



## West Virginia Limited Adult Video Lottery Newsletter

Dec, Jan, Feb, 2002/03

Bob Wise  
Governor

John C. Musgrave  
Director



## Message from the Director

Almost a year has passed since the Lottery connected the first limited video lottery test site machines to its central computer and began the legal operation of gaming under House Bill 102.

Since that time, the face of gaming in West Virginia has changed to include a regulated form of video lottery wagering that is restricted to the adult customers of licensed, ABCA on-premise consumption outlets. Video lottery players can find entertainment in environments that are approved by law, and they can have confidence in the fact that that the games they play produce fair and accurate payouts.

No longer do we hear the cry to abolish all video lottery gaming. No longer are our children and youth exposed to gambling at the corner gas station or the local grocery store. In fact, our children and youth are not only being protected as a result of House Bill 102, they are reaping the benefits of a funding source for much needed college scholarships.

In just this short time, the staff of the West Virginia Lottery, West Virginia business persons and gaming manufacturers have worked hard to establish a successful limited video lottery program that, in less than a year, produced almost \$70 million in net revenues for State funded programs of scholarship and economic development. Our cities and counties have received over \$1 million in net revenues in the four months since the beginning of the fiscal year while West Virginia businesses that employ thousands of our residents received over \$31 million just since July 1, 2002.

As Director of the West Virginia Lottery, I express my gratitude to all of our limited video lottery retailers, operators, manufacturers and service technicians who have worked so hard to meet the letter of the law and to maintain the integrity of limited video lottery in West Virginia.



John C. Musgrave

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## Bidders Claim 361 Permits on November 15

Nearly a dozen retailers and operators claimed an additional 361 limited video lottery terminal permits at a bid opening at Lottery headquarters in Charleston on November 15. The minimum bid per permit was set at \$3,000 giving the State a total of \$1.084 million for this round of bids.

The number of permits now claimed by businesses exceeds 5,660 of the maximum 9,000 available as set forth by language in The Limited Video Lottery Act.

Persons who won permits in this round of bidding will have 90 days from the dates they receive their permits to place the machines into play or face forfeiture of the permits.

The Lottery expects to hold another bid opening in late February or March of 2003. Details concerning future bid openings will be placed on the Lottery's web site and in the legal notice section of newspapers throughout the state.

# Top Limited Video Lottery Retailers for September and October 2002

Congratulations to the top limited video lottery retailers for the month of September and October 2002.

A statewide overview of the top retailers are as follows;

They are ranked by the Gross Net Revenue of the location for each month.

## September

### Fraternal/ Veterans' Organizations

1. Moose Lodge #565 of Nitro
2. Eagles Aerie # 2307 of Parkersburg
3. VFW # 6450 of Chester
4. American Legion Post #15 of Parkersburg
5. VFW Post # 6452 of Ridgeley

### Non Fraternal Organizations

1. ParkMart of Charleston
2. Striker's Sports Lounge of Bluefield
3. Cadillac Jacks of Bluefield
4. South City Perk of Parkersburg
5. Blazzin 7's Lounge of Clarksburg

## October

### Fraternal/ Veterans' Organizations

1. Moose Lodge #565 of Nitro
2. VFW # 6450 of Chester
3. Eagles Aerie # 2307 of Parkersburg
4. American Legion Post #15 of Parkersburg
5. Eagles Lodge # 4179 of Martinsburg

### Non Fraternal Organizations

1. Elm Room of Weirton
2. ParkMart of Charleston
3. Dave's Restaurant of Nutter Fort
4. Karen's Cookie Carnival of Huntington
5. Ollie's Sports Lounge of Martinsburg

Gross Net Revenue consists of the amount played minus the prizes paid to player.

## How to Avoid Off-Contract Inducement Penalties

**From time to time, an operator may assist a retailer with the initial site set up for video lottery. A common example of assistance is when an operator pays for the installation of the site's mandatory digital or video surveillance equipment. When an operator provides financial assistance in the form of providing equipment or even when an operator provides a lease for the retail location as a whole, the assistance must be documented in the retailer-operator contract.**

House Bill 102 clearly states the range of video lottery profits that may be split between operators and retailers: An operator may share a maximum of 50 percent to a minimum of 40 percent of the net terminal income with the retailer. However, if the operator is providing additional services or funding to the retailer, the actual percentage the retailer is receiving could exceed 50 percent. For example: An operator agrees to give a retailer 50 percent of the machine profits and documents this agreement in a contract that is submitted to the Lottery. The operator then pays for the surveillance equipment at the retailer's location. Obviously, the retailer has received something of monetary value that translates into a receipt of profit greater than the contractually stated 50 percent of revenues.

