

GENERAL ASSEMBLY OF NORTH CAROLINA
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HOUSE PRINCIPAL CLERK

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HOUSE BILL DRH30420-STxf-35

Short Title: Video Lottery Terminals. (Public)

Sponsors: Representative Warren.

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO AUTHORIZE THE REGULATION OF VIDEO LOTTERY TERMINALS.
3 The General Assembly of North Carolina enacts:

4 SECTION 1. Chapter 18C of the General Statutes is amended by adding a new
5 Article to read:

6 "Article 9.

7 "Video Lottery Entertainment.

8 "Part 1. General Provisions.

9 **§ 18C-200. Definitions.**

10 In addition to the definitions in Article 1 of this Chapter, the following definitions apply in
11 this Article:

- 12 (1) Central monitoring system. – The system that maintains on a real-time basis
13 the financial, integrity, and security controls on video lottery terminals and
14 associated equipment and provides administrative services for its operation.
- 15 (2) Independent testing laboratory. – An independent, nationally recognized
16 testing laboratory approved by the Commission for use in testing whether a
17 video lottery game or video lottery terminal complies with the standards set
18 forth in this Article.
- 19 (3) Manufacturer. – An individual, partnership, corporation, trust, association,
20 joint venture, limited liability company, or other business entity that
21 manufactures, assembles, services, or produces video lottery terminals or
22 associated equipment in this State.
- 23 (4) Off-site ABC permit. – An off-premises malt beverage permit or off-premises
24 unfortified or fortified wine permit issued by the North Carolina Alcoholic
25 Beverage Control Commission under Chapter 18B of the General Statutes.
- 26 (5) On-site ABC permit. – An on-premises malt beverage permit, on-premises
27 unfortified or fortified wine permit, or mixed beverages permit issued by the
28 North Carolina Alcoholic Beverage Control Commission under Chapter 18B
29 of the General Statutes.
- 30 (6) Operator. – An individual, partnership, corporation, trust, association, joint
31 venture, limited liability company, or other business entity that owns or
32 services a video lottery terminal for which a video lottery terminal permit has
33 been issued by the Commission and that places video lottery terminals or
34 associated equipment for public use in the State of North Carolina.



- 1 (7) Video lottery games. – Electronically simulated games of chance approved by
2 the Commission that are displayed and played on permitted video lottery
3 terminals.
- 4 (8) Video lottery retailer. – A lottery game retailer selling shares of video lottery
5 games under contract with the Commission in accordance with Article 5 of
6 this Chapter, as supplemented by this Article.
- 7 (9) Video lottery terminal. – A device operated under the authority of the
8 Commission that shall be exempt under G.S. 14-306.1A and is any electronic
9 computerized video game machine that, upon the insertion of a lottery share,
10 is available to play a video lottery game authorized by the Commission, and
11 which uses a video display and microprocessors in which, by chance, the
12 player may receive free games or credits that can be redeemed for cash. The
13 term does not include a machine that directly dispenses coins, cash, or tokens.
- 14 (10) Video lottery terminal permit. – A permanently affixed tag or other device
15 issued to a licensed operator for each video lottery terminal approved by and
16 registered with the Commission.

17 **§§ 18C-201 through 18C-202.** Reserved for future codification purposes.

18 **§ 18C-203. Video lottery; allocation of revenues.**

19 (a) The Commission shall determine that video lottery terminals are a type of lottery
20 game in this State. Play of video lottery terminals shall be deemed a share for purposes of this
21 Chapter. Except as otherwise provided in this Article, the provisions of this Chapter shall apply
22 to conduct of video lottery terminals as lottery games.

