



# Senate Committee on Community, Economic and Recreational Development

Jason R. Brehouse, Esq.  
Executive Director & Counsel  
jbrehouse@pasen.gov

Senator Kim L. Ward  
Chairman

Senate Box 203039 • Harrisburg, PA 17120-3039 • (717) 787-6063

Senate Bill 900, Printer's No. 1029

Date: June 17, 2015

Sponsor: Senators Ward, Tomlinson, Vogel & Scarnati

{CERD Hearing: Gaming, Internet Gaming & Related Issues}

## Bill Summary

Senate Bill 900, Printer's No. 1029 amends Part II (Gaming) of Title 4 (Amusements) of the Pennsylvania Consolidated Statutes, in licensees, further providing for additional Category 1 slot machine license requirements, for Category slot machine licenses and providing for casino liquor licenses and for slot machines at nonprimary or ancillary locations; and providing for Internet gaming. More specifically, this legislation provides as follows:

Racing Days Reduction}

Amends section 1303(b) (related to additional Category 1 slot machine license requirements – required racing days) by adding a notwithstanding provision that provides a Category 1 (Racino) that holds and operates two licenses at a single racetrack issued under the Race Horse Industry Reform Act shall only be required to conduct live racing at the racetrack for not less than 100 days per calendar year.

{Section Category 3 (Resort) Membership Fee Waiver}

Amends section 1305 (related to Category 3 slot machine license) by providing for the waiver of the Category 3 (Resort) membership fee patrons are currently required to purchase at a Category 3 (Resort Casino), subsequent to the payment of a **\$2.5 million** fee by a Category 3 slot machine licensee located in a county of the 4<sup>th</sup> thru 8<sup>th</sup> class and **\$5 million** by a Category 3 slot machine licensee located in a county of the 1<sup>st</sup> thru 3<sup>rd</sup> class to be deposited in the General Fund.

{Casino Liquor License - Conversion & Three or More Violations}

Adds a {new} section 1305.1 (relating to casino liquor license) that provides that a Category 1, Category 2 or Category 3 slot machine license that pays a one-time **\$5 million** fee (General Fund) shall make each liquor license holder (PA casino or other person that sells beverages at or adjacent to the gaming facility) eligible to convert their liquor license to casino liquor license (24/7) upon the payment of a one-time **\$10,000** conversion fee (General Fund). There is also a **\$500 annual** renewal fee (Pennsylvania Liquor Control Board).

Also provides that a casino liquor license may not be revoke or suspended for a violation of 18 Pa.C.S. § 6310.1 (relating to selling or furnishing liquor or malt or brewed beverages to minors) unless the licensee has committed **three or more** violations.

{Nonprimary Facilities and Ancillary Locations}

Adds a {new} section 1311.3 (relating to slot machines at nonprimary or ancillary locations) that authorizes Category 1 slot machine licensees (licensed corporation) at nonprimary (OTB – off track betting) facilities and Category 2 slot machine licensees at ancillary locations to place up to **250** slot machines at each location subject to the total compliment of slot machines authorized under section 1210 (relating to the number of slot machines).

- Each Category 1 slot machine licensee may have up to **four (4)** nonprimary locations and each Category 2 slot machine licensee may have up to **two (2)** ancillary locations.
- Category 1 slot machine licensees that have established nonprimary locations (prior to effective date) not prohibited from closing current locations or from relocating or opening new locations.
- Category 1 slot machine licensees that operated and closed a nonprimary location (prior to effective date) must operate at least one of the nonprimary locations being authorized in the same county as the one or more of the original nonprimary locations were located.
- Each location/facility must be licensed by the (PGCB).
- A location/facility may not be within:
  - **10 linear air miles** of a licensed gaming entity located in a city of the first class (Philadelphia) or
  - **20 linear air miles** of any other licensed gaming entity, unless enter into an agreement is entered into among the applicable licensed gaming entities.
- There is a **\$5 million** fee (General Fund) for each location/facility.
- An application must be submitted on a form and in a manner required by the board (PGCB) that contains the following:
  - Proposed location
  - Number of and justification for the slot machines
  - Names, addresses, picture and other information required by the board (PGCB) relating to all principals, key employees and other personnel that require a license or permit
  - Ability to inspect and approve the physical plant of the location to ensure its adequacy to serve patrons.
- There shall not be any onsite PGCB or PA State Police personnel.
- Tax Rate – 54%:
  - 92% (General Fund)
  - 8% (Local Share Assessment)
    - 4% to hosting county
    - 4% to hosting municipality
  - All monies held in trust
- Enforcement – The board (PGCB) shall regulate all aspects of the placement and operation of slot machines.
- Note: As indicated above nothing about the provisions in section 1311.4 change the maximum number of slot machines a Category 1 or Category 2 licensee may operate under section 1210 (relating to the number of slot machines): **3,000** (initial compliment) and **2,000** (additional slot machines) for a total of **5,000**. Generally, Category 1 and Category 2 slot machine licensees must have a minimum **1,500** slot machines in operation.

