

FISCAL NOTE

Bill Version: CSHB 182 (TRA)
 (H) Publish Date: 3/6/00

2000 LEGISLATIVE SESSION

Revision Date/Time (Note if correction) _____ Dept. Affected Revenue
 Title Charitable Gaming and Gaming on State Ferries BRU Revenue Operations
 Component Income and Excise Audit
 Sponsor Representative Kott
 Requester House Transportation Component Serial No. 113

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**	**	**	**	**	**
CAPITAL EXPENDITURES	**	**	**	**	**	**
CHANGE IN REVENUES ()	4,139-9,401	11,038-25,068	12,417-28,202	13,797-31,335	14,487-32,902	15,211-34,547

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	**	**	**	**	**	**

Estimate of current year (FY00) cost: 0.0

POSITIONS

Full-time	**	**	**	**	**	**
Part-time	**	**	**	**	**	**
Temporary	**	**	**	**	**	**

ANALYSIS: (see attachments)
 **We have not been able to estimate the costs associated with this bill. Although there is a limit of ten machines per qualifying location, there is no provision for limiting the number of machines because of market criteria. This is an issue because the State is required to pay all the costs associated with "leasing or purchasing the VLTs and contracting for their installation and maintenance." Additionally, no matter how remote the location, the State is required to hire a contractor that has "the capability of responding to a malfunction or repair request within 24 hours." Conceivably, a qualifying VLT operator in a remote location could request ten VLTs in spite of the fact that the net machine income would not be enough to pay for the cost of the machines. The VLTs alone would cost at least \$66,800 without even considering telecommunications, maintenance or freight costs. In Oregon, where the state owns or leases and pays for the maintenance of its machines, the Director of the Oregon State Lottery can consider "accessibility of the business", "financial responsibility", "sufficiency of existing lottery retailers" and "projected volume of sales" in selecting VLT retailers. Even if language is added to address the remoteness of many Alaska communities and to allow the State more leeway in choosing VLT retailers, it is still going to be very costly to the State. For further discussion and cost estimates by some of the major U.S. gaming suppliers please see attached analysis.

Prepared by Brett Fried, Economist and Carl Meyer, Chief of Appeals Phone 465-3682 or 465-2343
 Division Income and Excise Audit Date/Time February 2, 2000
 Approved by Wilson L. Condon Date February 2, 2000
 Commissioner Ray Poiry
 Agency Department of Revenue

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information, call the Governor's Legislative Office

BILL ANALYSIS

Section 1 amends AS 05.15.020(b) to exempt video lottery revenues from the 1% annual fee on net proceeds that is otherwise applicable to permitted gaming activities.

Section 2 amends AS 05.15.060(a) to extend the regulation authority of the department to video lotteries, including the issuance, renewal and revocation of vendor registrations, the investigation of vendors, and the disposition of funds in the possession of vendors. Consistent with the addition of video lottery vendors under the bill to pull-tab vendors under current law, the bill makes numerous amendments in AS 05.15 to envelop and differentiate between the two types of vendors.

Section 3 amends AS 05.15.070 to extend the authority of the department to examine the books and records of a video lottery vendor, video lottery manufacturer, and video lottery distributor.

Section 4 amends AS 05.15.095(a) to extend the current law general provisions relating to the filing of applications and reports and payment of fees to licensed video lottery machine manufacturers and distributors and to registered video lottery and pull-tab vendors.

Section 5 amends AS 05.15.100 to provide that municipalities and qualified organizations must obtain a permit to conduct video lotteries through the use of video lottery machines.

Section 6 amends AS 05.15.105(a) to provide that persons convicted of certain crimes may not be involved in video lottery operations and that licenses and registrations may not be issued to vendors who employ such persons.

Section 7 amends AS 05.15.115(c) to provide that except for operators licensed to conduct bingo or pull-tabs on the effective date of the bill, a permit holder may not contract with an operator to conduct video lotteries. AS 05.15.115(c) is also repealed and reenacted in Section 36.

