justice to implement the automated accounting and reporting system provided for in  
17 [section 1]. The department's rules for an automated system should provide for simplified exchange of  
18 video gambling machine revenue information that the department is entitled by law to receive. THE RULES  
19 SHOULD PROVIDE THAT MANAGEMENT INFORMATION MAY BE AN OPTION FOR MACHINE OWNERS.  
20 The rules should provide for inspection of machine components and require, except when there is imminent  
21 peril to the integrity of the system or when necessary to prevent or detect criminal activity, prior notification  
22 to a licensee before a machine is disabled for malfunctions or violations detected by use of the automated  
23 accounting and reporting system. THE RULES SHOULD PROVIDE THAT FUNDS MAY NOT BE  
24 TRANSFERRED ELECTRONICALLY WITHOUT THE CONSENT OF THE LICENSED OPERATOR.

25  
26 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

27  
28 NEW SECTION. Section 1. Automated accounting and reporting system. For the purposes of  
29 performing its duties under this chapter, simplifying the reporting of video gambling machine revenue data,  
30 and preserving the integrity of video gambling machines within its jurisdiction, the department may operate

1 and maintain an automated accounting and reporting system for video gambling machines.

2  
3 **SECTION 2. SECTION 23-5-116, MCA, IS AMENDED TO READ:**

4 **"23-5-116. Disclosure of information.** (1) The department shall, upon request, disclose the  
5 following information from a license or permit application:

- 6 (a) the applicant's name;  
7 (b) the address of the business where the activity under the license or permit is to be conducted;  
8 (c) the name of each person having an ownership interest in the business; and  
9 (d) types of permits requested by the applicant.

10 (2) In addition to the information enumerated in subsection (1), the department may disclose any  
11 other relevant information obtained in the application or tax reporting process or as a result of other  
12 department operations to:

- 13 (a) a federal, state, city, county, or tribal criminal justice agency; and  
14 (b) the department of revenue and the federal internal revenue service.

15 **(3) In the event of delinquency or at the request of a video gambling machine permitholder, the**  
16 **department shall inform the permitholder of the status of a route operator's tax payments for a machine**  
17 **located at the permitholder's place of business."**

18  
19 **SECTION 3. SECTION 23-5-602, MCA, IS AMENDED TO READ:**

20 **"23-5-602. Definitions.** As used in this part, the following definitions apply:

21 (1) "Associated equipment" means all proprietary devices, machines, or parts used in the  
22 manufacture or maintenance of a video gambling machine, including but not limited to integrated circuit  
23 chips, printed wired assembly, printed wired boards, printing mechanisms, video display monitors, metering  
24 devices, and cabinetry.

25 (2) "Bingo machine" means an electronic video gambling machine that, upon insertion of cash, is  
26 available to play bingo as defined by rules of the department. The machine utilizes a video display and  
27 microprocessors in which, by the skill of the player, by chance, or both, the player may receive free games  
28 or credits that may be redeemed for cash. The term does not include a slot machine or a machine that  
29 directly dispenses coins, cash, tokens, or anything else of value.

30 (3) "Draw poker machine" means an electronic video gambling machine that, upon insertion of

1 cash, is available to play or simulate the play of the game of draw poker as defined by rules of the  
 2 department. The machine utilizes a video display and microprocessors in which, by the skill of the player,  
 3 by chance, or both, the player may receive free games or credits that may be redeemed for cash. The term  
 4 does not include a slot machine or a machine that directly dispenses coins, cash, tokens, or anything else  
 5 of value.

6 (4) "Gross income" means money put into a video gambling machine minus credits paid out in  
 7 cash.

8 (5) "Keno machine" means an electronic video gambling machine that, upon insertion of cash, is  
 9 available to play keno as defined by rules of the department. The machine utilizes a video display and  
 10 microprocessors in which, by the skill of the player, by chance, or both, the player may receive free games  
 11 or credits that may be redeemed for cash. The term does not include a slot machine or a machine that  
 12 directly dispenses coins, cash, tokens, or anything else of value.

13 (6) "Licensed machine owner" means a licensed operator or route operator who owns a video  
 14 gambling machine for which a permit has been issued by the department."