{Internet Gaming}

Adds a {new} Chapter 13B (Internet Gaming) that provides as follows:

- Section 13B02 (Declaration of Intent) – The General Assembly finds:
  1. Millions of people gambling illegally on online.
  2. Federal law permits states to authorize intrastate Internet gambling.
  3. Legalized PA Internet gaming would provide public trust, ensure Internet gaming is fair and safe.
  4. PA regulation of Internet gaming will maintain the success of slot machine and table games gaming at its existing licensed facilities and sustain the taxes, jobs, investment and economic development produced by PA casinos.
- Section 13B03 (Definitions) – Defines the following terms:
  - “Account applicant.”
  - “Account holder.”
  - “Applicant.”
  - “Board.” - PGCB
  - “Department.” - Dept. of Revenue
  - “Eligible operator.”
  - “Facility.”
  - “Gross Internet gaming revenue.”

- Add:
      - cash or cash equivalent Internet account wagers
      - cash received as entry fees for Internet contests or tournaments (including rake)
    - Subtract:
      - cash or cash payment equivalents paid out to players as a result of playing an Internet game
      - actual cost paid for personal property distributed to a player to promote Internet account
  - “Internet account wager.”
  - “Internet game.” A slot machine, table game or other game which allows an individual to place wagers using a computer monitor or mobile device which has the ability to accept wagers on the Internet. The term includes any game which the board determines, by regulation or order, to be suitable for use for wagering through the Internet. The term does not include telephone account wagering used in the act of December 17, 1981 (P.L.435, No.135), known as the Race Horse Industry Reform Act, or advanced deposit account wagering as defined in the section 1602-B of the act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code of 1971.
  - “Internet gaming permit.”
  - “Internet gaming permit holder.”
  - “Permittee.”
  - “Vendor.” A company that provides computers, Internet components, software or services which provide or support Internet gaming systems.\
- Section 13B04 (Permitted Acts) – The following are not violations of 18 Pa.C.S. § 5512 (relating to lotteries, etc.) or 5513 (relating to gambling devices, gambling, etc.):
  - Conduct of Internet gaming by licensed gaming entity
  - Internet gaming by an account holder
- Section 13B05 (Board)
  - Administration - The board (PGCB) shall regulate the conduct of PA Internet gaming and promulgate regulations establishing the following:
    - Standards and procedures for the operation and maintenance of Internet gaming.
    - Method for calculating gross Internet gaming revenue.
    - Standards for Internet providers or software providers (including qualifications and security).
    - Standards relating to advertising and marketing (including restrictions on marketing to individuals under 21 years of age).
  - Internet gaming equipment –
    - Computer hardware, software and related equipment must be approved by the board (PGCB).
    - Manufactures of hardware, servers, software and related equipment must be licensed under section 1317.1 (relating to manufactures licenses).
    - Board (PGCB) may adopt testing and certification standards for all hardware, servers, software and related equipment used in Internet gaming, which may include use of the services of a private testing facility or the adoption of testing and certification standards of another jurisdiction as provided under section 1320 (relating to slot machine testing and certification standards).
    - Cost associated to expansion of the independent testing and certification facility under section 1320(b) shall be assessed on manufacturers.
    - All computer equipment shall be located within a restricted area on the premises of a facility (PA casino). Board (PGCB) may promulgate regulations allowing back-up and storage systems to be securely maintained at another site within Pennsylvania.
    - PA casino shall make its premises available for placing wagers at the facility using the Internet.
  - Temporary regulation – The board (PGCB) has authority for two years from the effective date of this subsection to promulgate temporary Internet gaming regulations, which are good for up to two years following publication. Initial temporary regulations shall be published within 120 days of the effective date for this subsection.
- Section 13B06 (Internet gaming permits)

