

HOUSE FINANCE COMMITTEE  
January 15, 2004  
1:48 P.M.

TAPE HFC 04 - 4, Side A

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 1:48 P.M.

MEMBERS PRESENT

Representative John Harris, Co-Chair  
Representative Bill Williams, Co-Chair  
Representative Kevin Meyer, Vice-Chair  
Representative Mike Chenault  
Representative Eric Croft  
Representative Hugh Fate  
Representative Richard Foster  
Representative Mike Hawker  
Representative Reggie Joule  
Representative Carl Moses  
Representative Bill Stoltze

MEMBERS ABSENT

None

ALSO PRESENT

Peter Ecklund, Staff, Representative Bill Williams; Steven Porter, Deputy Commissioner, Department of Revenue; Mark O'Brien, Chief Contracts Officer, Office of the Commissioner, Department of Transportation & Public Facilities

SUMMARY

CSSB 102(L&C) am(efd fld)

An Act increasing the amount of revenue received by the state from charitable gaming activities, and relating to taxes on pull-tabs.

CSSB 102 (L&C) am(efd fld) was HEARD and HELD in Committee for further consideration.

#SB102

CS FOR SENATE BILL NO. 102(L&C) am(efd fld)

An Act increasing the amount of revenue received by the state from charitable gaming activities, and relating to taxes on pull-tabs.

Co-Chair Harris MOVED to adopt the work draft, #23-GS113 1\S, Luckhaupt, 1/13/04, as the version of the legislation before the Committee. There being NO OBJECTION, it was adopted.

Co-Chair Harris inquired about updated fiscal notes. Co-Chair Williams noted that a new note would need to accompany the work draft just adopted.

Representative Stoltze questioned limiting public testimony. He pointed out "heightened" and "individual" concerns regarding the legislation.

PETER ECKLUND, FINANCE COMMITTEE STAFF, REPRESENTATIVE BILL WILLIAMS, addressed the two major changes from the previous version of the bill. The first change is indicated on Page 2. The previous version of the bill had a 50% net tax on pull-tabs. By current regulation, the top prize awarded is \$500 dollars. The new adopted committee substitute has an 11.5% ideal net tax for games that have a prize of \$500 or less. On Lines 2-14, Page 2, it is suggested to increase the upper limit of prizes to \$1,000. There is a graduated tax schedule associated with these payouts.

The other major change will authorize Alaska Marine Highway Systems to have pull-tabs in the bars on the ferries. The proceeds of that would go into the Alaska Marine Highway Fund to help operations of that system. The 11.5% tax suggested in the bill will raise \$5 million dollars more than current revenues from the 3% sales tax. The current tax on pull-tabs is 3% on the ideal net. The previous version of the bill had it at 15%, whereas, the proposed committee substitute has it at 11.5%.

Mr. Ecklund explained that current regulations limit the prize to \$500 dollars or less. Currently, there is a 3% ideal net tax on any pull-tab because all the games are \$500 dollars or less. Changing that tax on those types of gains and raising the prize winnings from \$500 dollars to \$1000 dollars top prize.

Co-Chair Harris clarified that right now, the maximum for a single prize is \$500 dollars. Mr. Ecklund stipulated that was for a single prize.

Representative Fate commented that it would be an 8% increase.

Representative Fate questioned if the consequences of that change have been considered. Mr. Ecklund stated that the Department of Revenue has been attempting to gauge the impact on the industry. There will be different effects on

each operation and some charities will have to adjust what they receive. He recommended that the Department of Revenue testify regarding the change.

Representative Joule asked if there was a current list of what the losses will be to the communities. Mr. Ecklund responded that he only had a list of the communities that have a local sales tax.

Representative Joule asked if any additional money was going to be "realized" to the charities. Mr. Ecklund replied that the minimum paid to the charities has not been changed in this legislation.

Representative Stoltze commented that the pay out will have an impact on the amount of "play and the margins".