15

16 **Section 4.** Section 23-5-610, MCA, is amended to read:

17 **"23-5-610. Video gambling machine gross income tax -- records -- distribution -- quarterly**  
 18 **statement and payment -- credit.** (1) A licensed ~~operator issued a permit under this part~~ MACHINE OWNER  
 19 shall pay to the department a video gambling machine tax of 15% of the gross income from each video  
 20 gambling machine ~~licensed~~ ISSUED A PERMIT under this part. A licensed ~~operator~~ MACHINE OWNER may  
 21 deduct from the gross income amounts equal to amounts stolen from machines if the amounts stolen are  
 22 not repaid by insurance or under a court order, if a law enforcement agency investigated the theft, and if  
 23 the theft is the result of either unauthorized entry and physical removal of the money from the machines  
 24 or of machine tampering and the amounts stolen are documented.

25 (2) (a) A licensed ~~operator~~ MACHINE OWNER is entitled to a tax credit for each video gambling  
 26 machine for which a permit has been issued under this part if:

27 (i) the permit was ~~issued~~ ACTIVE for the machine on ~~or before July 1, 1994, and the machine was~~  
 28 in play for at least 180 continuous days prior to that date JANUARY 4, 1995;

29 (ii) the department has given notice to the licensed operator that video gambling machines for which  
 30 a permit has been issued must be upgraded to be made capable of communicating with an automated

1 accounting and reporting system established under [section 1];

2 (iii) THE DEPARTMENT DETERMINES THAT the machine is incapable of communicating with the  
3 automated accounting and reporting system operated by the department; and

4 (iv) the licensed operator incurs actual HARDWARE OR SOFTWARE costs for conversion of the  
5 machine to make it compatible with the automated accounting and reporting system operated by the  
6 department.

7 (b) The amount of the tax credit allowed for each machine under subsection (2)(a) is:

8 (i) ~~\$300~~ \$600 for EACH video gambling machines with an income for the 12-month period ending  
9 June 30, 1994, that was under \$10,000;

10 (ii) ~~\$225~~ for video gambling machines with an income for the 12-month period ending June 30,  
11 1994, that was \$10,000 to ~~\$19,999~~; and

12 (iii) ~~\$150~~ for video gambling machines with an income for the 12-month period ending June 30,  
13 1994, that was ~~\$20,000~~ or more MACHINE OR THE ACTUAL HARDWARE AND SOFTWARE COST,  
14 WHICHEVER IS LESS.

15 (C) AFTER JANUARY 4, 1995, BUT PRIOR TO THE DATE NOTICE IS GIVEN UNDER SUBSECTION  
16 (2)(A)(II), A LICENSED MACHINE OWNER MAY OBTAIN TAX CREDITS FOR REPLACEMENT MACHINES  
17 IN THE AMOUNT ALLOWED UNDER SUBSECTION (2)(B) BY NOTIFYING THE DEPARTMENT THAT  
18 SPECIFIED MACHINES ARE TO BE REMOVED FROM ELIGIBILITY FOR TAX CREDITS AND BY  
19 TRANSFERRING ELIGIBILITY TO THE SAME NUMBER OF REPLACEMENT MACHINES. ADDITIONAL TAX  
20 CREDITS ARE NOT CREATED BY THIS SUBSECTION (2)(C).

21 (e)(D) A licensed ~~operator~~ MACHINE OWNER with a video gambling machine that THE  
22 DEPARTMENT DETERMINES is incapable of being made compatible with an automated accounting and  
23 reporting system operated by the department is entitled to a tax credit of up to ~~\$300~~ \$600 toward the cost  
24 of a new REPLACEMENT video gambling machine if the incompatible machine is replaced with a compatible  
25 machine and a new permit is not requested or issued for the incompatible machine.

26 (e)(E) If a tax credit is claimed under subsection (2)(a) or ~~(2)(e)~~ (2)(D), one half of the allowable  
27 credit is to be deducted from that portion of the licensed operator's tax liability for the taxable year in which  
28 the conversion or replacement costs were incurred and the other half is to be deducted from the tax liability  
29 for the following taxable year THE CREDIT IS APPLIED IN EQUAL AMOUNTS OVER 12 QUARTERS,  
30 BEGINNING THE QUARTER AFTER CONVERSION TO THE AUTOMATED ACCOUNTING AND REPORTING

1 SYSTEM. If the amount of the tax credit exceeds the licensed operator's tax liability for the taxable year,  
 2 the amount that exceeds the liability may be carried over for credit against the operator's tax liability in the  
 3 next succeeding taxable year or years until the total allowable amount of the tax credit has been deducted  
 4 from tax liability. However, a credit may not be carried over beyond the ~~third~~ FOURTH taxable year  
 5 succeeding the taxable year in which the conversion or replacement costs were incurred.