23 (b) Notwithstanding G.S. 150B-1, the Commission shall adopt rules in accordance with
24 Article 2 of Chapter 150B of the General Statutes to determine play of video lottery terminals
25 and the allocation of net income from video lottery terminals and the procedures for the
26 monitoring, collection, and distribution of income from the video lottery terminals under this
27 Article, in conformity with all of the following:

- 28 (1) No less than thirty-five percent (35%) of the total annual revenues shall be
29 transferred to the State.
- 30 (2) No more than eight percent (8%) of the total annual revenues shall be allocated
31 for administrative expenses of the Commission, which shall include all costs
32 associated with the central monitoring system and the costs of the Department
33 of Public Safety, Alcohol Law Enforcement Division, associated with
34 enforcement of this Article.
- 35 (3) Video lottery retailers shall be paid in accordance with G.S. 18C-142.
- 36 (4) Video lottery terminals shall be connected to a central monitoring system at
37 all times during play and as otherwise determined by the Commission.
- 38 (5) All video lottery terminals shall be placed with a lottery game retailer who
39 holds an active off-site ABC permit or an active on-site ABC permit. The
40 Commission may place up to seven video lottery terminals with a lottery game
41 retailer who holds an off-site ABC permit, and up to five video lottery
42 terminals with a lottery game retailer who holds an on-site ABC permit.
- 43 (6) In contracting with video lottery retailers, the Commission shall require that
44 there shall be no video lottery terminals placed within 1,000 feet of a church,
45 public school, or any nonpublic school as defined by Part 1 or 2 of Article 39
46 of Chapter 115C of the General Statutes.
- 47 (7) Shares for play of video lottery terminals shall be a credit ticket voucher that
48 is redeemable for cash or may be inserted into video lottery terminals for
49 redemption or to generate credits for the play of lottery games.

1 (8) In contracting for the manufacture and operation of video lottery terminals,
2 the Commission may contract only with manufacturers and operators licensed
3 under this Article.

4 (c) The Department of Public Safety, Alcohol Law Enforcement Division, shall have
5 enforcement authority under this Article.

6 **"§§ 18C-204 through 18C-209.** Reserved for future codification purposes.

7 "Part 2. Licenses and Permits.

8 **"§ 18C-210. Video lottery permit required on video lottery terminals.**

9 (a) Every video lottery terminal shall have affixed to it a video lottery permit prior to play
10 in the manner set forth by the Commission. The placement of the video lottery permit represents
11 that the machine has been registered, inspected, and approved for operation in the State.

12 (b) The Commission shall issue the video lottery permit annually based on the number of
13 approved video lottery terminals registered with the Commission per licensed operator.

14 (c) No person other than authorized Commission personnel may affix or remove a video
15 lottery permit. No video lottery terminal may be transported out of this State until the video
16 lottery permit has been removed.

17 (d) Manufacturers, licensed operators, and video lottery retailers must make video lottery
18 terminals and associated equipment available for inspection by the Commission. No video lottery
19 terminal shall be issued a video lottery permit unless the software and hardware of the video
20 lottery terminal is compatible with the Commission's central monitoring system and all games
21 installed on the video lottery terminal are approved by the Commission.

22 (e) Any terminal or machine that does not display the video lottery permit as required by
23 this section is illegal and subject to confiscation by any law enforcement officer.

24 **"§ 18C-211.** Reserved for future codification purposes.

25 **"§ 18C-212.** Reserved for future codification purposes.

26 **"§ 18C-213.** Reserved for future codification purposes.

27 **"§ 18C-214. Minimum qualifications for all licensees.**

28 (a) Except as provided in subsection (b) of this section, an individual, group of
29 individuals, corporation, partnership, or association whom the Commission determines is
30 qualified to receive a license under this Article shall be issued a license.

31 (b) The Commission may not approve an applicant for licensure if any of the following
32 apply:

33 (1) The applicant has been convicted of a felony or any gambling offense in any
34 state or federal court of the United States within 10 years of issuance of the
35 license or employs officers and directors who have been convicted of a felony
36 or any gambling offense in any state or federal court of the United States
37 within 10 years of issuance of the license.

38 (2) The applicant is less than 21 years of age.

39 (3) The applicant has falsified the application.

40 (4) The applicant is not current in filing all applicable tax returns to the State and
41 in payment of all taxes, interest, and penalties owed to the State, excluding
42 items under formal appeal under applicable statutes. Upon request of the
43 Director, the Department of Revenue shall provide this information about a
44 specific person to the Commission.

