

**ALASKA STATE LEGISLATURE**  
**HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

April 14, 2004

3:28 p.m.

**MEMBERS PRESENT**

Representative Tom Anderson, Chair  
Representative Carl Gatto, Vice Chair  
Representative Nancy Dahlstrom  
Representative Bob Lynn  
Representative Norman Rokeberg  
Representative Harry Crawford  
Representative David Guttenberg

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 540

"An Act relating to workers' compensation insurance rates; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 545

"An Act relating to the extension under the State Procurement Code of terms for leases for real estate and certain terms for certain state contracts for goods and services; and providing for an effective date."

- HEARD AND HELD

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."

- TABLED

**PREVIOUS COMMITTEE ACTION**

BILL: HB 540

SHORT TITLE: WORKERS' COMPENSATION INSURANCE RATES

SPONSOR(S): LABOR & COMMERCE

03/22/04 (H) READ THE FIRST TIME - REFERRALS  
03/22/04 (H) L&C  
03/31/04 (H) L&C AT 3:15 PM CAPITOL 17  
03/31/04 (H) <Bill Hearing Postponed to Fri. 4/2/04>  
04/02/04 (H) L&C AT 3:15 PM CAPITOL 17  
04/02/04 (H) Heard & Held  
04/02/04 (H) MINUTE(L&C)  
04/14/04 (H) L&C AT 3:15 PM CAPITOL 17

BILL: HB 545

SHORT TITLE: STATE REAL PROPERTY LEASE EXTENSIONS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

03/25/04 (H) READ THE FIRST TIME - REFERRALS  
03/25/04 (H) L&C, JUD  
04/07/04 (H) L&C AT 3:15 PM CAPITOL 17  
04/07/04 (H) <Bill Hearing Postponed to 4/14>  
04/14/04 (H) L&C AT 3:15 PM CAPITOL 17

BILL: SB 102

SHORT TITLE: CHARITABLE GAMING REVENUE/TAXES

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

03/06/03 (S) READ THE FIRST TIME - REFERRALS  
03/06/03 (S) L&C, FIN  
03/13/03 (S) L&C AT 1:30 PM BELTZ 211  
03/13/03 (S) Heard & Held  
03/13/03 (S) MINUTE(L&C)  
04/24/03 (S) L&C AT 1:30 PM BELTZ 211  
04/24/03 (S) Heard & Held  
04/24/03 (S) MINUTE(L&C)  
04/29/03 (S) L&C AT 1:30 PM BELTZ 211  
04/29/03 (S) Heard & Held  
04/29/03 (S) MINUTE(L&C)  
05/06/03 (S) L&C AT 1:30 PM BELTZ 211  
05/06/03 (S) Moved CSSB 102(L&C) Out of Committee  
05/06/03 (S) MINUTE(L&C)  
05/07/03 (S) L&C RPT CS 2DP 1DNP 2NR NEW TITLE  
05/07/03 (S) DP: BUNDE, SEEKINS; DNP: FRENCH;  
05/07/03 (S) NR: DAVIS, STEVENS G  
05/09/03 (S) FIN AT 9:00 AM SENATE FINANCE 532  
05/09/03 (S) Heard & Held  
05/09/03 (S) MINUTE(FIN)  
05/13/03 (S) FIN RPT CS(L&C) 3DP 2DNP 2AM  
05/13/03 (S) DP: GREEN, WILKEN, STEVENS B;  
05/13/03 (S) DNP: HOFFMAN, OLSON;

05/13/03 (S) AM: TAYLOR, BUNDE  
 05/13/03 (H) FIN AT 8:00 AM SENATE FINANCE 532  
 05/13/03 (S) Moved Out of Committee  
 05/13/03 (S) MINUTE(FIN)  
 05/16/03 (S) TRANSMITTED TO (H)  
 05/16/03 (S) VERSION: CSSB 102(L&C) AM(EFD FLD)  
 05/16/03 (H) READ THE FIRST TIME - REFERRALS  
 05/16/03 (H) FIN  
 05/17/03 (H) FIN AT 10:00 AM HOUSE FINANCE 519  
 05/17/03 (H) Scheduled But Not Heard  
 05/18/03 (H) FIN AT 10:30 AM HOUSE FINANCE 519  
 05/18/03 (H) Bill Postponed  
 05/19/03 (H) RULES TO CALENDAR PENDING REPORT  
 05/19/03 (H) MOVED TO BOTTOM OF CALENDAR  
 05/19/03 (H) IN FINANCE  
 01/15/04 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 01/15/04 (H) Heard & Held  
 01/15/04 (H) MINUTE(FIN)  
 01/28/04 (H) L&C REFERRAL ADDED BEFORE FIN  
 04/05/04 (H) L&C AT 3:15 PM CAPITOL 17  
 04/05/04 (H) -- Meeting Postponed to 04/06/04 --  
 04/06/04 (H) L&C AT 3:15 PM CAPITOL 17  
 04/06/04 (H) -- Meeting Canceled --  
 04/14/04 (H) L&C AT 3:15 PM CAPITOL 17

