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Minnesota Gambling Control Board

May 2, 2016

Legislative Reference Library
645 State Office Building
100 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

Re: In the Matter of the Proposed rules of the Minnesota Gambling Control Board
Governing Lawful Gambling; Revisor's ID Number R-04389

Dear Librarian:

The Minnesota Gambling Control Board intends to adopt rules governing lawful gambling, primarily raffle boards, bingo boards, multiple chance games, and other changes. We plan to publish as Notice of Intent to Adopt Rules without a Public Hearing in the May 9, 2016, *State Register*.

The Board has prepared a Statement of Need and Reasonableness (SONAR). As required by Minnesota Statutes, sections 14.131 and 14.23, the Board is sending the Library an electronic copy of the SONAR at the same time we are mailing our Notice of Intent to Adopt Rules.

If you have any questions, please contact me at 651-539-1951.

Sincerely,

A handwritten signature in black ink that reads "Peggy Mancuso".

Peggy Mancuso
Executive Assistant

Minnesota Gambling Control Board

STATEMENT OF NEED AND REASONABLENESS

Proposed Amendment to Rules Governing Lawful Gambling, Primarily Raffle Boards, Bingo Boards, Multiple Chance Games, and Other Changes; *Minnesota Rules*, Chapters 7861, 7863, 7864, and 7865; Revisor ID #R-04389

Introduction. The Minnesota Gambling Control Board (Board) is governed by *Minnesota Statutes*, chapter 349, which states the Board's purpose of regulating lawful gambling, ensuring the integrity of operations, and providing for the use of net profits only for lawful purposes.

In 2015 the Minnesota Legislature approved raffle boards and bingo boards (*Minn. Laws 2015*, chapters 45 and 52). The Board is proposing rules to address conduct and standards for those items, and also for multiple chance pull-tab games and other changes.

These proposed rules affect lawful gambling and are being proposed as a means to strengthen the authorized regulatory oversight and to ensure the continued integrity of lawful gambling. Any actual occurrence or even the perception that the integrity has been compromised would have an adverse effect not only on lawful gambling charities' missions but also on those who play, and on manufacturers and distributors, and their employees. Lawful gambling is a billion dollar industry in Minnesota (\$1.3 billion in FY 2015). Taxes are collected on lawful gambling receipts. These rules ensure the integrity of the conduct of operations and the manufacturing and distribution of games to help fund charities' missions and report tax revenue. In proposing these rules, the Board and its staff strived to improve and strengthen the integrity of lawful gambling while at the same time allowing flexibility by lawful gambling participants and Board staff in responding to unanticipated situations.

The Gambling Control Board employed the use of a Public Advisory Committee (PAC) consisting of licensed lawful gambling organizations, licensed distributors, licensed linked bingo game providers, licensed manufacturers, testing laboratory personnel, the Departments of Revenue and Public Safety, and other interested parties. The PAC met on three separate occasions to work through language that resulted in the final version. A Request for Comments was published in the *State Register*, posted on the Board's website, and posted in the Board's main lobby. The Request was also mailed to all licensed manufacturers, distributors, linked bingo game providers, Allied Charities of Minnesota (an industry trade association and a primary resource on charitable gambling issues to its members), and to the National Association of Fundraising Ticket Manufacturers (a trade association of companies that manufacture pull-tabs, bingo paper, and related supplies for the North American charitable gaming industry).

Alternative Format. Upon request, this information can be made available in an alternative format, such as large print, braille, or audio. To make a request, contact Peggy Mancuso, Minnesota Gambling Control Board, 1711 W. County Road B, Roseville MN 55113; phone (651) 539-1951, fax (651) 639-4032; or email peggy.mancuso@gcb.state.mn.us.

Statutory Authority. The Gambling Control Board's statutory authority to adopt rules is stated in *Minnesota Statutes*, Section 349.151, subdivision 4, paragraph (a), clauses (5) and (20), and subdivision 13:

Subd. 4. **Powers and duties.** (a) The board has the following powers and duties:

(5) to make rules authorized by this chapter;

(20) to take all necessary steps to ensure the integrity of and public confidence in lawful gambling.

Subd. 13. **Rulemaking.** In addition to any authority to adopt rules specifically authorized under this chapter, the board may adopt, amend, or repeal rules under chapter 14, when necessary or proper in discharging the board's powers and duties.

The proposed rules meet the Board's statutory charge for regulating lawful gambling and ensuring the integrity of games and operations.

Regulatory Analysis. *Minnesota Statutes*, Section 14.131, sets out eight factors for a regulatory analysis that must be included in the SONAR. Paragraphs (1) through (8) below quote these factors and then give the Gambling Control Board's answer.