45 (5) The applicant fails to provide all information and documentation requested by
46 the Commission.

47 (6) The Commission is not satisfied that the applicant is all of the following:

48 a. A person of good character, honesty, and integrity.

49 b. A person whose background, including criminal record, reputation,
50 and associations do not pose a threat to the public interest of the State
51 or to the security and integrity of the Commission.

1 c. A person who, either individually or through employees, demonstrates
2 business ability and experience to establish, operate, and maintain the
3 business for the type of license for which the application is made.

4 d. A person who demonstrates adequate financing for the business
5 proposed under the type of license for which the application is made.

6 (c) In addition to subsection (b) of this section, the Commission may not approve an
7 application for an operator's license if the applicant has not been a resident of North Carolina for
8 at least three years immediately preceding the application.

9 (d) The applicant must furnish all information, documents, certifications, consents,
10 waivers, individual history forms, and other materials required or requested by the Commission
11 for purposes of determining qualification for that type of license. If the applicant is a public
12 company, the applicant must file with the Commission a copy of any disclosure statement
13 involving ownership of the public company required to be filed with the United States Securities
14 and Exchange Commission.

15 (e) The applicant must submit to a background investigation, including each partner,
16 director, officer, and all stockholders of five percent (5%) or more of any business entity, except
17 for institutional investors. The application shall be accompanied by the fee to cover the cost of
18 the criminal and financial record check conducted by the Commission.

19 (f) The burden of proof for establishing qualification under this section shall be on the
20 applicant. The Commission may, for cause, revoke a license at any time.

21 (g) No licensee or applicant to be a licensee shall pay, give, or make any economic
22 opportunity, gift, loan, gratuity, special discount, favor, hospitality, or service, including food
23 and beverages, to the Director, to any member or employee of the Commission, or to any member
24 of the immediate family residing in the same household as one of these individuals.

25 (h) Any entity that acts as a supplier for the Commission in building, operating,
26 maintaining, or contracting to build, operate, or maintain a central monitoring system shall not
27 be eligible to obtain a license as a manufacturer or operator, or to contract as a video lottery
28 retailer.

29 "**§§ 18C-215 through 18C-219.** Reserved for future codification purposes.

30 "**§ 18C-220. Fees.**

31 (a) The Commission may charge a license application and renewal fee not to exceed two
32 hundred fifty dollars (\$250.00) and the cost of the criminal and financial record check.

33 (b) All licenses issued by the Commission are renewable annually unless sooner
34 cancelled or terminated. No license issued by the Commission is transferable or assignable.

35 "**§ 18C-221.** Reserved for future codification purposes.

36 "**§ 18C-222. Multiple types of licenses prohibited.**

37 A video lottery terminal manufacturer may not be licensed as a video lottery terminal operator
38 or be a video lottery retailer. A video lottery terminal operator may not be licensed as a video
39 lottery terminal manufacturer or be a video lottery retailer.

40 "**§ 18C-223.** Reserved for future codification purposes.

41 "**§ 18C-224. General duties of licensees and video lottery retailers.**

42 All video lottery license holders and video lottery retailers under this Article shall do all of
43 the following:

44 (1) Promptly report to the Commission any factors or circumstances related to
45 video lottery games operated under this Article that constitute a violation of
46 State or federal law.

47 (2) Conduct all video lottery activities and functions in a manner that does not
48 pose a threat to the public health, safety, or welfare of the citizens of this State
49 and that does not adversely affect the security and integrity of the lottery or
50 harm video lottery games.

1 (3) Hold the Commission and the State of North Carolina harmless from and
2 defend and pay for the defense of any and all claims that may be asserted
3 against a license holder, this State, or the Commission and its employees
4 arising from the license holder's participation in or operation of video lottery
5 games.

6 (4) Assist the Commission in maximizing video lottery games revenue to the
7 State.

8 (5) Maintain all records required by the Commission.

9 (6) Keep current in all payments and obligations to the Commission.