Section 8 amends AS 05.15.124 to extend the ability of municipalities by ordinance to prohibit the activities of video lottery vendors in addition to operators and pull-tab vendors.

Section 9 amends AS 05.15.128(a), pertaining to the revocation of an operator's license for the failure to report and pay certain minimum percentages, to exclude from coverage video lottery gaming activities.

Section 10 amends AS 05.15.150(a) to provide that net proceeds from gaming may not be dedicated to political uses. However, the proceeds of raffles and lotteries, including

presumably video lotteries, may continue to be used for the designated political purposes specified in AS 05.15.150(a)(3).

Section 11 amends AS 05.15.160(d) to exclude video lotteries from the expense limitations applicable to all other forms of gaming.

Section 12 amends AS 05.15.170, dealing with the criteria for the suspension and revocation of permits, licenses, and registrations, to include within its coverage all video lottery vendors along with pull-tab vendors.

Section 13 amends AS 05.15.180(a), dealing with the limitations on the use of coin-operated machines and other gambling devices, to allow the use of such gaming devices to the extent allowed under the video lottery provisions.

Section 14 amends AS 05.15.180(b) to add video lotteries as an activity that may be licensed even though not conducted in a video lottery form before January 1, 1959. AS 05.15.180(b) is repealed and reenacted in Section 37.

Section 15 amends AS 05.15.180(g) to exempt video lotteries from the statutory prize limitations. Bingo continues to enjoy the same exemption from the prize limitation.

Sections 16, 17, 18 and 20, in conjunction with the distinction between pull-tab and video lottery vendors, are housekeeping amendments to various provisions dealing with pull-tabs. Section 18 provides that a winner must sign the pull-tab, instead of a receipt, if the pull-tab represents a prize of \$50 or more. Section 19 allows the department to approve the sale of pull-tabs through coin operated dispensing machines.

Section 21 amends AS 05.15 to add a new article 2A on Video Lotteries.

Pursuant to AS 05.15.300, the department may issue a video lottery endorsement to a permit holder. The video lottery endorsement is an extension of the permit holder's gaming privilege. The permit holder may conduct "self-operated" video lotteries at the location where the permit holder sells pull-tabs or conducts bingo games, or the permit holder may conduct video lotteries at the location of its club if it has a club license, or the permit holder may contract with a video lottery vendor.

A video lottery vendor is a licensed bingo or pull-tab operator on the effective date of the bill that conducts video lotteries on behalf of a permit holder. A bingo or pull-tab operator licensed after the effective date of the bill is not allowed to be a video lottery vendor. A video lottery vendor is otherwise a business with a business license under AS 43.70 and a beverage dispensary license under AS 04.11.090, or a package store license under AS 04.11.150, that conducts video lotteries on behalf of a permit holder. Thus, video lottery vendors are either "grandfathered" pull-tab or bingo operators or non-gaming businesses with a beverage dispensary license or a package store license.

To obtain the "self-operated" endorsement a permit holder must identify the locations where the permit holder sells pull-tabs or conducts bingo where the video lottery machines will be installed. The permit holder must also declare the number of machines to be installed at each location.

To obtain the vendor endorsement a permit holder must register the vendor and identify the locations where the machines will be installed and the number of machines at each such location.

To obtain the club endorsement a permit holder must submit proof of the club license and identify the location of the club and the number of machines to be installed at the club.

A permit holder may receive an endorsement under only one classification. Thus, a permit holder may not conduct self-operated video lotteries while also conducting video lotteries from a club or through a vendor.

The video lottery endorsement must be posted at each establishment where the machine/s is located. The department must issue a permit for each video lottery machine that must be posted on the machine. The postings must be clearly visible to the public. Each establishment location must have a separate endorsement. Changes in the physical location must be reported to the department and related permits surrendered. A failure to report such changes is ground for suspension or revocation of the permit of the permit holder. A permit holder must renew each endorsement at the same time that it renews its annual gaming permit.