Representative Croft noted that the money would not come from "no where". If the charities receive the same amount and there is a tax, where will the money come from and who would pay.

Mr. Ecklund explained that there are only a few areas that it can come from, one operations and/or expenses, which could lower the payout, ration if there is elasticity in the market. Some charities may receive less money.

Representative Croft thought that some portion of the amount will come from the municipalities because of their local taxation ability. He stressed that it will be coming from local pockets, the operators or the payout amount.

Representative Croft requested the numbers when they are made available on how the action affects the local communities.

Representative Stoltze inquired the actual "real" number of the net in order that the merit can be determined.

Co-Chair Williams explained that he had requested that discussion and asked that Mr. Ecklund address the tax concept to local governments. Mr. Ecklund advised that there had been no changes from the previous version. There is a local prohibition for sales tax and/or taxing pull-tabs.

Representative Joule noted that it would be a loss of \$80 thousand dollars to one of his communities. That is a substantial amount considering the additional loss of revenue sharing. These actions create a need for a "larger debate" on the State's fiscal crisis.

Co-Chair Williams reminded members that the proposed legislation is a revenue generating measure.

STEVEN PORTER, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, commented that the Department would be working on a fiscal note attempting to address the community issues and impacts.

Representative Croft asked Mr. Porter what would happen with a 20% split with communities. He requested that number be run, in hopes that it might "soften" the impact. Mr. Porter noted that he could understand the State's part of the split, but how would it be split among the communities. Mr. Porter offered to work on some ideas.

Representative Hawker asked about potential Internal Revenue Service (IRS) consequences with the increased payout levels. Mr. Porter replied that there are cost consequences and that they would let members know the repercussions of that reporting.

Co-Chair Harris pointed out that the legislation will have an effect on the Alaska Marine Highway System (AMHS).

MARK O'BRIEN, CHIEF CONTRACTS OFFICER, OFFICE OF THE COMMISSIONER, DEPARTMENT OF TRANSPORTATION & PUBLIC FACILITIES, advised that the Department is considering the bill, however, has had little opportunity to determine the fiscal effect on the Alaska Marine Highway System. He added that if it is legal and financially viable to put pull-tabs on the ships, the Department is interested in looking at it as a source of revenue. The action would be consistent with the Governor's position on creating new revenue streams.

Co-Chair Harris questioned if a dedicated fund for the Alaska Marine Highway System would be an issue. Mr. O'Brien understood that current structure would deposit the revenue into the Alaska Maine Highway Fund. He noted that the details have not been fully developed at this time.

Representative Joule asked if this was intended to deflect costs of running the Alaska Marine Highway and if it would then be deducted out the current general fund budget.

Mr. Ecklund explained that the manner in which the bill is currently structured, the revenues will be placed into the Marine Highway Fund. Through the budget process, the fund plus the revenues from the previous year are added to the general fund monies to create the total AMHS budget. The more money raised in that fund each year, would help reduce the general fund needed for the ferry system.

Representative Croft referenced Page 4, and the revenue from pull-tab activities. He asked if that would be revenue from all pull tab activities or the revenue generated from those activities on the ferry. Mr. Ecklund advised it would only be that revenue generated on the ferry system.

Representative Hawker commented on the pre-emption of local sales tax on pull-tab activities. He referenced "home rule" and "general law" in Section 8. Representative Hawker asked if it would prohibit taxation by all municipal entities. Mr. Ecklund understood that it would prohibit all local taxation. He offered to get the information clarified.

Co-Chair Williams clarified that portion has not yet had a public hearing. It was added on the Senate Floor, with not much debate. He acknowledged that there are people that would like to see that area of the bill remain and of course, some would like to see it removed. Co-Chair Williams pointed out that the Governor understands that there will be revenue measures not supported.

#

ADJOURNMENT

The meeting was adjourned at 2:15 P.M.