10 "§§ 18C-225 through 18C-229. Reserved for future codification purposes.

11 "Part 3. Video Lottery Terminals.

12 "§ 18C-330. Possession; central monitoring system.

13 (a) Every video lottery terminal shall have a video lottery terminal permit prior to play
14 in this State and shall be placed with a video lottery retailer for play.

15 (b) Operators shall file with the Commission the location of each permitted video lottery
16 terminal and the name of the video lottery retailer where the video lottery terminals are located.

17 (c) The Commission shall contract for a central monitoring system from a supplier of
18 central monitoring systems who are not licensed manufacturers or operators in this State or video
19 lottery retailers in this State. The Commission shall use commercially reasonable efforts to adopt
20 and implement the central monitoring system. When the central monitoring system is adopted,
21 the following shall apply:

22 (1) The central monitoring system shall be linked by a communications network
23 through which all video lottery terminals shall connect to a single point of
24 commerce and must not use a slot machine interface board or "SMIB" for the
25 purpose of accounting and reporting to the State. In no event shall the video
26 lottery terminal approved by the Commission limit participation to only one
27 manufacturer or one type of video lottery terminal.

28 (2) All video lottery terminals shall be linked by a communications network to
29 the central monitoring system for purposes of monitoring and reading device
30 activities as provided for in this section. The Commission shall routinely
31 assess and inspect the operation of the central monitoring system and shall
32 notify licensees and video lottery retailers of any deficiencies.

33 (3) The video lottery terminal must adhere to the standards adopted by the
34 Commission with regard to the hardware and software requirements of the
35 central monitoring system.

36 (4) The central monitoring system shall be designed and operated to allow the
37 monitoring and reading of all video lottery terminals for compliance play and
38 revenues to the State. The Commission may contract for the administration of
39 the central monitoring system but shall be responsible for oversight of that
40 administration.

41 (5) The central monitoring system shall not provide for the monitoring or reading
42 of personal or financial information concerning patrons of video lottery
43 terminals.

44 (d) No video lottery terminal shall be issued a permit unless the game software is certified
45 by an independent testing laboratory. The game software, and any other component required by
46 the Commission, for all video lottery terminals must be submitted by the licensed manufacturer
47 to an independent testing laboratory to test for compliance with Commission rules and
48 regulations.

49 "§ 18C-331. Reserved for future codification purposes.

50 "§ 18C-332. Play and posting of odds.

1 (a) Notwithstanding G.S. 18C-131(d), it is unlawful for a person to sell a share for play
2 of video lottery terminals under the age of 21 years. No person under the age of 21 years shall
3 purchase a share for play of a video lottery terminal. A person who violates this subsection shall
4 be guilty of a Class 1 misdemeanor.

5 (b) Video lottery terminals may not allow more than the amount established by the
6 Commission to be played on a single wager. The odds of winning each video lottery game shall
7 be posted on or near each video lottery terminal. The manner in which the odds are calculated
8 and how the odds are posted shall be established by the Commission. For purposes of this section,
9 "wager" shall mean a sum of money or thing of value risked on an uncertain occurrence.

10 "§ 18C-333. Reserved for future codification purposes.

11 "§ 18C-334. Reserved for future codification purposes.

12 "§ 18C-335. Reserved for future codification purposes.

13 "§ 18C-336. **Transportation between licensed video lottery retailer's establishments in the**
14 **State.**

15 Any person transporting a video lottery terminal from one video lottery retailer's
16 establishment to another in the State, other than for servicing or repair, shall notify the
17 Commission, in the manner and form established by the Commission, in writing prior to the
18 transportation of the video lottery terminal.

19 "§§ 18C-337 through 18C-339. Reserved for future codification purposes.

20 "Part 4. Enforcement.

21 "§ 18C-400. **Enforcement.**

22 The Commission shall have sole administrative enforcement authority of this Article.

23 "§ 18C-401. Reserved for future codification purposes.