Permit holders and video lottery vendors must execute written contracts. The department may inspect contracts and, if in violation of statute or regulation, may declare it void and suspend or revoke the vendor registration and the permit holder permit.

The department is required to purchase or lease video lottery machines. These machines must be used in any video lottery gaming operation.

Contracts between permit holders and vendors must provide for the following split of the net machine income:

- 30% to the permit holder
- 30% to the vendor
- 20% to the state, and
- 20% to the municipality in which a machine is located, or to the state if the machine is located in the unorganized borough outside of a municipality.

Self-operated" video lotteries and video lotteries conducted by the permit holder at the location of its club if it has a club license may retain and must remit net machine income at the times established in regulation as follows:

- 60% to the permit holder
- 20% to the state, and
- 20% to the municipality in which a machine is located, or to the state if the machine is located in the unorganized borough outside of a municipality.

The video lottery game odds must be posted on or near each machine. The manner in which the odds are calculated and the posting requirement is to be set by the department in regulation.

Persons under age 21 may not play video lottery machines. Video lottery machines may not be located in a place accessible to these persons. Video lottery machines may only be played if the permit is posted on the machine and during the establishment's regular business hours and during the legal hours of operation for vendors with liquor licenses.

No more than 10 machines may be situated in each location with an endorsement and no more than 10 machines may be located in the same location in the same building. A permit holder may not contract with more than 5 video lottery vendors and may not obtain endorsements for more than 50 machines. A vendor may not have more than 10 machines at each vendor location. No more than 10 machines may be located in a building where bingo or pull-tab games are conducted.

Operators are limited in the placement of machines to only those locations that were used to conduct bingo or pull-tab games on the effective date of this bill. Operators are subject to the video lottery requirements only to the extent of their activities as a video lottery vendor; operators remain subject to the other gaming provisions for purposes of their bingo and pull-tab operations.

All machines must be monitored by the permit holder or the vendor during business hours. This includes physical presence or video cameras or mirrors.

Neither a permit holder nor an operator may advertise the possession or availability of the machines.

If a municipality is "dry" but gaming is authorized, the department may issue an endorsement to a permit holder to conduct gaming in the manner permit holders with club licenses are authorized to conduct gaming but only if access is restricted to persons age 21 or over.

The department by regulation may exempt a permit holder from the reporting requirement of AS 05.15.080 if the information can otherwise be obtained from the video lottery machine.

- Pursuant to AS 05.15.310, video lottery machines must:
- ◆ offer only games authorized by the department

- ◆ not have any means of manipulation that affect the odds
- ◆ be designed to accept cash, to prevent plays or credits from being obtained by any means of manipulation, and to suspend itself from play until physically reset if tampered with
- ◆ have nonresettable meters housed within a readily accessible locked machine area that maintains a permanent record of all money inserted, all refunds, credits played, and credits won
- ◆ not directly pay off winning players but print a ticket voucher stating the value of the prize, the time of day, the date, the machine serial number, the sequential number of the ticket voucher, and an encrypted validation number
- ◆ have accounting software that maintains an electronic record that includes money inserted, value of winning tickets, total credits awarded, and the payback percentages credited to players
- ◆ be linked to a central communications system although it need not be on-line or in constant communication. The department must approve the communication system and it cannot limit participation to only one manufacturer on either a cost basis to enable it to communicate or based upon the inability of a machine to communicate with the central communications system.
- ◆ not allow more than \$1 to be played on a game or award free games or credits in excess of \$250 per credit value of \$.25 played. This results in a maximum prize of \$1,000 on a \$1 bet
- ◆ have a total payoff of at least 85% of the value of a \$.25 credit. [The basic formulas are assumed by the department to be as follows:
 - a) cash (credits) in + credits won – credits played – credits paid = 0
 - b) cash (credits) in – credits paid = credits in + credits won – credits played
 - c) cash (credits) in – credits paid = net machine income.Therefore, the effective cash payoff rate will be less than 85% as a player continues to play with the credits won.]

