SENATE TAXATION
EXHIBIT NO. 1
DATE 4-5-05
BILL NO. HB 89

DEPARTMENT OF JUSTICE

HB 89: Revise the Requirements for an Automated Accounting and Reporting System for Video Gambling Machines

Background

In 1999, the Montana Legislature authorized an automated accounting and reporting system for video gambling machines. After a series of setbacks, efforts to develop the system came to a halt when the 2003 Legislature removed the remaining funding. Lodging and Gaming Systems (LGS), the company with which the state had contracted to build the system, declared bankruptcy in 2003. However, Montana law still provides for an automated accounting and reporting system (AARS).

2003 Business Analysis

The Gambling Control Division contracted with a consulting company, BearingPoint, to analyze the business requirements for permitting and tax reporting. BearingPoint's analysis indicates that:

- the cost of systems that provide real-time or dial-up capabilities may be prohibitively expensive
- initiating a web-entry system on a voluntary basis may be a better alternative

The Proposed E-Business System

The proposed changes in the AARS law eliminate the concept of the state having a central monitoring system directly connected to gambling locations. With the support of the Gaming Advisory Council and industry representatives, the Division is proposing a more flexible e-business system that would be voluntary, except for locations that have signed multi-game agreements in order to obtain multi-game software.

The e-system would allow video gambling machine tax filing at three different levels:

1. **Operators or Route Operators** could purchase accounting systems to communicate with the state. These **slot accounting** systems would allow operators to transfer information from their computers directly to the state's computer system. These systems could be "intelligent" systems that maintain electronic records or "batch" systems that would send data that had been collected manually.
2. **Individual operators** could use **web-entry** technology to simplify reporting of video gambling taxes and to streamline video gambling permitting. Operators would individually enter tax data through a state website.
3. **Individual operators** could continue to submit **manual** tax reports that would be entered into the system by GCD staff.

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Operators and route operators who purchase "intelligent" accounting systems would benefit immediately from a reduction in record keeping and retention requirements. However, those who opt for web entry or batch entry would need to continue to meet existing record keeping and retention requirements until the Division developed a new process for auditing and validating tax filings. Web-entry technology would also be applied to the permitting process.

Proposed Legislation

Legislation to generally revise the requirements for the AARS would repeal parts of the 1999 legislation that are no longer relevant. The legislation would also specify the requirements and incentives for various levels of participation in the web-entry system.

Some of the provisions that are no longer relevant include:

- repeal the requirement that 70% of all VGM owners must approve the system
- repeal the requirement that an owner must connect in five years if there is a change in ownership
- repeal Section 23-5-638 MCA, that provides loans for the costs of converting to AARS
- eliminate the definition of "available connection date" and all references to that date
- eliminate the tax credit for connecting to the AARS

The existing AARS legislation would be amended to include:

- changing the conditions under which operators obtain multi-game software, requiring them to report taxes by web entry instead of requiring them to connect to AARS
- clarifying that all locations, including bingo parlors, are eligible to sign agreements for multi-game software
- require that e-business participants have an electronic banking capability so taxes can be paid with the electronic tax filing
- provide rule-making authority for the frequency of reporting and requirements for web-entry or electronic reporting

Plans and Cost for Implementing Web-Entry

The Executive Budget included a request for $1,500,000 for the 2006-2007 Biennium. This appropriation was removed on the House floor. A proposed amendment to House Bill 2 would restore funding by using only gambling special revenue and liquor proprietary funds, rather than the $1,100,000 of general fund first proposed. These funds would cover costs related to developing the web-entry capacity through the state web portal. Much of the funding would be used for a modern database for collecting tax information, managing video gambling permits and managing liquor and gambling licensing. The database would be developed on a platform that meets state standards.