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States battle illegal gambling at Internet cafes

Pamela M. Prah, Pew/Stateline staff writer 1:26 p.m. EDT March 24, 2014

Many Internet cafes that have popped up in suburban strip malls and gas stations offer something more than coffee and access to the Web and email. Known as Internet sweepstakes cafes, they sell time on computers that can have the look, sound and feel of slot and video poker machines, sometimes with cash payouts for winners.

State and local authorities say the operations are illegal gambling, but shutting them down hasn't been easy.

More than \$10 billion in revenue a year is the incentive to stay in business for these storefronts, numbering in the thousands. For some gamblers, the allure of cybercafe gambling is that the facilities are as near as the local mall or service station.

Customers purchase time on a computer or in some cases, long-distance phone time, and are given free entries into a "sweepstakes." They then go online and play a game that looks like slots or poker to see if they won.

Some in the gaming industry say this is no different from playing McDonald's Monopoly game, which is a sweepstakes. Customers who buy a Big Mac or chicken McNuggets get a free entry into the game, which offers prizes.

States disagree. States largely allow McDonald's-like sweepstakes for marketing purposes, but consider many of the Internet sweepstakes cafes as fronts for illegal gambling.

Ohio, Florida and Mississippi passed laws in 2013 banning Internet sweepstakes cafes, and similar bans are pending this year in Connecticut and California. And yet the operations still exist in those states that prohibit it. "It's foolish for anybody to think they are not going to come back in a different form," Ohio Attorney General Mike DeWine said at a recent gathering of attorney generals in Washington, D.C.

The reason? "There is so much money involved ... tremendous amount of money, hundreds of millions of dollars," DeWine said.

And since these Internet sweepstakes cafes aren't regulated, states aren't collecting tax revenue on any wagering. The 22 states that have legal commercial casinos collected \$8.6 billion in state and local tax revenue in 2012, according to the most recent information available from the American Gaming Association.

Ohio earned \$138 million in local and state tax revenue in 2012 from legal casinos, the first year that casinos legally operated in the state. Florida's tax revenue was \$162 million in 2012, and Mississippi earned \$273 million.

Bans skirted

As soon as states shut down illegal cafes, new operations pop up trying to evade the bans by calling themselves something other than sweepstakes cafes. Some advertise themselves as basic office service venues while others promote arcade games.

Legislation passed last year in Ohio helped shut down most of the 800 illegal sweepstakes cafes there, DeWine said. But now, some parlors that once offered "sweepstakes" have now reopened as "skill game" venues. And some of the games offer payouts, again, illegal in Ohio.

"They are starting to reinvent themselves. They are going to start coming back," DeWine said.

Republican Gov. John Kasich this month included language in his mid-biennium budget review that requires all "skill-game operators" to be licensed and regulated by the state Casino Control Commission.

Legalized gambling is relatively new to Ohio. "Ten years ago we didn't have much gambling in Ohio," DeWine said. "We have a ton of it now." The state's first legal casinos opened in 2012 in Cleveland, Columbus and Toledo followed by its fourth casino in Cincinnati last year.

Similarly, North Carolina has passed legislation against Internet sweepstakes, but unscrupulous businesses "are very good at adapting to whatever law that you write," state Attorney General Roy Cooper said.

Gambling is illegal in North Carolina except at the two Indian casinos and the state lottery. After Internet sweepstakes cafes began popping up in the state, the legislature in 2010 passed a ban on them. The law, however, got mired in court, becoming effective when the state's Supreme Court unanimously upheld the measure in 2012.

Now the sweepstakes industry in North Carolina has come up with a new idea called "pre-reveal software," Cooper said. It allows people to buy Internet time or a telephone card or whatever product is being offered and the prize is revealed before the game is even played.

The companies argue that process doesn't violate the law. Cooper thinks otherwise. The state has worked with local district attorneys to indict some cafe owners, and many of the cases are still pending. "They lawyered up pretty well as you can imagine," Cooper said.

Other crackdowns

Other states that have taken action against sweepstakes cafes include:

- Florida, which has more than a dozen casinos at racetracks and Indian casinos, banned Internet sweepstakes cafes in 2013 shortly after a state and federal probe closed down nearly 50 operations run by Allied Veterans of the World. Lt. Gov. Jennifer Carroll resigned after law enforcement questioned her ties to the veterans' group when she was in the state legislature. She said she resigned to keep her former affiliations with the company from distracting from the work of Republican Gov. Rick Scott.
- Mississippi has worked with localities to seize and destroy 176 electronic video monitors along with 10 computer servers that run the games that authorities say are illegal under its 2013 law banning Internet sweepstakes cafes. "Getting rid of the machines is more effective than prosecution," state Attorney General Jim Hood said. Casinos have been legal in Mississippi since 1990 when the state approved riverboat gambling. The state now has 30 casinos.
- California counties have been shutting down sweepstakes cafes ever since the California Bureau of Gaming Control declared them illegal in late 2012. Some argue a state law is still needed to close loopholes. The state is home to 70 casinos, all operated by Native American tribes.
- Hawaii and Utah are the only states without any form of legalized gambling, but Hawaii is battling illegal Internet cafes. Last fall, state and local authorities seized gambling machines from a company that purported to operate an arcade game room. The raid is part of a statewide effort targeting video arcade games operations that house illegal gambling. Legalizing Online Gambling

While these states are cracking down, others are working to make online gambling legitimate. As Stateline.org has reported, only Delaware, Nevada and New Jersey currently allow anyone within their borders to use their computers to gamble online at state-sanctioned websites.

These states legalized online betting after the U.S. Justice Department reversed its ban on Internet gambling in 2011. The governors of Delaware and Nevada last month signed the nation's first multi-state interstate gaming agreement that will eventually allow poker players in both states to play against each other online at the same virtual tables.

Americans spent nearly \$3 billion on illegal, easily accessible and unregulated offshore gaming sites, the casino industry estimates. Competing measures to make online betting legal or outlaw it are pending in Congress.

Gambling opponents argue that states strain to handle the estimated \$7 billion annual social cost of gambling-related addiction, bankruptcy and crime. Legalizing online gambling would only exacerbate the problems, they say, particularly without proper consumer protections and extra funds to help those with gambling problems. Up to 9 million adult Americans have problems with gambling, according to the National Council on Problem Gambling.