6 ~~(e)(F)~~ A tax credit allowed under this section may not be transferred to any other licensed operator  
 7 or machine owner or to any other video gambling machine PRIOR TO THE TIME THE MACHINE FOR WHICH  
 8 THE TAX CREDIT IS ALLOWED IS CONNECTED TO THE AUTOMATED ACCOUNTING AND REPORTING  
 9 SYSTEM.

10 ~~(2)(3)~~ A licensed operator issued a permit under this part MACHINE OWNER shall keep a record  
 11 of the gross income from each machine ISSUED A PERMIT UNDER THIS PART in the form the department  
 12 may require. The records must at all times during the business hours of the licensee be subject to  
 13 inspection by the department.

14 ~~(3)(4)~~ A licensed operator issued a permit under this part MACHINE OWNER shall, within 15 days  
 15 after the end of each quarter, complete and deliver to the department a statement showing the total gross  
 16 income from each video gambling machine licensed to the operator ISSUED A PERMIT UNDER THIS PART,  
 17 together with the total amount due the state as video gambling machine gross income tax for the preceding  
 18 quarter. The statement must contain other relevant information as the department may require.

19 ~~(4)(5)~~ (a) The department shall, in accordance with the provisions of 15-1-501(6), forward one-third  
 20 of the tax collected under subsection ~~(3)~~ (4) to the general fund.

21 (b) The department shall, in accordance with the provisions of 15-1-501(6), forward the remaining  
 22 two-thirds of the tax collected under subsection ~~(3)~~ (4) to the treasurer of the county or the clerk, finance  
 23 officer, or treasurer of the city or town in which the licensed machine is located, for deposit to the county  
 24 or municipal treasury. Counties are not entitled to proceeds from taxes on income from video gambling  
 25 machines located in incorporated cities and towns. The two-thirds local government portion of tax  
 26 collected under subsection ~~(3)~~ (4) is statutorily appropriated to the department as provided in 17-7-502 for  
 27 deposit to the county or municipal treasury."

28  
 29 **Section 5.** Section 23-5-621, MCA, is amended to read:

30 **"23-5-621. Video gambling machine specifications -- rules. (1)** The department shall adopt rules

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

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

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

9 (b) ensure the security and integrity of the automated accounting and reporting system and of the  
 10 video gambling machines connected to the system;

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

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

15 (e) allow a reasonable period of time, not to exceed 3 6 years after the system becomes  
 16 operational, to operate previously approved machines that are not capable of being made compatible with  
 17 the system; AND

18 (F) ALLOW THE REQUIREMENT OF A PERFORMANCE BOND FROM THE MACHINE OWNER FOR  
 19 THE PAYMENT OF TAXES."

20  
 21 NEW SECTION. Section 6. Coordination instruction. [This act] is void if House Bill No. 2 is not  
 22 passed and approved with a line item appropriation to implement [section 1] or no other bill is passed and  
 23 approved with a specific appropriation to implement [section 1].

24  
 25 NEW SECTION. Section 7. Codification instruction. [Section 1] is intended to be codified as an  
 26 integral part of Title 23, chapter 5, part 6, and the provisions of Title 23, chapter 5, apply to [section 1].

27  
 28 NEW SECTION. Section 8. Effective date DATES. (1) ~~[This act] is [SECTIONS 1, 5 THROUGH~~  
 29 7, AND THIS SECTION] ARE effective on passage and approval.

30 (2) [SECTIONS 2 THROUGH 4] ARE EFFECTIVE JULY 1, 1996.