To avoid being penalized for what is called "an off-contract inducement," the operator who adds something of value to the retail location needs to file a contract amendment with the Lottery. The operator should determine the fair market value of the property and either rent the property to the retailer or provide a monetary loan to the retailer for the equipment in a manner that does not give the retailer more than 50 percent of the net machine profits. Even if the percentage split does not exceed or go below the legal mandates, operators must document all financial assistance to retailers in the contract. Loans and rents must be at fair market rates and not in the form of a demand note or rent that is nominal.

Samples of contract amendment styles are available from Beth Plumley, 1-800- 982-2274 ext. 235. Both the operator and the retailer must sign the amendment and mail it to Roberta Somerville, West Virginia Lottery Licensing Manager, PO Box 2067, Charleston, WV 25327.

Operators who provide off-contract inducements without documenting such in the contract on file at the Lottery will be subject to civil penalties.

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## West Virginia Lottery Adds Auditors for Limited Video Lottery Functions



Sandy Hayne



Ron Osmianski



Gordon Koepler



Shawn Konchesky

Kanawha, Lincoln, Logan, Mason, McDowell, Mercer, Mingo, Monroe, Nicholas, Pocahontas, Putnam, Raleigh, Ritchie, Roane, Summers, Wayne, Webster, Wirt, and Wyoming. Sandra Hayne serves as the Southern Area Audit Supervisor and is stationed in the Lottery's central office in Charleston. Bob Humphrey (not pictured) of Charleston serves as the primary limited video lottery auditor in the southern counties. An additional auditor for the southern counties will join the Lottery in the near future.

With the implementation of limited video lottery, additional auditors were added to ensure that all requirements of House Bill 102 were being met. Tacy Donovan is the Audit Manager of the Video Lottery Unit supervised by Deputy Director Eliza Hall.

To serve you better, limited video lottery auditors were hired and stationed in both the northern and southern portions of West Virginia.

The northern area includes the counties of Barbour, Berkeley Brooke, Doddridge, Grant, Hampshire, Hancock, Hardy, Harrison, Jefferson, Lewis, Marion, Marshall, Mineral, Monongalia, Morgan, Ohio, Pendleton, Pleasants, Preston, Randolph, Taylor, Tucker, Tyler, Upshur, Wetzel, and Wood. Shawn Konchesky of Morgantown and Gordon Koepler of Charleston serve as limited video lottery auditors in the northern counties. Ron Osmianski serves as the Northern Area Audit Supervisor.

The southern area includes the counties of Boone, Braxton, Cabell, Calhoun, Clay, Fayette, Gilmer, Greenbrier, Jackson,

Video lottery auditors and analysts at the West Virginia Lottery headquarters test the accuracy of the software, individual games, and percentage payouts. They monitor the communication of video lottery terminals with the Lottery's IGT SAMS central computer system.

At this time, limited video lottery auditors are performing both requested and random machine audits.

### Gene Herndon Joins LVL Security Staff



Retired State Police Corporal Gene Herndon, of Inwood, is now serving as a Limited Video Lottery Investigator in Area 3 (eastern counties).

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## Lottery Fines Retailers and Three Operators for Compliance Failures for the Months of September and October . . .

Civil Penalties imposed since September 30, 2002 are as follows:

### Penalties for Video Lottery Advertising:

City Perk Café, Parkersburg – first offense, \$100 penalty  
Kom Pak Good Luck Shop, Parkersburg – first offense, \$100 penalty  
State Line Restaurant, Weirton – first offense, \$100 penalty  
C.J.'s Olde Main Pub Inc. dba Keeno's, St. Albans – first offense, \$100 penalty

### Penalties for Underage Persons in Limited Video Lottery Area:

VFW-Adam Poe Post 3526, New Cumberland – first offense, \$100 penalty

### Penalties for Non-Compliance with Surveillance Equipment and other "off-contract" inducements:

Kanes Creek House Inc., Whitehall – Violation of not recording, first offense, \$100 penalty  
Ohio River Amusement Company, Follansbee –first offense, \$300 penalty  
Ajax Amusement Machines Inc., first offense, \$300 penalty  
Shaffer Amusement Company, Clarksburg –first offense, \$300 penalty  
Shaffer Amusement Company, Clarksburg –second offense, \$600 penalty  
Shaffer Amusement Company, Clarksburg –third offense, \$1,200 penalty

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# VIDEO Q and A

**Q. Is it possible to leave the video lottery terminals up and running when the service technician wants to fix a light or lock?**

A. It is permissible to leave the video lottery terminals up and running when minor repairs that do not involve the logic area are made. Also, video lottery terminals do not need to be disabled prior to attaching a surge-protector to the power supply.