(1) A description of the classes of persons who probably will be affected by the proposed rule, including classes that will bear the costs of the proposed rule and classes that will benefit from the proposed rule:

- Persons affected. The classes of affected persons are licensed lawful gambling (charitable) organizations, licensed manufacturers of gambling systems and equipment, licensed distributors of gambling systems and equipment, linked bingo game providers, and players of the games. The rules also affect the Department of Revenue (for tax collection purposes).
- Classes of persons bearing costs. The Board is not aware of nor has been made aware of any classes of persons who may bear the costs of the proposed rules. The Board used a Public Advisory Committee (PAC) made up of lawful gambling industry representatives. Allied Charities of Minnesota, an industry trade association which represents charitable organizations throughout Minnesota, participated on the PAC, as did the National Association of Fundraising Ticket Manufacturers (NAFTM), membership of which comprises of several Minnesota licensed lawful gambling manufacturers. A "Summary of Rulemaking Process and Public Advisory Committee (PAC) Role" was distributed to the PAC members on January 8, 2016. That document outlines the rulemaking process and the role of the PAC. It also asks for PAC advice and expertise in forming the rules, plus any probable costs of complying with the proposed rules. As of this date, no communication has been received from any member of the PAC, from any lawful gambling representative, or from any individual, entity, or other state agency about classes that will bear the costs of the proposed rules.
- Classes of persons that will benefit from proposed rules. Those that will benefit from the proposed rules are, in general, the entire lawful gambling industry.
 - Licensed gambling organizations will be able to offer new game formats to the public.
 - Manufacturers will benefit from the sale of the newly allowed games.
 - Distributors will gain by having an additional source of gaming to offer.
 - As a result of the rules, the public will have the confidence that the games are trustworthy games of chance.

(2) The probable costs to the agency and to any other agency of the implementation and enforcement of the proposed rule and any anticipated effect on state revenues:

- Probable costs to the Gambling Control Board of implementation and enforcement. There are minimal costs to the Board for existing staff time spent reviewing and inspecting the new game format involving raffle boards, bingo boards, and multiple chance games to ensure the games are being run correctly and that reporting is performed timely and accurately. There are also minimal costs to the Board to edit the Lawful Gambling Manual, forms, continuing education class materials, the Board's website, gambling manager seminar materials, and gambling manager examinations to reflect the new game formats. The number of hours required to perform the additional functions imposed by the rules is expected to be minimal.
- Probable costs to any other state agency of implementation and enforcement. There are no identifiable probable costs to any other agency of implementation and enforcement.
- Anticipated effect on state revenues. There currently is a tax imposed on lawful gambling gross receipts and a tax on lawful gambling equipment. These taxes will continue to be applied.

(3) A determination of whether there are less costly methods or less intrusive methods for achieving the purpose of the proposed rule:

- The Board has carefully considered any cost and burden of the proposed rules. Aside from these proposed rules, there is no other method to achieve the purpose of these rules.
- The "Summary of Rulemaking Process and Public Advisory Committee (PAC) Role" distributed to PAC members, made up of Minnesota licensed lawful gambling organizations, distributors, linked bingo game providers, manufacturers, and representatives of NAFTM, asked for advice and expertise in forming the rules, plus any probable costs of complying with the proposed rules. As

of this date, no communication has been received from any member of the PAC, from any lawful gambling representative, or from any individual, entity, or other state agency about cost of the proposed rules.

(4) A description of any alternative methods for achieving the purpose of the proposed rule that were seriously considered by the agency and the reasons why they were rejected in favor of the proposed rule:

- No alternative method for achieving the purpose of the proposed rules was considered. It is necessary to promulgate raffle board, bingo board, and multiple chance pull-tab game rules in order to provide clarity and guidance to the lawful gambling industry in the manufacture, distribution, sale, and playing of games authorized in statute while maintaining the Board's mission of regulating lawful gambling, ensuring the integrity of operations, and providing for the lawful use of net profits.

(5) The probable costs of complying with the proposed rule, including the portion of the total costs that will be borne by identifiable categories of affected parties, such as separate classes of governmental units, businesses, or individuals:

- The Minnesota Gambling Control Board is the primary government entity affected by additional costs under the proposed rules. Some of the proposed changes increase Board staff workload, though the increase should not be unduly burdensome. See (2) above for probable costs to the Board for the implementation and enforcement of the proposed rules, and for potential costs to any other agency.
- As previously stated, the Board used a PAC consisting of lawful gambling industry representatives, a trade group representing charitable organizations throughout Minnesota, and NAFTM. All PAC members received the "Summary of Rulemaking Process and Public Advisory Committee (PAC) Role" asking for PAC advice and expertise in forming the rules, plus any probable costs of complying with the proposed rules. No communication has been received from any member of the PAC, from any lawful gambling representative, or from any individual, entity, or other state agencies, about potential costs of complying with the proposed rules.

(6) The probable costs or consequences of not adopting the proposed rule, including those costs or consequences borne by identifiable categories of affected parties, such as separate classes of government units, businesses, or individuals:

- A consequence of not adopting the proposed rules is that the lawful gambling industry will not have specific guidelines and standards for raffle boards, bingo boards, and multiple chance pull-tab games, including the manufacture and security of these games. Specific guidelines are essential for manufacturers to comply with statutory requirements and for the Board to ensure the integrity of the gambling equipment and of lawful gambling operations.
- A consequence of not adopting specific standards and conduct requirements is that games will not be designed or approved and confusion and possible illegal activity can occur.

(7) An assessment of any differences between the proposed rule and existing federal regulations and a specific analysis of the need for and reasonableness of each difference:

- There is no federal regulation related to the specific purpose of this rulemaking, thus this portion of the Regulatory Analysis does not apply to these rules.