**WITNESS REGISTER**

LINDA HALL, Director  
 Division of Insurance  
 Department of Community & Economic Development (DCED)  
 Juneau, Alaska

POSITION STATEMENT: Characterized the timelines in HB 540 as a step backwards and requested time to allow the division to work on its proposal.

CRAIG NOOTTVEDT  
 Alaska National Insurance Company  
 Seattle, Washington

POSITION STATEMENT: Testified that he is amenable to Ms. Hall's proposal for HB 540, but expressed the need to have time to work on a compromise.

VERN JONES, Chief Procurement Officer  
 Division of General Services  
 Department of Administration  
 Juneau, Alaska

POSITION STATEMENT: Presented HB 545 and answered questions.

LARRY MEYERS, Deputy Director  
Tax Division  
Department of Revenue  
Anchorage, Alaska

POSITION STATEMENT: Presented SB 102 on behalf of the governor.

DAVID SANDEN, Manager  
Hidden Treasures, MBP  
Juneau, Alaska

POSITION STATEMENT: During discussion of SB 102, explained his proposal.

BOB LOESCHER, President  
Juneau Tlingit & Haida Community Council;  
Advisor, Alaska Native Brother Grand Camp  
Juneau, Alaska

POSITION STATEMENT: During discussion of SB 102, testified that gaming is a matter for the state to address rather than local municipalities.

GEORGE WRIGHT, Pull-Tab Operator  
Juneau, Alaska

POSITION STATEMENT: During discussion of SB 102, disagreed with the proposed 15 percent tax and Mr. Sanden's proposal.

MAC MEINERS  
Juneau Gun Club;  
Juneau Ski Club;  
United Fishermen of Alaska  
Juneau, Alaska

POSITION STATEMENT: During discussion of SB 102, suggested that the pull-tab industry be allowed to flourish.

CLARK GRUENING, Lobbyist  
City & Borough of Juneau  
Juneau, Alaska

POSITION STATEMENT: During discussion of SB 102, testified to the need for the state to be able to gather some additional revenue while allowing the municipalities that presently tax the ability to preserve the rate of taxation they have.

GERALD DORSHER, Legislative Officer  
Veterans of Foreign Wars (VFW)  
Department of Alaska  
Juneau, Alaska

POSITION STATEMENT: Urged the committee to vote down HCS CSSB 102, Version U.

ALLYN YANISH

C&A Distributors  
Fairbanks, Alaska

POSITION STATEMENT: Expressed concerns with SB 102.

LAYNE ST. JOHN

Yukon Quest International Sled Dog Race  
Fairbanks, Alaska

POSITION STATEMENT: Urged the committee to kill SB 102.

DAVID LAMBERT, Pull-Tab Operator

Fairbanks, Alaska

POSITION STATEMENT: Testified that had SB 102 been in place last year, he would've been out of business.

TJ ROGERS

Downtown Bingo

Fairbanks, Alaska

POSITION STATEMENT: Testified that SB 102 would take money away from the nonprofit organizations, which would in turn result in loss of their services to the communities.

FRED RICHARDSON, Western District Commander

American Legion

(No address provided)

POSITION STATEMENT: Urged the committee not to pass SB 102.

WILL KING

YMCA - Alaska, Armed Services

(No address provided)

POSITION STATEMENT: Expressed concerns with SB 102 and offered alternative solutions.

ED MOEGLEIN

Alaska Non-profit Charitable Organization

Kenai, Alaska

POSITION STATEMENT: Testified in opposition to SB 102.

GEORGE BRIGGS, Executive Director

Chamber of Commerce

City of Dillingham

Dillingham, Alaska

POSITION STATEMENT: Testified in opposition to SB 102.

CELENA BROWN, Gaming Manager  
Senior Center  
City of Dillingham  
Dillingham, Alaska

POSITION STATEMENT: Read a letter from Lauralee Mitchell,  
Director, Senior Center, City of Dillingham.

JOHN LANDERFELT  
Laborers Local 341  
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 102.