The department is required to purchase or lease the video lottery machines and to provide them to the permit holders, as well as to contract for the installation and maintenance of the machines. An installation and maintenance contractor must have a demonstrated expertise in machine installations and maintenance, as well as related communications and computer systems. A contractor must also have the capability of responding to a malfunction or repair request within 24 hours of the request.

Pursuant to AS 05.15.320, a manufacturer, seller, or distributor of video lottery machines and related equipment in the state must be licensed by the department. The annual license is \$5,000. The department or a contractor must examine prototypes of machines intended to be manufactured, sold or distributed in the state. The manufacturer is to pay in advance the costs of the examinations. A manufacturer may distribute machines only to the department or to a contractor of the department, or a licensed distributor. A

manufacturer must report to the department each machine sold or distributed by the last business day of the month following the month of the sale or distribution.

Pursuant to AS 05.15.330, a video lottery machine distributor license is required to distribute a machine. The license fee is \$5,000. The machines may only be distributed from a location in the state. A distributor must report to the department each machine distributed by the last business day of the month following the month of the distribution. A distributor may not sell a machine to a permit holder or a video lottery vendor.

Pursuant to AS 05.15.340, the endorsement of a permit holder or the registration of a vendor is to be revoked if the specified percentages are not paid at the time required by the department.

AS 05.15.350 provides that the state's percentage is to be deposited in the general fund. The legislature may appropriate the money to provide for education.

AS 05.15.360 provides that the department is to contract out the state's role under video lottery charitable gaming.

Section 22 amends AS 05.15.620(c), the local prohibition on charitable gaming, to include video lotteries.

Section 23 amends AS 05.15.620 by adding a new subsection that allows municipal voters to determine if video lotteries will be prohibited in the municipality.

Section 24 amends AS 05.15.680 to extend the penalty provisions to video lotteries.

Section 25 amends AS 05.15.680 by adding a new subsection making it a class A misdemeanor for a person with criminal negligence to allow a person under age 21 to use a machine and for the person under age 21 to use a machine. It is also a class A misdemeanor if a person manipulates or tampers with a machine.

Section 26 amends AS 05.15.690(36) to exclude labor and political organizations from the definition of a qualified organization.

Section 27 amends AS 05.15.690(44) to define pull-tab vendors.

Section 28 amends AS 05.15.690 by adding 4 new paragraphs to define additional terms under the video lottery provisions. "Video lottery" means a game of chance that uses a video machine. "Net machine income" means the money inserted into a machine less cash credits paid back. "Video lottery machine" means an electronic video game of chance that simulates poker, keno, or blackjack using video display and microprocessors. "Video lottery vendor" means a licensed bingo or pull-tab operator on the effective date of the bill or a business with a business license under AS 43.70 and a beverage dispensary

license under AS 04.11.090 or a package store license under AS 04.11.150 that conducts video lotteries on behalf of a permit holder. A hotel or similar business that caters to the public as a substantial part of its business is a video lottery vendor only if it conducts the video lotteries in a room in which there is regularly maintained a fixed counter or service bar where alcoholic beverages are sold or served to the public for consumption.

Section 29 amends AS 11.66.280(2) to exclude, from the definition of gambling, the operation of video lottery machines aboard the Alaska marine highway system.

Section 30 amends AS 11.66.280(3) to exclude, from the definition of a gambling device, a video lottery machine and a pull-tab sales dispensing machine.

Section 31 amends AS 11.66.280(4) to exclude, from the definition of a gambling enterprise, vessels of the Alaska marine highway system that are lawfully conducting video lottery machine operations.

Section 32 amends AS 19.65 to add new sections governing the conduct of video lotteries aboard the Alaska marine highway system. AS 19.65.035 provides that the department may license an Alaska marine highway system vessel to operate video lottery machines in an area of the vessel that persons under age 21 are prohibited from entering. The license is valid in state waters only unless authorized by the jurisdiction in which the vessel is located. DOTPF shall operate the gaming or contract it out. The department is to adopt regulations to implement this provision.