- Must obtain an Internet gaming permit
- **Eligible operators – A Category 1 or Category 2 licensed gaming entity that holds in good standing a slot machine license and table game operation certificate.**
- May only apply for only one Internet gaming permit on an application including all of the following:
  - Name and business address of permit applicant.
  - Identification of the fictitious, brand or trade name under which will conduct Internet gaming.
  - Name, business address and job title of employees implementing and operating Internet gaming.
  - Vendor, contractor and supplier information.
  - Technical protocols, parameters of Internet gaming system.
  - Detailed description of each Internet game to be made available.
  - Site plan identifying the secure area where all Internet gaming operations will be located and location of emergency backup systems.
  - Identity and nature of person providing services in relation to Internet gaming.
- Board (PGCB) shall review for **suitability** (and utilize
- Board (PGCB) shall issue order approving or denying the application within a **120 days** of it being filed (failure to meet the time limit deemed an approval).
- Section 13B07 (Permitting fee) – If approved the applicant must within **60 days** pay **\$10 million** permit fee **and** reimburse the board (PGCB) for costs.
- Section 13B08 (Issuance of permit) – Upon payment of fee and cost board (PGCB) shall issue permit to conduct Internet gaming that is valid for **five (5) years**.
  - **\$1 million** renewal fee.
- Section 13B09 (Eligibility and unauthorized Internet gaming) – PA casino shall cease Internet gaming activities if its slot machine license or table games certificate is suspended, revoked or otherwise not in good standing
- Section 13B10 (Internet controls) –
  - Requirements - Prior to being issued a permit the PA casino shall submit the following:
    - Accounting controls
    - Job descriptions and responsibilities for all employees
    - Procedures relating to the following:
      - Establishment of an Internet gaming account
      - Termination of an Internet gaming account
      - Termination of inactive Internet gaming account
      - Login and authentication
      - Logging off
      - **Verification of physical location to ensure all wagers are made within Pennsylvania**
      - Crediting and debiting an Internet gaming account
      - Redemption of chip, etc.
      - Payment of prizes
      - Recording of transactions
      - Securing information and money in an Internet gaming account
      - Counting and security for counting and recording of revenue
      - Segregation of Internet gaming money from other money of PA casino
      - Security of an Internet gaming system and ability of system to detect and report behavior (i.e., cheating, theft, etc.)
      - Security of software, computers. Etc.
      - Auditing the functions and performance of software, hardware, etc.
      - Appropriate responses to tampering with software, computers, etc.
      - Methodology approved by the board (PGCB) to ensure secure communication
    - Other procedures and formulas deemed necessary by the board
  - Approval – Within **90 days** of submission, the board (PGCB) shall approve the standards and procedures (failure to meet the time limit deemed an approval).

- Records – PA casinos shall maintain records pertaining to Internet gaming in a manner and location in PA approved by the board (PGCB).
- Section 13B11 (Location, license, computer and software)
  - Servers – Servers shall be maintained only within the PA casino (inaccessible to the public). The board (PGCB) may promulgate regulations to maintain back-up servers and storage equipment at a site in Pennsylvania other the facility.
  - Board – The board (PGCB) shall adopt and enforce procedures and security standards, including the following:
    - Handling and storage of software, computers, etc.
    - For responding to tampering with software, computers, etc.
    - Procedures for the partial or complete suspension of Internet wagering when warranted.
    - Use of closed circuit visual monitoring
    - **Measures to ensure that individual under 21 years of age do not have access to Internet gaming.**
  - Permittee responsibilities (PA casino) – PA casino must submit a description of its system of internal procedures and administrative and accounting controls for nongaming operations regarding the Internet website on which wagering is accessed (including any changes).
- Section 13B12 (Platform or software provider) – Provider of an Internet gaming platform or software shall be licensed by the board (applicable standards under section 1317.1(a), (b) and (c) (relating to manufacturer licenses).
- Section 13B13 (Internet gaming accounts) –
  - Eligibility –
    - An individual who is at least 21 years of age and has established an Internet gaming account with PA casino may place an Internet game wager.
    - Internet gaming account shall be in the name of individual who must establish an Internet gaming account at a PA casino and either hold an active player’s club membership or have an active account with an account wagering system conducted and operated by the PA casino (primary or nonprimary location for pari-mutuel wagering).
      - Except the board (PGCB) shall promulgate regulations for an individual who resides at least 20 linear miles from a PA casino.
  - Application –
    - To establish an Internet gaming account, an individual must submit an application on a form approved by the board (PGCB) that includes all the following:
      - Applicants name
      - Age (including form of proof)
      - Principle residence (including proof)
      - E-mail address
      - Authentication information approved by the board (PGCB)
      - A statement that a false statement may subject the applicant to prosecution
      - Correct response to two or more challenge questions
    - Account applicant who provides false or misleading information is subject to rejection or cancellation of the Internet gaming account.
  - Authentication – PA casinos shall do one of the following:
    - Provide account applicant with a password to access Internet gaming account.
    - Establish a mechanism to authenticate the account applicant
  - Notice – Pa casinos shall provide notice to applicants that all wagers must be made within Pennsylvania.
  - Acceptance or rejection –
    - A PA casino may accept or reject an application (after receipt and review of the application).
    - An Internet gaming account shall not be opened with an applicant who is excluded under section 1515 (relating to repeat offenders excludable from licensed gaming facility) or 1516 (relating to list of persons self excluded from gaming activities).
  - Suspension or closure – PA casino has the right to suspend or close an Internet gaming account at its discretion.