(8) An assessment of the cumulative effect of the rule with other federal and state regulations related to the specific purpose of the rule. . . . '[C]umulative effect' means the impact that results from incremental impact of the proposed rule in addition to other rules, regardless of what state or federal agency has adopted the other rules. Cumulative effects can result from individually minor but collectively significant rules adopted over a period of time.

- There is no federal regulation related to the specific purpose of this rulemaking. The primary objective of this rulemaking is to provide requirements, conduct guidelines, and standards for both the Minnesota lawful gambling industry and for regulators.
- The proposed rules assist the Minnesota Department of Revenue by providing the requirements by which lawful gambling organizations must file with the Department of Revenue resulting in proper reporting of tax revenue.
- The proposed rules do not overlap with other federal or state regulations and are performance

based. The Board will regulate the conduct of lawful gambling through these revised rules and standards. As the sole regulatory requirements for the affected parties, the cumulative effect comes only from these rules.

Performance-Based Rules. *Minnesota Statutes*, Sections 14.002 and 14.131, require that the SONAR describe how the Board, in developing the rules, considered and implemented performance-based standards that emphasize superior achievement in meeting the Board's regulatory objectives and maximum flexibility for the regulated party and the Board in meeting those goals.

One of the objectives of the proposed lawful gambling rules is to provide the industry with standards and conduct guidelines for raffle boards, bingo boards, and multiple chance games. True performance-based rules would set specific outcomes and leave the means of achieving those outcomes up to the lawful gambling organization, manufacturer, distributor, or player. However, an entirely performance-based approach is not possible for these proposed rules as self-regulation would allow too much flexibility and minimal accountability.

There is, however, a fair amount of flexibility within the proposed rules. For example, raffle board standards and conduct requirements provide guidance to licensees while at the same time are flexible to allow creative latitude in how winners are selected and in how raffle boards are designed; and multiple chance pull-tab games are played differently than regular pull-tab games, providing player interest by allowing for varied games.

Superior achievement in the proposed rules comes from:

- charities being able to run successful lawful gambling operations to help accomplish their missions with appropriate and meaningful regulation;
- high standards for the manufacture, distribution, and conduct of games that minimize the potential for manipulation, theft, or tampering; and
- requiring appropriate manufacture of the games from the start, causing less deviation from standards during the manufacturing process, reducing the potential for game recalls, enabling strong oversight within specific parameters and reduce theft and manipulation potential.

The proposed rules are performance-based rules because the proposed rules:

- provide for an additional avenue of revenue at lawful gambling sites through raffle boards, bingo boards, and multiple chance pull-tab games;
- enable the ability of lawful gambling regulators to approve and monitor the conduct of all forms of lawful gambling, thus ensuring the integrity of the games as required by statute;
- provide manufacturing standards for raffle boards, bingo boards, and multiple chance pull-tab games, along with procedures for returning potentially defective games or devices;
- provide guidelines for distributors for the sale or return of games; and
- provide the procedures and requirements for player conduct of the games, thus enabling the new forms to be played in a fair and lawful manner.

The proposed rules contain new and enhanced requirements for (1) the conduct of games; (2) gambling equipment standards and requirements; and (3) record retention and reporting requirements for organizations. Some unnecessary requirements are removed. In many areas, the proposed rules also make participating in lawful gambling more clear and less cumbersome.

Because manufacturers, distributors, and lawful gambling organizations currently have regular interaction with the Board's staff, there will be minimal costs incurred to comply with the proposed rules. In some instances the rule changes clarify requirements, such as conduct and standards for the new games, which reduces the amount of time licensed organizations, linked bingo game providers, distributors, and manufacturers spend on communication and consultation with Board staff.

While some of the proposed rules are the Board's response to recent legislative changes, Board staff has taken the further step of searching for and finding other rules that impede superior achievement in regulation and in flexibility for regulated parties. Those findings are reflected in the proposed rules.

In further support of the proposed rules being performance based, the "Summary of Rulemaking Process and Public Advisory Committee (PAC) Role" distributed in January 2016 to PAC members asked for advice and expertise in forming the rules as follows:

"Minnesota Statutes, Sections 14.002 and 14.131, require that the SONAR describe how the agency, in developing the rules, considered and implemented performance-based standards that emphasize superior achievement in meeting the agency's regulatory objectives and maximum flexibility for the regulated party and the agency in meeting those goals.

- The Gambling Control Board will look to you for advice and information on how we can make the rules work better for you, while still meeting our goals for these rules.
- Are there any special situations that we should consider in developing the rules?
- Are there any ways to reduce the burdens of the rules?
- Do you have any other insights on how to improve the rules?"

In response, the Board received many comments and suggestions. Wherever possible, language was revised, added, or deleted to make the rules more workable for those who must comply with the rules. Such collaboration on the proposed language further enhanced the performance-based goal of these proposed rules.

Additional Notice. The Minnesota Gambling Control Board's Additional Notice Plan was reviewed and approved on February 17, 2016, by Administrative Law Judge Jim Mortenson.