LYNN REESE  
Lynn's Pull-Tabs  
Anchorage, Alaska

POSITION STATEMENT: Urged the committee not to pass SB 102  
without looking for alternative resources within the gaming  
community.

JIM PEOT, General Manager  
Whaler Casino Supply  
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HCS CSSB 102,  
Version U.

#### **ACTION NARRATIVE**

**TAPE 04-41, SIDE A**  
Number 0001

**CHAIR TOM ANDERSON** called the House Labor and Commerce Standing  
Committee meeting to order at 3:28 p.m. Representatives  
Anderson, Gatto, Dahlstrom, Lynn, Rokeberg, Crawford, and  
Guttenberg were present at the call to order.

#### **HB 540-WORKERS' COMPENSATION INSURANCE RATES**

CHAIR ANDERSON announced that the first order of business would  
be HOUSE BILL NO. 540, "An Act relating to workers' compensation  
insurance rates; and providing for an effective date."

Number 0057

LINDA HALL, Director, Division of Insurance, Department of  
Community & Economic Development (DCED), informed the committee  
that the timeline in the current legislation doesn't meet what  
she believes "we should be doing for our consumers." She opined

that the timelines are a step backwards in the rate approval process. This year the division diligently tried to have rate approvals in sufficient time for employers to access the impacts of rate changes. This year the division was able to provide approximately two months advance notice. Under the scenario in the current legislation, rate approval couldn't occur until December 1, which she didn't believe was sufficient notice for employers to plan. Ms. Hall related that she doesn't intend to stop the legislation. Although the process is fine, it needs to work for all the stakeholders.

MS. HALL informed the committee that the division has a proposal that maintains the spirit of HB 540 in that it allows the hearings. However, the division's proposal does change the timeframes. She requested that the committee provide her the time to work on the proposal so that with the sponsor and the division can develop legislation that will work for everyone.

Number 0288

CRAIG NOOTTVEDT, Alaska National Insurance Company, stated that he is amenable to the proposal by Ms. Hall, although he has some concerns. He noted his agreement that Ms. Hall's proposal attempts to meet the change in the system. The hope is to have a day to work on this with Ms. Hall in order to negotiate a quality piece of legislation.

CHAIR ANDERSON announced that HB 540 would be held over in order for the parties to work on a compromise.

#### HB 545-STATE REAL PROPERTY LEASE EXTENSIONS

CHAIR ANDERSON announced that the next order of business would be HOUSE BILL NO. 545, "An Act relating to the extension under the State Procurement Code of terms for leases for real estate and certain terms for certain state contracts for goods and services; and providing for an effective date."

Number 0417

VERN JONES, Chief Procurement Officer, Division of General Services, Department of Administration, explained that currently the procurement code allows the [division] to negotiate extensions of office space leases for up to 10 years in exchange for rent reductions. This legislation would increase the state's ability to negotiate such by changing the current required threshold from a 10 to 15 percent reduction off the

existing lease rate to a 5 percent reduction from the current market rate for the area. Mr. Jones informed the committee that existing statutory restrictions on the negotiations have hampered [the division's] ability to negotiate lease extensions with the lessors. "The increase in the real estate market in Alaska combined with the way we structure our leases, often makes a 15 percent reduction from existing rental rates unattainable," he explained. Therefore, tying the reduced rate to a percentage of the current market is a more reasonable approach that he believes will allow the negotiation of reduced rates more frequently while avoiding the lengthy and expensive re-procurement process. Such an approach will avoid the costs and disruption of moving state offices and large numbers of state employees.

MR. JONES turned attention to a chart, which illustrated that lease costs consist of several elements, including lessor profit, ongoing lessor costs, and the upfront construction and tenant improvement costs. He explained that the upfront construction and tenant improvement costs are generally financed and amortized over the initial firm term period of a lease. The lessor is afforded an opportunity to bid a different price during the option periods of a lease. Generally, there is a dramatic decrease in prices after the initial firm period is over. A rate below the already-reduced option year cost is often unattainable [to the division] as opposed to a percentage below a market rate, which many more lessors are willing to negotiate. Mr. Jones said that the more often these submarket rates can be negotiated and avoid the costs of re-procurement and moving expenses the more the state saves. Mr. Jones mentioned that HB 545 would also allow extensions for other nonlease contracts.

Number 0652

REPRESENTATIVE ROKEBERG commented that the changes in the market have driven the need for some modification to this successful program. He inquired as to the methodology that would be used in order to establish the prevailing market rates.