24 "§ 18C-402. **Inspection of premises, records, activities.**

25 At any time during normal business hours, the Commission or the Department of Public
26 Safety, Alcohol Law Enforcement Division, may inspect an establishment of a video lottery
27 retailer, licensed operator, or a licensed manufacturer. The inspection may include the
28 examination of records, equipment, and proceeds related to the operation of video lottery games.

29 "§ 18C-403. Reserved for future codification purposes.

30 "§ 18C-404. **Criminal offenses.**

31 (a) Any person who tampers with a video lottery terminal with intent to interfere with the
32 proper operation of the video lottery terminal is guilty of a Class 1 misdemeanor for the first
33 offense and is guilty of a Class H felony for a second offense and a Class G felony for a third or
34 subsequent offense.

35 (b) Any person who, with intent to manipulate the outcome, payoff, or operation of a
36 video lottery terminal, manipulates the outcome, payoff, or operation of a video lottery terminal
37 by physical tampering or any other means is guilty of a Class G felony for the first offense and a
38 Class F felony for any subsequent offense.

39 (c) A video lottery retailer or operator who falsely reports or fails to report the amount
40 due required by the Commission is guilty of a Class G felony and is subject to termination by the
41 Commission.

42 (d) Any video lottery retailer or operator who pays a prize to any person in the amount
43 less than the specified prize won is guilty of a Class G felony and is subject to termination by the
44 Commission."

45 **SECTION 2.** G.S. 18C-103(4) reads as rewritten:

46 (4) "Game" or "lottery game" means any procedure or amusement authorized by
47 the Commission where prizes are distributed among persons who have paid,
48 or unconditionally agreed to pay, for tickets or shares that provide the
49 opportunity to win those prizes and does not utilize a video gaming machine
50 as defined in G.S. 14-306.1(c). prizes."

51 **SECTION 3.** G.S. 18C-120(b) reads as rewritten:

1 "(b) The Director shall have the following powers and duties, under the supervision of the
2 Commission:

3 ...
4 (7) To confer with the Commission on the operation and administration of ~~the~~
5 ~~Lottery~~ this Chapter and make available for inspection by the Commission all
6 books, records, files, documents, and other information ~~of the~~
7 ~~Lottery~~ maintained under this Chapter.

8 ...
9 (11) To engage an independent firm experienced in security procedures, including
10 computer security and systems security, to conduct a comprehensive study
11 and evaluation of all aspects of security in the operation of the video lottery
12 terminals. At a minimum, such a security assessment is to include a review of
13 network vulnerability, application vulnerability, application code review,
14 wireless security, security policy and processes, security and privacy program
15 management, technology infrastructure and security controls, security
16 organization and governance, and operational effectiveness."

17 **SECTION 4.** Article 2 of Chapter 105 of the General Statutes is amended by adding
18 a new section to read:

19 "§ 105-102.7. Video lottery terminals privilege tax.

20 A privilege tax is imposed on licensed manufacturers and operators, and video lottery
21 retailers, under Article 9 of Chapter 18C of the General Statutes for the privilege of engaging in
22 the activity authorized by the license or contract. The tax is due by July 1 of each year. The
23 amount of the tax is as follows:

- 24 (1) Manufacturers. – Fifty thousand dollars (\$50,000).
- 25 (2) Operators. – Twenty-five thousand dollars (\$25,000) plus one hundred fifty
26 dollars (\$150.00) per video lottery terminal licensed to that operator.
- 27 (3) Video lottery retailers. – One thousand dollars (\$1,000) per retail location plus
28 one hundred fifty dollars (\$150.00) per video lottery terminal in each retail
29 location."

30 **SECTION 5.** G.S. 14-306.1A is amended by adding a new subsection to read:

31 "(g) Nothing in this section shall be construed to make illegal any activity conducted
32 pursuant to Article 9 of Chapter 18C of the General Statutes."

33 **SECTION 6.** G.S. 14-306.4 is amended by adding a new subsection to read:

34 "(d1) Nothing in this section shall be construed to make illegal any activity conducted
35 pursuant to Article 9 of Chapter 18C of the General Statutes."

36 **SECTION 7.** This act becomes effective October 1, 2021.