**Q. Will the Lottery notify us if they do a software upgrade?**

A. Yes. All permit holders will be notified prior to a software upgrade. If the permit holder is an operator, he/she will be responsible for informing his/her retailers.

**Q. Do I have to disable my machines for a terminal audit?**

A. No, the machines do not need to be disabled for the two-day audit procedure.

**Q. Can I sell my video lottery terminals?**

A. No permit holder may sell video lottery terminals to another permit holder. You may sell the machines to a licensed manufacturer, with the pre-approval of the Lottery Commission, so that the manufacturer may act as a broker and re-sell your machines to another permit holder.

**Q. I signed a contract with an operator last year and I still don't have machines. Can I sign a contract with another operator?**

A. No. The law prohibits you from having more than one contract with an operator. You must legally end the first contract and provide documentation of the legal severance (with your signature and the original operator's signature) to the Lottery prior to entering a contract with a new operator.

**Q. Can we advertise our video lottery games out of state? Can we use the words "video lottery" or "casino" in the name of our business? If we can't advertise, can the Lottery advertise for us?**

A. The law prohibits any advertising of video lottery, regardless of the advertising's location. Those who advertise will be fined. The words "video lottery" cannot be used in the name of your business. Otherwise, the statute does not prevent you from naming your business anything that you choose; however, you may want to be sure that you are not in violation of other stated or federal laws when you choose a name for your business. The Lottery itself is not permitted to advertise limited video lottery.

**Q: Are the gross sales from Limited Video Lottery Machines subject to municipal B&O Tax?**

A: No. Also, municipalities cannot impose a B&O Tax on Limited Video Lottery Retailers for the Net Share of the Limited Video Lottery that the Operator/ Permittee pays them.

**Q: If my CVT doesn't print the End of Day report, how can I get a copy?**

A: A Net Revenue Report can be obtained from Beth Ann Plumley at Lottery Headquarters. Please call 1-800-982-2274 ext. 235. If you request this report, please provide Beth with your retailer number, the name of your location and date of the report that you need.

**Q: How long must retailers and operators keep the machine vouchers and the journal tapes?**

A: It is necessary for you to print the End of Day Cash Flow Statement from the CVT before a new session of gaming begins or the information will be lost. It is in your best interest to keep all tapes and tickets for (7) seven days. It is necessary to retain cash ticket journal rolls from the video terminals for (60) sixty days.

**Q: Must I include new fingerprint cards when I apply for a license for a second location or for an annual license renewal?**

A: Yes, fingerprint cards should be completed and sent with your application or renewal documents. If you have any questions regarding the documents, please contact Joni Clevenger at Lottery Headquarters at 800-982-2274 ext. 238 for assistance.

**Q: Are game details on the video lottery terminals provided to the public?**

A: Yes. All limited video lottery game details are available and listed by manufacturer in the following format: By game name, by denomination, by number of VGMs available for play, by number of games played and by net revenue. You can view game details on the Internet at [www.state.wv.us/lottery/performance.htm](http://www.state.wv.us/lottery/performance.htm). or request a copy from Beth Plumley at 1-800-982-2274, ext. 235.

For more information, go the West Virginia Lottery Website at [www.wvlottery.com](http://www.wvlottery.com) and follow the link to limited video lottery information. Our site is updated regularly.

## Operators Meeting Held In Charleston



*Lottery Panel included Robin Graley, Alvin Rose, Roberta Somerville, John Melton, John Musgrave, Virgil Helton and Eliza Hall.*



*Operators meet at the Charleston Civic Center.*



*Sharon Smith - Dustyn Enterprises, J. D. Booten - Dustyn Enterprises and Kenny Price of Welch LVL Video.*



*Lottery Director John Musgrave, Joe C. Ferrell and Glen Ables of Southern Amusement.*

## September Renewals for Limited Video Lottery

The September 30, 2002, West Virginia Lottery Commission Meeting was held. This meeting completed its first relicensing of 33 limited video lottery operators. Larry Pack, CPA and Chris Lambert, CPA of Pack Hawley Lambert and Burdette, PLLC, presented to the Commission relative information of the applications that were financial.