MR. JONES answered that in the large metropolitan area of Anchorage there are independent third-party market watch services available. However, the difficulty is in regard to the rural areas for which the bill isn't specific. Mr. Jones related that the intent is to develop as many "comps" as available in order to determine what the market would be in that

area. In some cases, [the state] is the only lessor in an area, which means that [the state] may set the market.

REPRESENTATIVE ROKEBERG pointed out that in area such as Anchorage one can utilize a broker's opinion of value (BOV) as opposed to an appraisal done by a licensed real estate appraiser, which is the more costly of the two. However, he acknowledged that an appraisal by a licensed real estate appraiser lessens the ability for any mischief. Representative Rokeberg said that he was concerned with regard to accomplishing a baseline. A 5 percent reduction isn't a large margin, he noted. The existing statute is clear because there is a baseline of the existing rental rate. However, he recognized that the market conditions in an up market don't allow for "those types of things typically" unless the landlord has the "sunk" costs recovered or amortized costs of the tenant improvement allowances. "Presumably, there would be an incentive of an existing landlord to bargain for a reduced rate if he has recovered those costs. Is that not the case sometimes," he asked.

MR. JONES confirmed that is the case sometimes. However, in a market such as the current one 15 percent below an existing rate is often impossible because [the division and the lessors] feel the existing law is too restrictive.

Number 0868

REPRESENTATIVE ROKEBERG informed the committee that part of the reason for the aforementioned is the Little Davis-Bacon Act, which requires any refitting to be done under the prevailing wage laws. Therefore, the costs to the landlord are increased such that it's above the prevailing market rate. Representative Rokeberg asked whether the communications or "CAT 5" type wiring requirements have any impact on the space acquisition costs.

MR. JONES acknowledged that [the communications requirements] are a substantial cost. However, he opined that it seems to be turning into an industry standard.

REPRESENTATIVE ROKEBERG highlighted that recently the legislature renewed its lease at the Anchorage Legislative Information Office. In that case, the legislature agreed to capitalize and pay for the costs [for refitting]. He recalled that the original performer for the bid was about \$180,000, which, after going out to bid, was lowered to about \$125,000. The aforementioned was merely the cost for rewiring.

Representative Rokeberg reiterated his discomfort with the way in which the prevailing market rate is established when dynamics are present that provide the incumbent landlord a significant advantage.

MR. JONES, in response to Chair Anderson, said that he could work on addressing Representative Rokeberg's concerns.

REPRESENTATIVE ROKEBERG turned attention to Section 1(a)(2) of the legislation. He questioned why the [state] would want to extend a contract for goods or services up to a maximum of five years "if a minimum cost savings of at least 5 percent can be achieved on the price of goods or services established in the contract." He further questioned why the aforementioned would be chosen rather than go out in the market and re-bid it.

MR. JONES specified that the [language in Section 1(a)(2)] was included as an additional tool, and he didn't anticipate widespread use of it. Mr. Jones related that [the division] is in the process of brainstorming with regard to developing ideas to reduce the costs of goods and services as well as the leases. From a procurement standpoint, the first option is always to go out and obtain competition in the market place. The approach under discussion would probably only be used when it is felt that the open market would result in higher costs. Mr. Jones said that since [the division] doesn't have experience in the approach [laid out in Section 1(a)(2)], he could only relate that the ability to negotiate leases will be used much more often than the ability to negotiate procurement contracts.

REPRESENTATIVE ROKEBERG asked if the typical contract for goods or services is five years for procurement of materials and services.

MR. JONES said that often there are long-term contracts for items such as copiers and fax machines or office supplies. However, those are shorter contracts and less frequent than are the leasing contracts.

REPRESENTATIVE ROKEBERG said that he did agree with the department with regard to the lease premise. However, he maintained his concern with the other option that must show only a 5 percent cost savings because of the substantial opportunity for mischief.

MR. JONES said that it's not the intent to do mischief. Furthermore, 5 percent was utilized as a reasonable starting

point and [the division] isn't married to it. In fact, the contract for goods or services is the lesser part of this legislation. If the committee is uncomfortable with the 5 percent in Section 1(a)(2), the [division] is amenable to increasing the percentage or removing it altogether.

Number 1216

REPRESENTATIVE ROKEBERG, with regard to the leasing contract, inquired as to reallocation costs and other costs that would be incurred. He also asked if there are any examples that illustrate the 5 percent may have saved the [department] money.