AS 19.65.040 prohibits an employee of the Alaska marine highway system from allowing persons under age 21 to use a video lottery machine. It is also unlawful for a person under age 21 to use a machine or for any person to manipulate or tamper with a machine. A violation is a class A misdemeanor.

AS 19.65.045 provides that the revenues from video lottery machines on the Alaska marine highway system are to be deposited in the general fund and may be appropriated by the legislature for the Alaska marine highway system.

AS 19.65.050 provides that the definition of a video lottery machine is tied to the definition under AS 05.15.690.

Section 33 amends AS 29.10.200(47) in coordination with Section 34.

Section 34 amends AS 29.45.650 by prohibiting municipalities from imposing sales taxes on video lottery gaming sales receipts or upon rental or servicing of machines. A municipality may not levy a use tax on the storage, use, or consumption of personal property relating to the machines or the video lottery gaming activities.

Section 35 amends AS 29.45.700(d) to provide that a city that levies a sales and use tax may not apply it to sales, rents, services, storage, use or consumption of video lottery machines or video lottery charitable gaming.

Section 36 repeals and reenacts AS 05.15.115(c) to provide that a permit holder may not contract with more than one operator for the same type of activity. Bingo, pull-tabs, lotteries, and so forth are separate activities. A permit holder may contract with an operator to conduct a video lottery only to the extent the operator is grandfathered.

Section 37 repeals and reenacts AS 05.15.180(b) to exclude lotteries from the licensing requirement that otherwise requires that the activity existed in the state in the same form before January 1, 1959.

Section 38 repeals the definition of labor organization and political organization in AS 05.15.690(25) and AS 05.15.690(34).

Section 39 allows the department to begin the regulation process in order to enable regulations to be effective on January 1, 2000.

Section 40 provides that the Act is effective on January 1, 2000, except for Section 39.

Section 41 provides that Section 39 has an immediate effective date.

Policy Analysis

The department believes that the proposed legislation raises a number of important policy issues that should be addressed. Some of these issues are set out below.

1. The video lottery activity can be expected to replace most or all of the pull-tab vendor activities that currently take place in bars. The pull-tab vendors pay a minimum of 70% of the ideal net [face value of all pull-tabs in a series less cash prizes in the series] of the pull-tab games. The video games under this legislation in these situations would only return 30% of net machine income [cash in less cash paid out] to the permit holder, and possibly allow the contracts to provide that certain costs and expenses of the vendor may be deducted from that percentage.
2. Video lotteries will almost certainly attract patrons to bars. This result could be perceived as indirectly promoting increased alcohol consumption.
3. There remain the concerns about the failure to restrict permit holders to IRC 501(c)(3) charitable organizations. A restriction would avoid many of the abuses that result from trade and other organizations holding gaming permits where gaming proceeds are being used to benefit and promote the interests of individual members. Labor and political organizations are restricted under the bill and the same restrictions should apply to trade associations.