To provide notice to all persons who may be affected by the proposed rules, the Board's Additional Notice Plan consists of:

1. Publication of the Request for Comments in the *State Register*, in the Board's *Gaming News* newsletter, and on the Board's website.
Note: Due to timing, the Request for Comments could not be printed in the *Gaming News*. The next issue of the *Gaming News* is the April/May/June issue, which goes into publication in May. That issue will be past the deadline contained in the Request for Comments, and therefore the Board cannot meet this item in the plan. However, because of the use of the PAC in preparing the rules (see #7 below), the Board believes it has cast a very wide net in providing affected parties with opportunity to be informed of the Board's rulemaking plans and to offer a great deal of input on the rules.
2. Posting the Request for Comments in the Board's main lobby.
3. Mailing the Request for Comments to Allied Charities of Minnesota—an industry trade association and a primary resource on charitable gambling issues to its members—for inclusion in its newsletter and on its website.
4. Mailing the Request for Comments to the National Association of Fundraising Ticket Manufacturers (NAFTM)—a trade association of companies that manufacture pull-tabs, bingo paper, and related supplies for the North American charitable gaming industry.
5. Mailing the Request for Comments to all licensed lawful gambling distributors, linked bingo game providers, and manufacturers.
6. Mailing to a previous rules' process mailing list.
7. A Public Advisory Committee (PAC) was formed to assist in identifying and discussing the issues and to provide comments on draft rules language and, in many cases, to propose language itself. The PAC was comprised of a wide spectrum of industry representatives and State of Minnesota regulators, and met on three occasions. The formal Request for Comments was also emailed to each PAC member.

The Board's Notice Plan also includes giving notice required by statute. We will mail the Notice of Intent to Adopt to everyone who has registered to be on the Board's rulemaking mailing list under *Minnesota Statutes*, Section 14.14, subdivision 1a, and make a copy of the proposed rules available both on our website, and by hard copy if requested. We will also give notice to the Legislature per *Minnesota Statutes*, Section 14.116. Our Notice Plan did not include notifying the Commissioner of Agriculture because the rules do not affect farming operations per *Minnesota Statutes*, Section 14.111.

Consultation with MMB on Local Government Impact. As required by Minnesota Statutes, Section 14.131, the Board consulted with Minnesota Management and Budget (MMB) by sending MMB copies of the documents that we sent to the Governor's Office for review and approval on the same day we sent them to the Governor's office. This was done before the Board's publishing the Notice of Intent to Adopt. The documents included the Governor's Office Proposed Rule and SONAR Form, the proposed rules, and the SONAR. The Board will submit a copy of the response received from MMB to the OAH at any hearing or with the documents it submits for ALJ review.

Analysis by the Board indicates no known fiscal impact or benefit of the proposed rules on local governments. The analysis from MMB confirms.

Determination about Rules Requiring Local Implementation. The Board has determined that local units of government do not have any authority or responsibility because the Board has the sole authority to enforce the rules for lawful gambling in Minnesota Statutes, Chapter 349. The Board has not delegated this responsibility to any other local unit of government. There are no proposed rules requiring any change to local government lawful gambling requirements, so this section does not apply.

Cost of Complying for Small Business or City. As required by Minnesota Statutes, Section 14.127, the Gambling Control Board has considered whether the cost of complying with the proposed rules in the first year after the rules take effect will exceed \$25,000 for any small business or small city. The Board believes that the cost of complying with the proposed rules in the first year after the rules take effect will not exceed \$25,000 for any small business or small city. The Board asked the PAC members whether costs would exceed \$25,000 during the first year and, based on lack of response, we do not see or anticipate any issue.

Rule-By-Rule Analysis.

7861.0210, subpart 2b, defines "bingo board" ("disposable sealed bingo number selection placards", aka "bingo board", allowed by 2015 legislation). This definition is reasonable because it identifies exactly what a disposable sealed bingo number selection placard is and how it is used.

7861.0210, subpart 10a, defines "CEO". Lawful gambling licensure requires chief executive officer (head of the organization) information. Experience has shown that lawful gambling organizations define the heads of organizations in their bylaws by different titles (president, chair, director, etc.). This definition encapsulates the head of an organization as defined in an organization's bylaws as CEO for licensing purposes. This definition is reasonable because it brings the different titles of the head of an organization under one definition for purposes of lawful gambling licensure.

7861.0210, subpart 10b, defines "chance ticket". This definition is necessary because, while this type of paper pull-tab game (multiple chance games, which use "chance tickets") is already allowed, none have been manufactured. There is now interest in manufacturing these types of games, and standards are included in this rule. Part of those standards is the manufacture of chance tickets, making it necessary to define "chance ticket". This definition is reasonable because manufacturers and licensed organizations alike will need to know what the various elements of multiple chance games are in order to manufacturer and conduct these games.

7861.0210, subpart 10c, defines "chance ticket display". Like chance ticket in subpart 10b, "chance ticket display" is an element of multiple chance pull-tab games. While none of these games have yet been manufactured, there is now interest in manufacturing these types of games, and standards are included in this rule. Part of those standards is the manufacture of chance ticket displays, making it necessary to define "chance ticket display". This definition is reasonable because manufacturers and licensed organizations alike will need to know what the various elements of multiple chance games are in order to manufacturer and conduct these games.

7861.0210, subpart 35, adds the newly allowed raffle boards and bingo boards to the gambling equipment that must contain a manufacturer's seal. Certain gambling equipment is required to have a manufacturer's seal (sticker) on the outside of the manufacturer's box or container but inside the shrink-wrap. Raffle boards and bingo boards, allowed by 2015 legislation, are included in the list of gambling

equipment required to contain a manufacturer's seal. This provision is reasonable because it ensures that raffle boards and bingo boards containing this seal are manufactured according to Minnesota standards.