MR. JONES informed the committee that moving costs are generally estimated at \$1 per foot. Tenant improvements and upfront construction are generally substantial for a large-size lease. There are also telephone relocations and CAT-5 cables are expensive. He said he could provide the committee with specific numbers later. Furthermore, the disruption of a relocation is difficult to quantify. He noted that there are other things, such as the changes required for letterhead, business cards, and signage, that generate costs. With regard to the 5 percent, Mr. Jones reiterated that it's just an idea and [the division] has no particular plans for it. In virtually every aspect of the business in General Services, the division has attempted to develop ways to cut costs.

Number 1350

REPRESENTATIVE ROKEBERG noted that HB 545 has a House Judiciary Standing Committee referral. Although there are some savings to be had with this legislation, he requested that the administration develop a tighter definition with regard to establishing the prevailing market rates. He further requested that the administration review the concept embodied in Section 1(a)(2) in order to develop a better argument for its need.

MR. JONES said that he would have the aforementioned done by Friday.

CHAIR ANDERSON announced that HB 545 would be held over.

SB 102-CHARITABLE GAMING REVENUE/TAXES

CHAIR ANDERSON announced that the final order of business would be 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."

Number 1475

REPRESENTATIVE CRAWFORD moved to adopt HCS CSSB 102, Version 23-GS1131\U, Luckhaupt, 4/5/04, as the working document. There being no objection, Version U was before the committee.

Number 1492

LARRY MEYERS, Deputy Director, Tax Division, Department of Revenue, provided the following testimony:

The current bill proposes to increase the tax collected on pull-tabs from 3 percent to 15 percent. Pull-tabs account for 77 percent of all legalized gambling currently done in the state. In 2002, the state collected \$2.1 million in taxes on \$60 million of ideal net, which is gross sales less the prizes paid out. After expenses, \$25 million net proceeds were available for distribution for qualified uses in the state. Charitable gaming in Alaska is a heavily regulated industry. In order to stay in compliance in pull-tabs, expenses cannot exceed 70 percent of gross sales less prizes or, as it is known in the industry, adjusted gross. The proposed tax increase is one of those expenses. In order to stay within the 70 percent expense limit and distribute the same amount of net proceeds to qualified organizations, one of two things or a combination must happen under the proposed tax increase. One, the prize payout must ... decrease from the current average level of 78 percent. Or, two, expenses must be reduced.

The bill before you attempts to help the qualified organizations who are currently paying local sales taxes by prohibiting any sales tax. Currently, there are 16 cities paying a sales tax on pull-tabs ranging from 2.5 percent to 5 percent. Most notably, are Juneau at 5 percent, Palmer at 3 percent, Nome at 4 percent, Wasilla and Seward at 2.5 percent. All told, approximately 18 percent of gross pull-tab receipts are subject to a sales tax.

MR. MEYERS, in response to Chair Anderson, said that he has seen the newest version of the legislation. With regard to concurring with the grandfathering [provision], Mr. Meyers said that he just reviewed the legislation and would pass that on [to the governor].

Number 1603

CHAIR ANDERSON related that under Version U, the state would impose a 15 percent tax on the ideal net proceeds from pull-tabs. However, the state tax wouldn't apply to pull-tabs sold in a municipality currently levying a use tax on pull-tabs. Chair Anderson explained that the committee must weigh the impact of the proposed tax as well as [its impact] in conjunction with other pull-tab taxation and the position of charities who don't want to be taxed. Version U is a partial compromise in that it helps municipalities by grandfathering them in. Version U would allow only those municipalities currently levying taxes [on pull-tabs] to tax on a gross receipt basis or an ideal net basis. Therefore, pull-tab operations would be taxed by either the state or one or more grandfathered municipalities.

REPRESENTATIVE GUTTENBERG asked if Mr. Meyers has done an analysis regarding what a 15 percent tax would do to the pull-tab industry.

Number 1699

MR. MEYERS answered that a 15 percent tax in a community that already has a sales tax would be detrimental to the pull-tab industry. With Juneau's 5 percent sales tax a \$1,000 game would amount to \$50 in sales tax and the current tax of 3 percent would amount to \$6.60 on an average game, which totals \$56.60. However, a business in Anchorage paying the same game under the current 3 percent tax only pays the \$6.60. Therefore, a community such as Juneau is at about a \$50 disadvantage. Mr. Meyers said that under the 15 percent proposal there would be some operations that couldn't make it, although he expected the majority would be able to comply.

REPRESENTATIVE GUTTENBERG asked if any analysis has been done with regard to the loss of revenue to the nonprofits.