4. There are many more potential permit holders in the state than there are vendors and operators who will be able to operate the games for all interested permit holders. As a result of the demand exceeding the supply, the permit holders have little, if any, bargaining power. The more traditional type charities are finding it difficult to take advantage of the gaming option because of the sheer numbers of competition from the non-charity qualified organizations. The legislation will continue to foster the segregation into the "have" and "have not" organizations. This demand and supply imbalance would be remedied if the bill allowed only the IRC 501(c)(3) organizations to engage in these activities.
5. Pull-tab prizes under current law are limited to \$500. This legislation would allow a \$1000 prize on a \$1 bet.
6. While the vendors would be the prime beneficiaries of the revenue generated under the bill, the state incurs all the costs associated with procuring the machines, maintaining them, and maintaining the computer system including incurring the telecommunication expenses. There is concern that these costs could exceed the state percentage of the revenues.
7. The bill would require the department to review contracts between the permit holders and the vendors, but it fails to set any standards for what the contracts may or should contain. Without standards, there will be no basis to disapprove a contract unless it is obviously illegal. Given the unequal bargaining power, we might expect the contracts to favor the vendors by charging space rental for the machines, allocating employee salaries and general overhead expenses to the permit holders, as examples.
8. The bill fails to provide minimum standards for where the state is required to provide and maintain video machines. Location, population, and other factors need to be considered since serving remote and sparsely populated areas may be prohibitively expensive to the state.
9. It is not clear whether the restrictions that generally apply to net proceeds under current law are intended to apply to the use of net machine income. That should be addressed if there is to be any limitation on how a permit holder may use net machine income.
10. Whether permitting blackjack, keno, and other games in a video context in charitable gaming opens the door to these games outside the video context in Indian casino operations is a legal question that arises in legislation of this nature.
11. Current gaming law has loopholes and there are abuses, especially with multiple beneficiary permit ("MBP") operations. Better control over the accounting that the video system provides comes with a high cost to the state and does nothing to address the loopholes and abuses that would be perpetuated by the legislation.
12. The report and recommendations of the National Gambling Impact Study Commission needs to be considered in the overall context of charitable gaming in Alaska, especially before expanding gaming in the state.

CAPITAL EXPENDITURES

If language is added to address the remoteness of many Alaska communities and to allow the State to consider accessibility, financial condition and sales volume in the permitting

of VLT retailers, we believe that the number of VLTs will start out at around 2,500 in the first year and a half and then grow to approximately 6,187 machines over the next five years. This is a very rough estimate based on the number of machines in South Dakota adjusted for population differences (they also have a maximum of 10 machines per location). It is also adjusted for the growth pattern of VLTs in Oregon. Another estimate by the Cabaret, Hotel and Restaurant Association is 5,638 VLTs for Alaska. This estimate does not include pull-tab and bingo locations that qualify under this bill but do not have liquor licenses.

Gaming Suppliers estimated that the list prices for VLTs ranges from \$7,200 to \$9,500 per terminal (see attached spreadsheet). If we assume a 20% discount for buying in bulk, we arrive at an average cost per machine of \$6,680. Apparently, these machines last anywhere from 5 to 10 years before having to be replaced due to obsolescence and damage.

We received two estimates of the total cost of a dial-up central computing facility and purchasing and installing 2,500 terminals. These estimates do not include labor or maintenance cost. The two estimates were from Video Lottery Consultants, Inc. and International Game Technology, Inc. and range from \$22 million to \$27.2 million for 2,500 machines (see attached table) and a dial up central computing facility. However, once the Alaska market matures, we believe the number of machines will be closer to 6,187. Using the \$6,680 bulk discount price per machine figure then the cost for a dial-up central computing facility and 6,187 terminals will be from \$45.3 million to \$46.8 million.

In 1993, Saskatchewan purchased their central computing facility and 4,000 terminals for \$34,932,000 Canadian dollars. Saskatchewan limits the total number of VLTs to 3,600. The extra 400 machines are used as replacements when terminals are out of commission. The demand for VLT sites and terminals is much higher then the maximum they allow and they use criteria such as seating capacity and gaming activity to allocate the 3,600 machines.

OPERATING EXPENDITURES

Besides capital expenditures, the state would also incur freight, service, administration, programming, maintenance, enforcement, lease space and other costs for operating and maintaining 6,187 video lottery terminals. We do have some maintenance cost estimates from suppliers (see the attached table). IGT estimates the maintenance on 2,500 machines at \$1.5 million a year (see attached table). Of course at 6,187 terminals this would be much higher. Video Lottery Consultants, Inc. estimates that 15% of Net Machine Income in Alaska would be needed to cover the cost of maintaining the terminals. This does not include the costs for maintaining the central computing facility (from about \$200,000 to \$250,000 a year) and the cost to monitor, license, provide public service, select qualified retailers and enforce rules and regulations. It also does not take into account the increased freight and transportation costs in Alaska.