7861.0210, subpart 36a, defines "multiple chance game". A multiple chance game is a type of pull-tab game which uses chance tickets and chance ticket displays. While currently allowed, none of these games have yet been manufactured. However, there is now interest in manufacturing these types of games, and standards are included in this rule, thus making it necessary to specifically define this type of game. Part of those standards include the manufacture of elements of multiple chance games (chance tickets and chance ticket displays), making it necessary to define "multiple chance game".

7861.0210, subpart 37, removes the requirement that prize amounts be predetermined, and makes multiple seal games applicable to both paper and electronic pull-tab games. The definition of "multiple seal game" needs to clearly and correctly reflect that multiple seal games apply to both paper and electronic games and that prizes are random and not predetermined. Clarifying this definition is reasonable to provide guidance to game manufacturers, and players understand the conduct of the game based on game design and manufacturing features.

7861.0210, subpart 43a, defines "raffle board" (allowed by 2015 legislation). This definition is reasonable because it identifies what a raffle board is and how it is used.

7861.0210, subpart 44, is a Revisor's punctuation correction, adding previously omitted punctuation to the end of a clause.

7861.0215 incorporates by reference the Institute of Electrical and Electronics Engineers (IEEE) Standards Association's IEEE 802.11 standards contained in the Wi-Fi Protected Access II (WPA2). The IEEE 802.11 standards contained in WPA2 are added to the electronic game system standards to further protect the integrity of electronic games. It is reasonable and expected to add the IEEE 802.11 standards. The IEEE 802.11 is an industry standard to which electronic game manufacturers are accustomed and for which certified independent testing labs already test; they are referred to in the standards. Adding the language to rules is reasonable, thus further protecting data from unauthorized access or tampering and ensuring future compliance. The IEEE 802.11 standards will be available to the public free of charge at the State Law Library, and the website containing the IEEE 802.11 standards is given in this part.

7861.0220, subpart 4, removes the requirement that organizations submit a registration form for each lawful gambling employee receiving compensation along with its license application. Organizations are still required to maintain documentation of paid employees for inspection by Gambling Control Board staff.

7861.0230, subpart 3, removes the special gambling manager's examination allowance for gambling managers who fail to meet continuing education requirements in a calendar year. It also removes a citation requirement which is duplicative. Gambling managers must attend one continuing education class each calendar year for license renewal. Board staff conducts classes in several areas of the state throughout the year. Years of experience have shown that many gambling managers wait until December to fulfill this requirement, or opt to "test out" via a special gambling manager's examination in January. It is reasonable to eliminate the special examination when gambling managers have an entire calendar year to fulfill the class requirement. The original intent was for continuing education within a calendar year (see Minn. Stat. Sec. 349.167, subd. 4, para. (2)). However, the special examinations were intended for circumstances when no other training is available; training is available throughout the year all over the state. The extra tracking and testing is a drain on staff resources. It is also reasonable to delete the duplicative provision in item B requiring a citation be issued to a gambling manager for failure to comply. The executive director already may issue citations under Minn. Stat. Sec. 349.151, subdivision 4, paragraph (b), for failure to comply with any provision of Gambling Control Board statutes and rules.

7861.0260, subpart 4, removes the requirement that an organization must register player identification information prior to participating in electronic gaming. The statutory equivalent of this provision was removed in 2015. The requirement now needs to be removed from rule. It is reasonable to remove the provision from rule to conform to the statutory change.

7861.0260, subpart 5, adds cashing out electronic devices to existing prize receipt requirements. Adds a requirement to include on prize receipts the time the prize was won, and the date and time credits of \$600 or more were cashed out. Prize receipts are required for paper pull-tabs, tipboards, and paddlewheels. This provision adds the prize receipt requirement to electronic games. It is vital to track electronic cash payouts and maintain an audit trail. It is reasonable to add the time a prize was won to the prize receipt requirement, to determine and track prohibited after-hours play.

7861.0260, subpart 7, adds raffle boards to defective game procedures. Distributors and organizations will need to know how to handle potential defective raffle boards. By adding raffle boards to the defective game procedures, distributors and organizations will know (1) what to look for, and (2) the appropriate steps to be taken in the event a defective raffle board is discovered. It is reasonable to provide procedures to follow. These procedures already apply to defective paper pull-tabs, tipboards, linked bingo paper, and electronic pull-tab and electronic linked bingo games.

7861.0260, subpart 8a, provides for the return of defective bingo boards. Distributors and organizations will need to know how to handle potential defective bingo boards. It is reasonable to provide procedures for distributors of lawful gambling equipment and licensed lawful gambling organizations in the event a defective bingo board is discovered. Bingo board defective game procedures differ from raffle board defective game procedures because bingo boards do not designate a predetermined gross receipts amount. As such, there are no tax implications when the defective boards are not used by the organizations.

7861.0270, subpart 3, requires a bingo board to be inspected by at least one player before a bingo occasion begins. This mandated internal control is reasonable because it helps ensure that a bingo board has not been altered or tampered with and is free from defects prior to beginning a bingo game, ensuring the fairness of the game.