-END-

## 1 SENATE BILL NO. 187

2 INTRODUCED BY BROWN, PECK, R. JOHNSON, EWER, HARPER, CRIPPEN, MCKEE, SOFT,

3 SWANSON, HERTEL, WISEMAN, ECK, WATERMAN, COBB

4 BY REQUEST OF THE GOVERNOR AND THE DEPARTMENT OF JUSTICE

5  
6 A BILL FOR AN ACT ENTITLED: "AN ACT AUTHORIZING THE DEPARTMENT OF JUSTICE TO OPERATE  
7 AND MAINTAIN AN AUTOMATED ACCOUNTING AND REPORTING SYSTEM FOR VIDEO GAMBLING  
8 MACHINES; ABOLISHING THE REQUIREMENT THAT MACHINE SPECIFICATIONS MUST BE  
9 SUBSTANTIALLY THE SAME AS THE SPECIFICATIONS REQUIRED ON SEPTEMBER 30, 1989; ASSIGNING  
10 RESPONSIBILITY FOR PAYMENT OF VIDEO GAMBLING MACHINE TAXES TO THE OWNER OF THE  
11 MACHINE; PROVIDING A TAX CREDIT TO THE MACHINE OWNER; AMENDING SECTIONS 23-5-116,  
12 23-5-602, 23-5-610, AND 23-5-621, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE DATES."

THERE ARE NO CHANGES IN THIS BILL AND IT WILL  
NOT BE REPRINTED. PLEASE REFER TO SECOND  
READING COPY (YELLOW) FOR COMPLETE TEXT.






## HOUSE STANDING COMMITTEE REPORT

March 16, 1995

Page 1 of 3

Mr. Speaker: We, the committee on **Business and Labor** report that **Senate Bill 187** (third reading copy -- blue) be concurred in as amended.

Signed:

  
Bruce Simon, Chair

Carried by: Rep. Peck

And, that such amendments read:

1. Title, line 8.

Following: "MACHINES;"

Insert: "REQUIRING THAT THE DEPARTMENT OF JUSTICE CONDUCT A STUDY OF ALTERNATIVE METHODS OF AUTOMATED ACCOUNTING AND REPORTING SYSTEMS;"

2. Page 1, line 28.

Following: "Section 1."

Strike: "Automated"

Insert: "Purpose -- study -- automated"

Following: "system."

Insert: "(1) The legislature intends to ensure a high degree of integrity in the conduct of the gaming industry to prevent fraudulent and deceptive practices by licensed operators, licensed machine owners, and vendors. Prior to implementing an automated accounting and reporting system under this part, the department of justice shall conduct a study to identify and examine alternatives for automated monitoring and regulation of Montana's video gaming industry. The study must involve participation by representatives from the video gaming industry as well as appropriate state regulatory agencies, to be appointed by the attorney general. The study must be completed and submitted to the attorney general by

Committee Vote:  
Yes 11, No 7.

SB 187  
HOUSE  
61115SC.Hbk

July 1, 1996. (2)"

3. Page 2, line 1.

Following: "machines."

Insert: "The system and replacement or additional items purchased in the future may not be purchased from a supplier who manufactures video gambling machines and does not both sell and lease the machines to licensed operators."

4. Page 3, line 25.

Following: "OWNER"

Insert: "who owns the machine on the date that the machine is connected to the system established under [section 1]"

5. Page 4, line 3.

Following: "i"

Strike: "and"

6. Page 4, line 4.

Strike: "operator"

Insert: "machine owner"

7. Page 4, line 6.

Following: "department"

Insert: "; and (v) the licensed machine owner has paid the total cost of the conversion"

8. Page 5, line 1.

Strike: "operator's"

Insert: "machine owner's"

9. Page 5, line 2.

Strike: "operator's"

Insert: "owner's"

10. Page 6, lines 15 through 17.

Strike: "allow" on line 15 through "system" on line 17

Insert: "provide that a licensed operator may download to a computer on the operator's premises or receive from the

department information produced by machines on the operator's premises"

11. Page 6, line 20.

Insert: "(3) If a previously approved machine is not capable of being made compatible with the automated accounting and reporting system, it may:

(a) be operated for 10 years beyond the date on which the system becomes operational, as determined by the department of justice, without being connected to the system, but it may be operated only on the premises on which it is located when the system becomes operational; or

(b) be possessed, located, operated, sold, or supplied in the manner and under the conditions provided for antique slot machines in 23-5-153."

-END-