According to one vendor, telecommunication costs normally represent about one third of total operating costs. In this bill it is not clear who would pay telecommunication costs. Oregon, where video retailer sites are strictly controlled (only in bars and there are market and other criteria), and the maximum number of VLTs is five per location, receives 11% of net machine income or approximately \$45 million (for FY 98) for their VLT program. Oregon also has 153 lottery staff associated with providing all necessary services (except telecommunications) for their 9,000 VLTs.

In FY 98, the operating expense associated with the (non-casino) segment of Saskatchewan's approximate 3,600 terminals was \$13 million. None of these terminals are located in areas outside of the road system. For true operating expenditures the increase in freight, communication and travel costs for Alaska would have to have to be addressed. This can only be done with a specific list of all the communities (and associated costs) where VLTs would be placed.

REVENUE

Alaska's unique mix of games, geography, unique features of the bill and lack of experience with video gaming make revenue estimation particularly difficult. Additionally, because telecommunications and other costs will be higher in Alaska there is more risk in the purchase and maintenance of video terminals. The distribution of revenue and costs is also different than in any of the six states we contacted. For revenue estimation purposes we have only included Oregon, South Dakota and Montana. We chose these states for the following three reasons: geography, population density and experience with video gaming.

Although video lottery gaming will reduce the demand for pull-tabs and possibly bingo, we do not have enough information to estimate this difference. The only State listed in La Fleur's World Gambling Abstract that has both video gaming and pull-tabs is Oregon. However, even as far back as 1992 when video gaming was first introduced pull-tabs sales in Oregon were small relative to pull-tab sales in Alaska (approximately 9%). Additionally, although pull-tab sales dropped by almost one-half within three years of the introduction of video lottery terminals, other factors such as the introduction of Keno, wider distribution of scratch-it cards and lack of emphasis on pull-tabs by the Oregon State Lottery contributed to the decline in pull-tab sales. Saskatchewan also experienced a 50% drop in pull-tab gross sales within 5 years after the introduction of VLTs.

On the attached revenue spreadsheet you will find a low and a high revenue scenario. We use the population over 21 years old because this is the population of potential gamers. We then adjusted revenue estimates to reflect timing and market maturation issues. Because we are assuming that the effective date of this bill will be January 1, 2001, we reduced FY 01 collections by one-half. Additionally, it will take time before the video lottery market matures.

We use South Dakota as our model of how the video lottery market will mature. Although in South Dakota the State does not purchase lease, install or maintain the VLT terminals, it does have the same maximum number of VLTs per site (10 terminals per site). South Dakota is also close to Alaska in population and personal income. Consequently, we use a 60% adjustment factor in the first year, an 80% adjustment factor in the second year and a 90% adjustment factor in the third year. After the fourth year, we have the market leveling off and growing at 5% annually (see attached spreadsheet).

We use Montana for high Net Machine Income per capita scenario because they allow a maximum of 20 machines per site. We use Oregon as our low estimate because they only allow 5 terminals per site.

Charitable Gaming and Gaming on State Ferries

HB 182

February 2, 2000

Page 14 of 15

GAMING SUPPLIER ESTIMATES

	IGT ¹	VLC ²	DREAMPORT ³	WILLIAMS GAMING ⁴
Dial-up Central Computing Facility	\$ 5,500,000	\$ 4,000,000	\$ 4,700,000	**
Purchase and Install 2,500 Terminals	\$ 21,675,000	\$ 18-\$22,000,000	**	**
Central System Maintenance (2,500 machines)	\$ 250,000	200,000	**	**
Terminal Maintenance (2,500 machines annual)	\$ 1,500,000	15% of NMI	\$625-\$875,000	**
Project Management (annual)	\$ 250,000	**	**	**
Telecommunications Cost	**	\$ 2,000,000	1/3 of Total Operating Cost	**
Freight Cost	**	**	**	**
Office Lease Space for Central System and Employees	**	**	**	**
Independent Lab Approval System	**	\$ 700,000	**	**
State Personnel Administrative Costs	**	**	**	**
Cost per Terminal	\$ 8,670	\$ 7,200-\$8,800	\$ 7,500-\$9,500	\$ 7,995-\$8,395

** No information provided by the supplier.

1 International Game Technology, Inc. provided DOR with these estimates. The terminal quoted is the Game King Series with printer. Terminal and central system maintenance estimates have been annualized and are for 2,500 machines.