7861.0270, subpart 6, changes rule to conform to statute which allows three bingo numbers to qualify as a "pattern". Provides for the conduct of a bingo game using a bingo board. Makes a Revisor-suggested grammatical change. This provision is reasonable because it changes a more-restrictive rule to conform to a 2015 legislative change. It is reasonable to provide bingo caller requirements so that callers know how to properly use bingo boards.

7861.0270, subpart 9, requires that bingo boards must be in view of at least two players, and that seals must be opened in numerical order. Having bingo boards in view of players reduces the potential for manipulation of the bingo board. Seals must be opened in numerical order on the bingo board which enables the games to be easily audited for proper prize recognition and award.

7861.0270, subpart 10, is a Revisor's cross reference amendment.

7861.0270, subpart 11, adds unplayed bingo boards to the items that may not be stored in electronic format. This provision is reasonable because the actual bingo boards must be available for inspection during a compliance review/audit. It would be impossible to inspect a bingo board converted to electronic format.

7861.0280, subpart 1, provides restrictions for the security of pull-tab or chance tickets:

Pull-tab sellers:

- May not assist a player in choosing or opening pull-tab or chance tickets.
- May not allow a player to touch a flare or chance ticket display.
- Must open the seal or section of the chance ticket display that contains the player-selected chance ticket and hand the ticket to the player.

Players:

- Must not touch a flare or chance ticket display. (Only sellers may open seals or sections of chance ticket displays; the seller then hands the ticket to the player.)

It is vital to the integrity of pull-tab and multiple chance games to avoid any perception of passing inside information. Restricting player access to game components and also restricting seller assistance in selecting or opening tickets is reasonable and necessary in maintaining that integrity.

7861.0280, subpart 2, requires chance ticket displays to be visible when the game is in play. This provision is reasonable because requiring chance ticket displays to be in view of players reduces the possibility of manipulation of the chance tickets or chance ticket displays, and avoids any perception that the integrity of these components of a multiple chance game have been compromised.

7861.0280, subpart 3a, specifies multiple chance paper pull-tab game conduct requirements. As with similar conduct requirements already in rule for other forms of lawful gambling, this provision is reasonable because licensed organizations must have guidelines to conduct the games. The manufacture of multiple chance pull-tab games is new to lawful gambling, and conduct requirements allow for appropriate regulation, fair and secure play, and record retention requirements for review/audit.

7861.0280, subpart 7, is a Revisor's correction to a cross reference.

7861.0280, subpart 11, adds chance tickets and chance ticket displays containing unopened chance tickets to the items that may not be stored in electronic format. Requires any unsold or defective chance tickets or chance ticket plays to remain unopened for audit purposes. This provision is reasonable because the actual chance tickets and chance ticket displays must be available for inspection during a compliance review/audit. It would be impossible to inspect these game components if converted to electronic format, or to follow the game trail if tickets or displays are opened.

7861.0280, subpart 12, adds multiple chance game components and records to paper pull-tab records retention requirements. This provision is reasonable because it provides all components of a multiple chance game be available for review or audit for 3-1/2 years, the same as is required for other lawful gambling equipment.

7861.0285, subpart 1a, specifies electronic multiple chance pull-tab game conduct requirements. Providing conduct procedures for the electronic version of multiple chance games is reasonable so that charitable organizations may properly conduct these games, assuring fair play and integrity of lawful gambling operations. Conduct requirements also allow for appropriation regulation.

7861.0300, subpart 7, is a Revisor's punctuation correction.

7861.0300, subpart 8, removes an unnecessary third-person cash count verification requirement. The third-person verification rule existed well before the current video surveillance standards and documentation were added to rule. The third-person verification should have been removed when the surveillance rules were promulgated, but was overlooked at that time.

7861.0310, subpart 1, allows organizations to purchase raffle tickets in quantity while maintaining number sequence for tracking. Excludes raffle board stubs from certain raffle ticket requirements. Allows for documentation, rather than an invoice, to show who printed raffle tickets. This is a reasonable request by organizations. While tracking essentially remains unchanged, it allows organizations to purchase raffle tickets in bulk and potentially reduce costs. Some organizations print their own tickets; specifying "documentation" rather than only "invoice" allows for tracking pertinent ticket information for times when there is no official invoice.

7861.0310, subpart 4a, specifies raffle board game conduct requirements. This provision is reasonable because raffle boards are new to lawful gambling and licensed organizations must have guidelines to conduct the games. Much of the raffle board conduct follows conduct requirements for existing games, but specifies requirements unique to raffle boards. This will allow for appropriate regulation, fair and secure play, and record retention requirements for review/audit.

7861.0310, subpart 7, is a Revisor's cross reference correction.

7861.0310, subpart 10, modifies raffle log requirements to account for raffles with tickets beginning with a number other than "1", and exempts raffle boards from raffle log requirements. This provision is reasonable because it allows for tracking raffle tickets purchased in bulk. Raffle log requirements do not apply to raffle boards, and it is reasonable to exempt their use from the log requirements.

7861.0310, subpart 11, adapts existing record retention rule requirements to the newly allowed raffle boards by excluding raffle boards from certain record retention requirements, by allowing documentation showing who printed raffle tickets to record retention requirements, and by adding raffle boards to the items that may not be stored in electronic format. This provision is reasonable because some of the record retention requirements would not apply to raffle boards, and the actual raffle boards themselves must be available for inspection during a compliance review/audit. It would be impossible to inspect raffle boards if converted to electronic format. For tracking purposes, it is necessary to include in record retention requirements the documentation organizations produce if they print their own raffle tickets.