The Commission approved the following operators for re-license: A-1 Amusement, Inc., Action Gaming Inc., Advanced Technologies LLC, Ajax Amusement Machines, Inc., Al's Novelty & Coin Co., Blue Diamond LLC, Clay Music Corporation, Coin Op Vending Corp., Derrick Video, LLC, Dustyn Enterprises, Ellifritz Amusement Co., Game Room Amusement, Vending & Sales, Inc. Jack's Enterprises, K&K Music Company, LeeJay Amusement, Mountaineer Music, LLC, Ohio River Amusement Co., Ohio Valley Amusement Co., Progressive Video Lottery, Ltd., RandomWorld, Ltd., S&B Gaming LLC, Shaffer Amusements Co., LLC, Southern Amusement Co., Trans-Allegheny Enterprises, LLC, Valley Coin Machine Co., Vast Vending Inc., Viking Vending Services, LLC, Viking Video and Music, Inc., Warden Amusement Inc., Welch LVL Video Service, LLC, Wheeling Coin, LLC, Woodward Video, LLC, and Worldwide Gaming, LLC.

The following video lottery manufacturer's were approved for re-licensure: Aristocrat Technologies, Inc., Casino Data Systems, International Game Technology, Integrated Systems Design, Inc., Spielo Manufacturing Inc., Summit Amusement & Distributing, LTD, VLC, Inc., WMS Industries Inc., and World Touch Gaming Inc.

The Licensing Division prepared a list of 996 limited video lottery retailers who wish to remain licensed. A list of 22 retailers was compiled whose applications are currently denied due to the delinquency of worker's compensation or unemployment security.

Lastly the Commission approved a list of 244 limited video lottery service technicians who requested to be licensed or re-licensed.

Overall this first re-licensure was a large task for lottery staff and the Lottery Commission but was completed. Thanks to all of the applicants for working with lottery licensure staff and providing all documentation to complete this process effectively.

**Video Line**

Video Lottery Public Information Specialist Beth Plumley helps coordinate *Video Line*, a quarterly publication with special editions as needed. Your input, articles and photographs will be greatly appreciated. Call Beth at 304-558-0500, ext. 235, or mail information to her at PO Box 2067, Charleston, WV 25327 to contribute to *Video Line*.

# How the State Share Percentage is Calculated

Every quarter, the State changes the percentage of its share of limited video lottery revenues based upon the previous quarterly performance of terminals statewide. Retailers and operators have requested an explanation of how the percentage is determined. The information below provides the basic information:

The percentage rate is based on the three-month calculation of revenue for four fiscal quarters:

March, April, May - effective July 1

June, July, August -effective October 1

September, October, November -effective January 1

December, January, February - effective April 1

**If the Aggregate Average Daily Gross Terminal Income (the average gross for all machines statewide – minus the two percent administrative fee- divided by the number of machines operating) per Limited Video Lottery Terminal for the three month period equals:**

\$ 0.00 - \$ 60.00 - State Share = 30 %

\$60.01 - \$ 80.00 - State Share = 34 %

\$80.01 - \$ 100.00 - State Share = 38 %

\$100.01 - \$ 120.00 - State Share = 42 %

\$120.01 - \$ 140.00 - State Share = 46 %

\$140.01 or more - State Share = 50 %

The following chart is the EXACT Percentage of the Total Sweep when the State's Share is:

State Share = 30% - Total Sweep = 31.40% (2%+ 29.40%)

State Share = 34% - Total Sweep = 35.35% (2%+ 33.35%)

State Share = 38% - Total Sweep = 39.24% (2%+ 37.24%)

State Share = 42% - Total Sweep = 43.16% (2%+ 41.16%)

State Share = 46% - Total Sweep = 47.08% (2%+ 45.08%)

State Share = 50% - Total Sweep = 51.00% (2%+ 49.00%)

The Lottery does not round monetary figures up or down and will sweep accounts at the exact amount determined.

For more information please contact Lisa Braum, ext. 207.

WEST VIRGINIA LOTTERY  
P. O. BOX 2067  
CHARLESTON, WV 25327

## Video Retailer Spotlight



Max Namsupak, owner of The Chesterfield House in Charleston.

BULK RATE  
U.S. POSTAGE PAID  
PERMIT NO. 1141  
CHARLESTON, WV  
25301

**IMPORTANT VIDEO LOTTERY INFORMATION INSIDE**