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 2 INTRODUCED BY *House BILL NO. 304*
 3 *Swanson Bartlett Hoff Johnson Papp Curtis Hargrove*

4 A BILL FOR AN ACT ENTITLED: "AN ACT REQUIRING THE DEPARTMENT OF JUSTICE TO OPERATE AND
 5 MAINTAIN AN AUTOMATED ACCOUNTING AND REPORTING SYSTEM FOR VIDEO GAMBLING
 6 MACHINES; AUTHORIZING THE EXPENDITURE OF FUNDS FOR THE SYSTEM; AMENDING SECTION
 7 23-5-621, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

8
 9 STATEMENT OF INTENT

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

18
 19 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

20
 21 NEW SECTION. **Section 1. Automated accounting and reporting system.** (1) For the purposes
 22 of performing its duties under this chapter, simplifying the reporting of video gambling machine revenue
 23 data, and preserving the integrity of video gambling machines within its jurisdiction, the department shall
 24 operate and maintain an automated accounting and reporting system for video gambling machines.

25 (2) A video gambling machine may not be operated on or after January 1, 2000, unless it is
 26 connected with and provides data to the department's automated accounting and reporting system.

27
 28 **Section 2.** Section 23-5-621, MCA, is amended to read:

29 "**23-5-621. Video gambling ~~machine~~ machines -- specifications -- automated accounting and**
 30 **reporting system -- rules.** (1) The department shall adopt rules implementing [section 1]; describing and

1 stating the specifications for the video gambling machines authorized by this part and stating the
2 specifications for video gambling machines authorized by this part; and allowing video gambling machines
3 to be imported into this state and to be used for the purposes of trade shows, exhibitions, and similar
4 activities.

5 (2) The specifications in the rules must substantially follow the specifications contained in
6 23-5-606 and 23-5-609 as those sections read on September 30, 1989. ~~The department shall adopt rules~~
7 ~~allowing video gambling machines to be imported into this state and used for the purposes of trade shows,~~
8 ~~exhibitions, and similar activities.~~

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

10 (a) provide for confidentiality of information received through the system, except as provided in
11 23-5-115(6);

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

14 (c) regulate the electronic transfer of funds to the department for payment of taxes, fees, or
15 penalties; and

16 (d) establish procedures for the disabling of machines for malfunctions or violations detected by
17 use of the automated system."

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19 **NEW SECTION. Section 3. Automated accounting and reporting system -- implementation -- costs.**

20 (1) The department shall have the automated accounting and reporting system available for use by licensed
21 operators on or before June 30, 1998.

22 (2) The department is authorized to incur costs not exceeding \$800,000 for the acquisition of the
23 automated accounting and reporting system required by [section 1].

24 (3) The following costs, whether for initial operation with the state's system or for continued
25 maintenance, must be borne by the licensed operator of the video gambling machine and not by the
26 department:

27 (a) costs of modifying and maintaining video gambling machines to operate with the state's
28 automated accounting and reporting system; and

29 (b) any additional incidental costs, such as telephone or cable installation or extended telephonic
30 or other electronic transmission service, hook-up, delivery, or installation.

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for HB0304, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:

An act requiring the Department of Justice to operate and maintain an automated accounting and reporting system for video gambling machines; authorizing the expenditure of funds for the system.

ASSUMPTIONS:

1. In fiscal 1998 the Department of Justice would spend \$800,000 to purchase and install the automated accounting and reporting system (AARS) computer hardware and software, plus site preparation, phone line installation and other miscellaneous expenses in connection with initial hookup. (The Governor's Executive Budget includes this fiscal impact.)
2. This bill assumes there would be no on-going annual costs associated with the AARS system. (The Governor's Executive Budget includes \$434,474 in fiscal 1999 for on going operational costs.)
3. It is anticipated that the income from VGMS would increase by \$500 per machine hooked up to the AARS. In fiscal 1999, there would be 5,000 (3,000 existing, 2,000 new) machines operational on the AARS, producing an increase in tax revenue of \$375,000 (5,000 X \$500 X 15%). One-third or \$125,000 would be revenue to the state general fund. The growth in VGM tax revenue was determined by comparing average weekly income from machines in play in the state of South Dakota with those in play in Montana. South Dakota has an AARS and is somewhat comparable in size and geographics. The calculation takes into consideration and compensates for the variance in numbers of machines in play, discounted by the population variance. The variance due to the improved efficiencies of the system will be approximately \$10/week/machine or \$500/year.

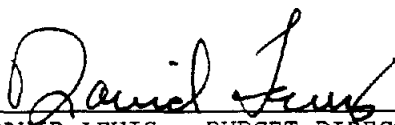
FISCAL IMPACT:

Gambling Control Division:

	<u>FY98</u>	<u>FY99</u>
<u>Expenditures:</u>	<u>Difference</u>	<u>Difference</u>
FTE	0	0
Personal Services	0	0
Operating Expenses	0	0
Equipment	<u>800,000</u>	<u>0</u>
Total	800,000	0
 <u>Funding:</u>		
State Special (02)	800,000	0
 <u>Revenues:</u>		
VGM tax (01)	0	125,000
 <u>Net Impact:</u>		
General Fund (01)	0	125,000
State Special (02)	(800,000)	0

(The Governor's Executive Budget includes the \$800,000 in fiscal 1998 for the purchase and installation of the AARS, and \$434,474 in fiscal 1999 to operate and maintain the computer system.)

(continued)

 1-25-97
 DAVID LEWIS, BUDGET DIRECTOR DATE
 Office of Budget and Program Planning

 1-21-97
 DAVID EWER, PRIMARY SPONSOR DATE

Fiscal Note for HB0304, as introduced

HB 304

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Local governments receive two-thirds of the VGM tax revenue, and would also share in two-thirds of the additional tax revenue. In fiscal 1999 it is estimated that local revenues would increase by \$250,000.

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The long-range effects of the proposed legislation would be the adoption of a more efficient and effective video gambling machine tax reporting system and a resulting increase in taxable income earned and taxes collected.

TECHNICAL NOTES:

SB 96, sponsored by Senator Grosfield, also requires the implementation of an automated accounting and reporting system (AARS) by the Department of Justice, Gambling Control Division. It should be noted that HB 304 does not provide for on-going operating costs of an AARS, in contrast with SB 96 and the recommended budget. The Gambling Control Division has requested funding for the AARS and on-going annual operating expenses of the system in the Governor's Executive Budget in HB2. As represented in its budget, in fiscal 1999 the Department of Justice would require 2.00 FTE (grade 16) to operate and maintain the computer system. Operating expenses of \$237,520 are dominated by telephone charges of almost \$140,000 and computer maintenance contracts of over \$70,000. In addition, another \$125,000 would be needed in equipment to purchase additional hardware and software upgrades.

The Gambling Control Division believes that the RFP/Bid process may result in a lower price for the AARS than was estimated in this bill and in the Department of Justice budget (\$800,000).