MR. MEYERS related that the goal with this [tax increase] is to ensure that the charitable and nonprofit organizations aren't the entities that absorb the increased tax. The hope is that

the same amount of money would continue to be distributed to the community. Therefore, the [pull-tab industry] must get a better handle on the expenses or the prize payout would have to be reduced. Currently, the average state payout is about 78 percent. The calculations show that if the prize payout dropped from 78 to 76 percent with the same amount of gaming, the charities wouldn't lose any money.

Number 1803

REPRESENTATIVE ROKEBERG asked if fiscal note Number 3 is applicable to Version U.

MR. MEYERS said that the fiscal note will be impacted by the "grandfathering" that occurs in Version U. Under Version U, at least 18 percent of the current projected revenue wouldn't be available.

REPRESENTATIVE ROKEBERG turned attention to the document entitled, "SB 102 COMPROMISE PULL TAB TAXATION PROPOSAL." Upon discussion with the chair, it was indicated that the compromise pull-tab taxation proposal isn't part of Version U.

Number 1905

DAVID SANDEN, Manager, Hidden Treasures, MBP, remarked that if the committee decides to go with Version U, it will have to ensure that one can't launder games. He explained that currently one doesn't have to report by location, and therefore games can be purchased in Anchorage and sold in Fairbanks. The proposal is for one tax. "We think the 15 percent threshold is fine," he related. Mr. Sanden informed the committee that the current ideal net in the state is \$70,504,867 and with the 1 percent and other state fees the state currently receives about \$2,585,507. Under the governor's request for an additional \$2 million, the tax would have to increase for 3 percent to 5.84 percent. Representative Williams suggested a sliding tax, which averaged 14 percent. However, Mr. Sanden expressed the need to have one tax at 15 percent that would apply universally to every community, then split the tax 50:50 with each municipality. The aforementioned proposal would provide the state with \$5,287,865 in comparison with the current take of \$2,585,507. Mr. Sanden highlighted the municipal share of taxation his proposal would bring by region, which can be found on the bottom of the document entitled, "SB 102 COMPROMISE PULL TAB TAXATION PROPOSAL." Under Mr. Sanden's proposal the state would be a winner because it would receive double what it's receiving now.

The local municipalities currently not taxing gaming are also winners. The permit holders would be a winner because this proposal creates a uniform taxation system. However, a partial loser would be municipalities that are currently taxing. Although municipalities that are currently taxing would [see a reduction in their revenue flow], it would create sustainability for the pull-tab industry in those communities. The largest losers are the operators, gaming managers, and gaming administrators because most of the excess in the pull-tab industry is the administration.

MR. SANDEN highlighted that his proposal is how gambling is taxed nationwide in that the states and the federal government seize a portion of the ideal net, which is then distributed as those entities see fit. In this case, Mr. Sanden is proposing a 50:50 distribution. Mr. Sanden mentioned that currently the state isn't taking care of addicted gamblers, the local municipalities bear that burden. Therefore, Mr. Sanden said that he believes every municipality should receive something from gambling.

CHAIR ANDERSON thanked Mr. Sanden for his hard work this session and last and for coming forward in a proactive manner with a solution.

Number 2066

REPRESENTATIVE ROKEBERG related his understanding that a charity in Juneau, for instance, can place its "licenses or ability" with premises in another municipality and generate revenues in that other municipality which are returned to the charity in Juneau.

MR. SANDEN confirmed that the aforementioned is possible and does happen. However, Hidden Treasures, MBP, which consists of three nonprofits, only games in Juneau, Alaska. Currently, the state doesn't regulate where one can or cannot game. Mr. Sanden related that his organization doesn't feel it would be appropriate to game in another city and bring the proceeds back to Juneau. In further response to Representative Rokeberg, Mr. Sanden explained that if an organization performs gaming in a town outside of Juneau, Juneau couldn't tax the gaming because it can only tax gaming in the municipality where it actually occurs. Therefore, if one games in Anchorage, it would be tax-free.

Number 2136

REPRESENTATIVE GATTO surmised that the municipal taxation by region is proportional to the population. Therefore, he questioned what would happen if a region such as Fairbanks outlawed gaming. In such a scenario, would Fairbanks still receive its 15 percent, he asked.

MR. SANDEN replied no, and clarified that his numbers are based on the Department of Revenue's numbers. He further clarified that these numbers are based on a Senate Labor and Commerce Standing Committee interim report. That report specified that the ideal net is \$70 million and the state, with its 3 percent tax, is receiving \$2.1 million as well as a 1 percent net proceeds fee that amounts to \$341,000, and permit licenses bring in \$128,800. He explained that he obtained the state's census data and broke it out by region and made the assumption that each region gambles per capita equivalently. Therefore, if Fairbanks outlawed gambling, it wouldn't generate any revenue and thus wouldn't receive any revenue. Mr. Sanden highlighted that under his proposal, one has to report where it's getting its games, and therefore when the state collects its tax, it will know how many games are sold to each area. The aforementioned allows for the proportional split of the tax revenue. He noted that for unorganized boroughs, for which the state already "foots the bill for," the state would receive the entire proceeds.