7861.0320, subpart 1, adds the required monthly reports filed with the Board (lawful gambling receipts and expenses by site, lawful purpose expenditures, and lawful gambling fund reconciliation) to the records and reports for which the organization is responsible for verification of their accuracy. This provision is reasonable to clarify that the organization is responsible for reporting inaccuracies even when the reports are filed by a third party on the organization's behalf.

7861.0320, subpart 4, removes a potentially overly burdensome requirement regarding deposit slips for electronic games. This provision is reasonable because the existing requirements could potentially require a deposit slip with 31 entries. Allowing the date of the first electronic occasion included in that deposit and the date of the last electronic occasion included in that deposit streamlines the completion of deposit slips for organizations that conduct electronic games.

7861.0320, subpart 8, removes obsolete portions of Department of Revenue reporting requirement language listed in the lawful gambling rules, but maintains Revenue's monthly filing requirement. This provision is reasonable because some of the items being deleted are items that the Department of Revenue no longer uses; however, Revenue still requires other items to be filed under its own statutes and rules. Keeping the Revenue filing requirement itself in Board rules enables the Board to impose sanctions against an organization's license when it does not file the information required by the Department of Revenue.

7861.0320, subpart 9, removes reference to form "Schedule F", which form name changed. The form is the lawful gambling fund reconciliation, which is filed with the Board and not with the Department of Revenue. It is reasonable to remove reference to a form name in rule and instead reference the information required, and thus eliminate future rule changes if a form name changes in the future. The information contained in the form is filed with the Board and is separate from Department of Revenue filing, so it is reasonable and clarifying for organizations to remove reference to the Department of Revenue.

7861.0330, subpart 1, changes the term "local governing body" to "local unit of government". Throughout the lawful gambling rules, the term "local unit of government" is used. This amendment corrects the last reference to "local governing body"; it is reasonable to use consistent terminology.

7863.0220, subpart 11a, adds raffle board invoices to distributor sales invoice requirements. This provision is reasonable because it allows for tracking raffle boards to specific distributors, and for tracking the specific raffle boards sold to licensed lawful gambling organizations.

7863.0220, subpart 15, requires distributors of lawful gambling equipment to submit a pricing report on a monthly basis. This provision is reasonable because it allows the Board to monitor sales prices and any predatory or fraudulent pricing.

7863.0260, subpart 1, is a Revisor's addition, reflecting previously approved rule effective date (changes text from "effective date of this subpart" to "June 16, 2014" - the specific effective date of that rule).

7863.0260, subpart 3a, is a Revisor's internal cross reference correction.

7863.0270, subpart 6a, requires an electronic linked bingo provider's devices to operate on the same version of software. This provision is reasonable because it ensures that all electronic linked bingo game devices are operating on the same version of installed software which allows for more efficient monitoring of device activity and more reliable operation of devices.

7863.0270, subpart 7a, requires electronic linked bingo game systems to automatically close and update by 2:30 a.m. daily. It is reasonable to require all electronic activity update to the central server daily so that the site activity can be monitored daily. This monitoring alerts to unauthorized access or potential anomalies, further ensuring game integrity.

7863.0270, subpart 9, adds the IEEE 802.11 standards contained in the WPA2 authentication protocols to the protocols already in rule. Adds system access points to components that must use the specifications and protocols. Makes a grammatical correction (changes "which" to "that"). This provision is reasonable because it further ensures the integrity of the electronic systems by requiring protocols already in use by certified independent testing laboratories. The additional standards and adding access point connections further prevent unauthorized access or tampering of electronic linked bingo game systems. It is reasonable to correct grammatical errors when a rules process is open.

7863.0270, subpart 28, requires electronic game system virtual private network (VPN) or secure sockets layer (SSL) encrypted protocols. It is reasonable to strengthen electronic game system encryption by requiring industry-standard protocols.

7863.0270, subpart 36, is a Revisor's addition, reflecting a previously approved rule effective date (changes text from "effective date of this subpart" to "June 16, 2014" - the specific effective date of that rule).

7864.0230, subpart 1, adapts existing rules to add raffle boards, bingo boards, and multiple chance games to the requirements for Board approval of gambling equipment. Removes obsolete language (regarding gambling equipment compliance by the year 2011). Specifies that any previously approved games not in compliance must come into compliance within 180 days of notification. This provision is reasonable because it includes raffle boards, bingo boards, and multiple chance games with the games/gambling equipment requiring prior Board approval before sale in Minnesota. The 2011 compliance date is obsolete, and it is reasonable to delete. Rather than adding new compliance dates, it is reasonable to have the Board notify manufacturers of the date on which games need to become compliant (180 days from the effective date of rules). One hundred and eighty days is a sufficient amount of time to bring any non-compliant gambling equipment into compliance and for the Board to review any gambling equipment resubmitted for approval. This further ensures game integrity.