- Official address – The residence listed on the application shall be deemed the account holder’s official address for mailing checks, account withdrawals, notices and other materials.
- Nonassignable – Internet gaming accounts not assignable or transferable.
- Section 13B14 (Internet gaming account management) –
  - Credits –
    - Deposits in the an Internet gaming account shall be in the form of cash; check, money order, negotiable order of withdrawal or wire or electronic transfer, payable and remitted to the permittee; charge to account holder’s debit or credit card (if use approved by PA casino and physical presence in PA verified), any other method approved by the board.
    - When an account holder wins an Internet account wager
      - The PA casino payout in chips, tokens or other cash equivalents.
      - When the account holder logs off or cashes out the Internet chips, tokens or other cash equivalents shall be credited to the account holder’s Internet.
    - Pa casino may credit an Internet gaming account as part of a promotional program.
    - PA casino may refuse (for valid reason), all or part of a wager or deposit.
    - Money in an Internet gaming account shall not bear interest to the account holder.
  - Debits –
    - When account holder exchanges account money for Internet chips, tokens or other cash equivalents, the PA casino shall debit the account holder’s Internet gaming account in the amount of money exchanged.
    - Upon receipt of an Internet gaming account wager or purchase order, PA casino shall debit the account holder’s Internet chips, tokens or other cash equivalent.
    - PA casino may authorize a withdrawal from an Internet gaming account if account holder submits:
      - proper identification;
      - correct authentication information; and
      - properly completed and executed withdraw form.
  - Withdraw – An account holder may make a withdraw if sufficient money in account if submits a properly completed and executed withdraw form. Payment shall be made within three (3) days of receipt.
  - Internet account wagers – Internet account wager shall be place directly with the PA casino, provide correct authentication information and shall not be in excess of money on deposit in the account.
  - Login – Each Pa casino shall establish a login procedure and shall not allow an account holder to participate in an Internet game unless all the following apply:
    - Account holder logs in
    - Account holder provides proper authentication information
    - PA casino verifies a physical presence in Pennsylvania
  - Reconciliation – Upon logging on and off the proper amount of money shall be exchanged.
  - Display – PA casino shall provide to each logged in account holder access to a display of the following:
    - Current amount of money in the account holder’s account
    - Rules regarding Internet games
    - Any fees charged
  - Termination of inactive accounts – A PA casino may terminate an Internet gaming account, which is inactive for a period of not less than one year after attempts to contact by mail and electronically have been made. Money in the terminated account to Department of Revenue (for deposit in the General Fund).
- Section 13B15 (Prohibited acts) –
  - Unauthorized gaming –
    - A person that does not possess a valid Internet gaming permit may not offer Internet gaming or accept an associated wager.
    - A person who offers a tampered with game that affects the odds or payout or disables game from operating in accordance with board (PGCB) regulations commits a 1<sup>st</sup> degree misdemeanor.

- A person who offers a tampered with or disables a game commits a 1<sup>st</sup> degree misdemeanor
- A person is prohibited placing an Internet game wager, except as provide by these provisions.
- Except as provided in the first two bullets above, violations of this subsections provisions is a 3<sup>rd</sup> degree misdemeanor.
- Office of Enforcement Counsel – The Office of Enforcement Counsel under section 1517 (a.2) (relating to Investigations and enforcement – Office of Enforcement Counsel). Upon find a violation Internet gaming where a person does not possess a valid Internet gaming permit the board (PGCB) may impose an administrative penalty of not less than \$50,000 for each violation
- Section 13B16 (Internet gaming taxes) –
  - Imposition –
    - Daily gross PA casino Internet gaming revenue shall be reported on a weekly basis for the prior week.
    - 54% of gross Internet gaming revenue
  - Payment – PA casino shall pay the tax on a weekly basis
  - Trust – These monies are held in trust for PA, be held in a separate account until remitted.
  - These monies shall be deposited in the General Fund.
- Section 13B17 (Wagers in the Commonwealth) – Wagers on Internet games operated by a PA casino shall be deemed to take place at the physical location of the account holder.
- Section 13B18 (Expanded compulsive and problem gambling programs) –
  - The board (PGCB) and the Department of Health Programs shall cooperate to develop expanded programs to address compulsive and problem gambling issues related to Internet gaming.
  - PA casinos shall address compulsive and problem gambling issues related Internet gaming by amending its plan on file with the board (PGCB).
- Section 13B19 (Report) – The board (PGCB) shall submit an annual report to the General Assembly on the impact of Internet gaming on the PA casino industry.

Applicability of Federal Law – PA Internet gaming is subject is applicable Federal law.

This act shall take effect in 60 days.

**Existing Law**

Title 4 (Amusements) of the Pennsylvania Consolidated Statutes, Part II (Gaming), known as the Pennsylvania Race Horse Development and Gaming Act (Gaming Act) [4 Pa.C.S. § 1101 et seq.]

Act of December 17, 1981 (P.L.435, No.135), known as the Race Horse Industry Reform Act.