Number 2225

BOB LOESCHER, President, Juneau Tlingit & Haida Community Council; Advisor, Alaska Native Brother Grand Camp, informed the committee that he is representing some of the clubs operated by the Tlingit & Haida Community Council and the Alaska Native Brotherhood. Mr. Loescher related that charitable gaming is a state concern with statutes and regulations, and therefore should be managed by the state. He said that the organizations he represents aren't in support of municipalities taxing charitable gaming. He acknowledged that Version U includes language specifying that communities with a tax on charitable gaming would be grandfathered in, which he viewed as problematic. If the aforementioned is done in Juneau, it would amount to a 43 percent tax on charitable gaming, which would result in the organization he is representing immediately going out of business. A compromise could possibly allow the grandfathering in of these communities with the caveat that the tax couldn't be greater than that prescribed in the statute.

Number 2312

MR. LOESCHER turned to the 15 percent adjusted net tax, and explained that it's collected at the time the box of pull-tabs is purchased from the distributor. However, the law applies differently to operators, coops, and self-directed organizations. Self-directed organizations have to pay the tax upfront, which, coupled with the tax collected at the time the pull-tabs are purchased, amounts to a lot of upfront money.

**TAPE 04-41, SIDE B**

MR. LOESCHER opined that if charitable gaming is taxed, the 15 percent is a bit too high. He suggested that 11 percent would be a better range, although the sliding scale proposed by the [House] Finance Committee is even more favorable.

MR. LOESCHER, in response to Representative Rokeberg, explained that the City & Borough of Juneau has a 5 percent tax on the gross [receipts]. If that's converted to an equivalent adjusted ideal net, that 5 percent is equivalent to about 28 percent. Therefore, the 15 percent plus the 28 percent equivalent totals 43 percent.

Number 2309

GEORGE WRIGHT, Pull-Tab Operator, Operator 84, informed the committee that he games in Fairbanks, Anchorage, and Juneau. He stated that he disagrees with the 15 percent tax based on the same arguments as Mr. Loescher. It's a large burden for some of the charities to raise 15 percent of the ideal net upfront. He predicted that this proposed tax will "kill off" many charities. He, like Mr. Loescher, related that he liked the sliding scale proposal of Representative Williams. The adjusted gross should be the only thing that is taxed, he said. Mr. Wright opined that the municipality shouldn't be able to tax if the state does. Mr. Wright said that he didn't agree with Mr. Sanden's proposal, which he viewed as too complicated.

MR. WRIGHT informed the committee that the pull-tabs are purchased from a registered distributor and those games are registered to the charities. Where those games are sold and played is reported when the distributor files his or her report. Therefore, he didn't believe there was a problem in regard to knowing what games are being sold in what location. The tax in Version U will hurt many charities. He noted that he works with charities throughout the state. "The irony of this is gaming in

locations like the other body was talking about. It's Okay for a villager to come in for AFN [Alaska Federation of Natives] in Anchorage and spend their money, but it's not Okay for them to come into Anchorage and raise money for their kids to stay off of drugs and play basketball, or hockey, or baseball. I don't understand that," he said. Mr. Wright noted that the Alaska Native Brotherhood has opposed the tax [on charitable gaming] for some time. Although [the Alaska Native Brotherhood] is surviving the current tax, the additional 15 percent burden on the adjusted gross is incorrectly calculated because it should be paid at the end of the year when filing for permits. Therefore, there could be a 3-4 percent tax when purchasing the games and the 11 percent could be paid at the end of the year.

Number 2197

REPRESENTATIVE ROKEBERG questioned the difference between backloading the tax payment versus frontloading it.

MR. WRIGHT specified that the difference is that by backloading the tax, one has the ability to actually sell the games and earn the money.

REPRESENTATIVE ROKEBERG related his understanding that these pull-tab organizations have a revenue stream.

MR. WRIGHT answered that in his 12 years of gaming he hasn't received any startup money from a charity. He further said that he didn't know of any charities that provide startup money.

REPRESENTATIVE ROKEBERG inquired as to the cost of a typical box of pull-tabs.