7864.0230, subparts 1a-1d, adapt existing rules to include multiple chance games and game components (tickets and ticket information, chance ticket displays, flares, and packaging) in the manufacturing standards for paper pull-tab games. Provides manufacturers with standards so that product is manufactured according to Minnesota standards prior to submitting the product for approval for sale in Minnesota. Specifies that any games not in compliance must come into compliance within 180 days of notification by the Board (effective date of rules). Gambling equipment in Minnesota is subject to stringent manufacturing standards. It is reasonable to provide manufacturers with testing and manufacturing standards for all components of multiple chance games because it is essential to ensure the games are tamper-resistant, secure, and Board-approved to safeguard the integrity of the game. Rather than adding new compliance dates, it is reasonable to have the Board notify manufacturers of the date on which games need to become compliant (180 days from the effective date of rules). One hundred and eighty days is a sufficient amount of time to bring any non-compliant gambling equipment into compliance and for the Board to review any gambling equipment resubmitted for approval. This further ensures game integrity.

7864.0230, subpart 5, adds bingo boards to the manufacturing standards for bingo number selection devices. Like other gambling equipment in Minnesota, bingo boards are subject to stringent manufacturing standards. As with other bingo number selection devices, bingo boards require these standards to protect the integrity of the gambling equipment. Much of the bingo board standards have been taken from existing, similarly manufactured lawful gambling equipment, and adapted to bingo boards.

7864.0230, subpart 6a, specifies manufacturing standards for the newly approved raffle boards. Again like all gambling equipment in Minnesota, raffle boards are subject to stringent manufacturing standards. These standards are the key elements of raffle board requirements. The standards ensure the games are manufactured in a manner so as to be tamper-resistant, secure, and allow for appropriate regulation to ensure the integrity of the raffle boards.

7864.0230, subpart 11, amends current rule to add bingo boards and raffle boards to the list of items to be submitted to the Board for approval for sale in Minnesota and describes what needs to be submitted. All gambling equipment requires prior Board approval before sale in Minnesota. To receive prior Board approval, it is reasonable to inform manufacturers what is required to be submitted for approval.

7864.0235, subpart 1, adds the inadvertently omitted term "game" to the electronics manufacturing standards. The most recent rules process (rules effective June 2014) established standards for electronic games and systems. While the various subparts contain specific manufacturing standards for the various components of electronics and in whole apply to electronic "games", it is reasonable to clarify that this subpart (subpart 1) applies to "games" in entirety.

7864.0235, subpart 3, is a Revisor's punctuation correction (changes a colon to a period).

7864.0235, subpart 4, is a Revisor's grammatical correction (changes "which" to "that").

7864.0235, subpart 5a, adds electronic multiple chance pull-tab game features to electronics standards. Multiple chance games are not only paper pull-tab games, but electronic pull-tab games as well. It is reasonable to add electronic multiple chance game features to the electronic standards to ensure they are manufactured in a manner so as to assure the game's integrity.

7864.0235, subpart 7a, requires electronic pull-tab game devices to operate on the same version of software. This provision is reasonable because it ensures that all electronic pull-tab game devices are operating on the same version of installed software which allows for more efficient monitoring of device activity and more reliable operation of devices.

7864.0235, subpart 7b, requires electronic pull-tab game systems to automatically close and update by 2:30 a.m. daily. It is reasonable to require all electronic activity update to the central server daily so that the site activity can be monitored daily. This monitoring alerts to unauthorized access or potential anomalies, further ensuring game integrity.

7864.0235, subpart 11, adds the IEEE 802.11 standards contained in the WPA2 authentication protocols to the protocols already in rule. Adds system access points to components that must use the specifications and protocols. Makes a grammatical correction (changes "which" to "that"). This provision is reasonable because it further ensures the integrity of the electronic systems by requiring protocols already in use by certified independent testing laboratories. The additional standards and adding access point connections further prevent unauthorized access or tampering of electronic linked bingo game systems.

7864.0235, subpart 17, is a Revisor's reference correction (changing "section" to "part").

7864.0235, subpart 31, is a Revisor's punctuation correction.

7864.0235, subpart 34, requires electronic game system virtual private network (VPN) or secure sockets layer (SSL) encrypted protocols. It is reasonable to strengthen electronic game system encryption by requiring industry-standard protocols.

7864.0235, subpart 38, removes an obsolete statement regarding Board approval of games and the bar code required by the commissioner of revenue. Makes a Revisor's addition to the rules, reflecting a previously approved rule effective date (changes text from "effective date of this part" to "June 16, 2014" - the specific effective date of that rule). An identical statement was removed from a similar subpart in the June 2014 rules; the obsolete statement was inadvertently left in this subpart and needs to be removed.

7864.0240, subpart 1a, is a Revisor's amendment to the rules, reflecting a previously approved rule effective date (changes text from "effective date of this rule" to "March 8, 2011" - the specific effective date of that rule).

7864.0240, subpart 4, amends current rule to add raffle boards and bingo boards to the procedure for returning gambling equipment not manufactured according to standards. It is reasonable to include raffle boards and bingo boards to the subpart outlining procedures for returning paper pull-tabs and tip-boards not manufactured according to the standards so that the proper return of games and credit invoicing can be made.

7864.0240, subpart 4a, is a Revisor's punctuation correction at the end of a clause.

7864.0240, subpart 6, is a Revisor's correction of erroneous grammar (changes "which" to "that").

Conclusion. Based on the foregoing, the proposed rules are both needed and reasonable.

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Minnesota Gambling Control Board