2 Video Lottery Consultants, Inc. provided DOR with these estimates. The telecommunications cost is dependent on what is available in Alaska.

3 Dreamport provided us with these estimates. The dial-up central computing facility cost is what New Mexico paid for their system. The cost of maintenance is just for parts and consumables not labor (\$250-\$350 per machine). The \$7,500 to \$9,500 estimates are list prices offered by the major companies in the U.S.. Depending on the order size discounts can range from 15 to 25 percent of the list price. Additionally, Dreamport estimates that communications costs represent one-third of the total cost of operations.

4 Williams Gaming, Inc. provided us with these estimates. List prices vary from \$7,995 to \$8,395 depending on the specific machine.

Charitable Gaming and Gaming on State Ferries

HB 182

February 2, 2000

Page 15 of 15

Assumptions:

Alaska Population Over 21 years Old:

Low Scenario: Per Capita (over 21 years old) Net Machine Income:

High Scenario: Per Capita (over 21 years old) Net Machine Income:

Adjustments for effective date (January 2001) and market development:

adjustment for first full-year market development (FY 02):

adjustment for second full-year market development (FY 03):

Percentage to Permittee

Percentage to Vendor

Percentage to State

Percentage to Municipalities

Growth factor after FY 04

Source:

389,745
 \$177 Oregon
 \$402 Montana
 0.3 South Dakota
 0.8 South Dakota
 0.9 South Dakota
 30%
 30%
 20%
 20%
 1.05

	FY 01*	FY 02	FY 03	FY 04	FY 05	FY 06
Low Scenario						
Net Machine Income to Permittee	\$6,208,638	\$16,556,368	\$18,625,914	\$20,695,460	\$21,730,232	\$22,816,744
Net Machine Income to Vendor	\$6,208,638	\$16,556,368	\$18,625,914	\$20,695,460	\$21,730,232	\$22,816,744
Net Machine Income to Municipalities	\$4,139,092	\$11,037,578	\$12,417,276	\$13,796,973	\$14,486,822	\$15,211,163
Net Machine Income to State	\$4,139,092	\$11,037,578	\$12,417,276	\$13,796,973	\$14,486,822	\$15,211,163
Total Net Machine Income	\$20,695,460	\$55,187,892	\$62,086,379	\$68,984,865	\$72,434,108	\$76,055,814
High Scenario						
Net Machine Income to Permittee	\$14,100,974	\$37,602,598	\$42,302,922	\$47,003,247	\$49,353,409	\$51,821,080
Net Machine Income to Vendor	\$14,100,974	\$37,602,598	\$42,302,922	\$47,003,247	\$49,353,409	\$51,821,080
Net Machine Income to Municipalities	\$9,400,649	\$25,068,398	\$28,201,948	\$31,335,498	\$32,902,273	\$34,547,387
Net Machine Income to State	\$9,400,649	\$25,068,398	\$28,201,948	\$31,335,498	\$32,902,273	\$34,547,387
Total Net Machine Income	\$47,003,247	\$125,341,992	\$141,009,741	\$156,677,490	\$164,511,365	\$172,736,933

* Bill has an effective date of January 1, 2001 (6 months left in the fiscal year).

Sources: La Fleur's 1994 and 1996 World Gambling Abstract, Telephone conversations with government officials in SD, OR and MT; U.S. Bureau of Census and U.S Bureau of Economic Analysis.