MR. WRIGHT informed the committee that a popular pull-tab game, such as Blue Stars CrissCross, has about 2,500 tickets and will cost \$78. The profit on such could be between \$150-\$300 depending upon the version. Therefore, 15 percent of the \$300 profit plus the price of the game results in upfront costs of \$110. The aforementioned is a fairly large burden, especially when one is purchasing 40 such games to fill a shop. Small organizations with only a couple of bins of pull-tabs only run 3-4 boxes of games and it takes a long time to sell out those games. Furthermore, one must take into account dealer errors, employee theft, and poor cash handling.

Number 2101

MAC MEINERS, Juneau Gun Club; Juneau Ski Club; United Fishermen of Alaska, informed the committee that he has vendor relationships for his clubs. He suggested that the committee think of [pull-tab organizations] as small businesses and the charities involved in these small businesses do so in order to generate revenue. When excessive amounts of taxes are placed [on charitable organizations], they come to the legislature requesting funds. "So, instead of taxing us out of proportion, why don't we let it flourish and why don't we all get a little piece of the action," he suggested. He indicated that he would like to pay [taxes] to only one [entity]. Mr. Meiners said that he has gamed throughout the state, mainly outside of [Juneau] because he makes more money elsewhere. He noted that the money he paid in taxes to Juneau outweighs the money he makes in other towns. In fact, he suggested that he is probably one of the largest taxpayers in town. He related that he doesn't make a large amount of money [helping these charities].

MR. MEINERS, in response to Chair Anderson, said that in regard to Mr. Sanden's plan he could see the equitable split, although he couldn't see so much of the ideal net go. If the state and municipalities are going to split [the tax], then he suggested a lower ideal net.

CHAIR ANDERSON asked if Mr. Meiners agreed that if the provision specifying that the tax wouldn't be collected on pull-tabs distributed and sold or used in a municipality that is already levying a sales or use tax on them is necessary, it should have a cap. With a cap, Chair Anderson surmised that the state would receive a lesser amount while the cities would remain the same.

MR. MEINERS said that he didn't view giving the state or the municipality more would really work. If the pull-tab industry is to flourish and generate revenue, it must be played in the middle. He explained that pull-tabs flourish on honesty and the good feeling about where the money is going. He highlighted that how the taxation and distribution occurs is in the legislature's hands. However, for this to result in the folding [of pull-tab establishments] and the [loss to the] charities [is of concern].

Number 1903

CLARK GRUENING, Lobbyist, City & Borough of Juneau, noted that although he didn't draft Version U, he was involved with it. The two communities that worked on the amendments to the legislation, now Version U, were Nome and Juneau. Mr. Gruening

emphasized that the 15 percent ideal net tax was included in the legislation as it came over from the Senate, it isn't something the cities requested. The concept of this legislation is to protect the taxes the 12 municipalities already levy on pull-tabs. He noted that the committee packet should include a document prepared by the Alaska Municipal League, which specifies who taxes pull-tabs. Version U eliminates the state tax within those municipalities that already tax the pull-tabs. Therefore, there wouldn't be any additional tax on top of the proposed state tax.

MR. GRUENING noted that there is a small error. He also noted that the Nome rate of taxation is 5 percent of gross. Version U limits that taxation, and therefore "those that are grandfathered in can't tax beyond that amount." Additionally, the state tax wouldn't be on top of it. Mr. Gruening mentioned that Mr. Sanden has done a lot of work on this matter. Although the City & Borough of Juneau hasn't closed the door on reviewing its rate, given the fact that most state aide has been lost municipalities need all the revenue that can be obtained. "There should be a way that both the state can gather some additional revenue and the municipalities that presently tax can preserve that rate of taxation they have," he remarked.

Number 1754

REPRESENTATIVE ROKEBERG asked if Version U means that the municipalities assessing a tax on pull-tabs will be relieved of any additional state tax burden.

MR. GRUENING related that he has been told that the actual rate is about 21 percent of the ideal net, which generates \$600,000 for Juneau. Surprisingly, it's fairly high for many rural communities as well.

REPRESENTATIVE ROKEBERG turned to the grandfather provision, and surmised that the current state tax is being paid [in Juneau].

MR. GRUENING replied yes. He directed attention to page 2 and the deleted language on lines 1-3. The distributors are currently collecting 3 percent of an amount equal to 3 percent of gross receipts less the prizes awarded, which amounts to about \$2 million. However, CSSB 102(L&C)am(efd fld) included a tax on the ideal net, which results in an additional \$10 million. The cities already collecting would be subtracted from that \$10 million, and therefore it would [under Version U] amount to \$7-8 million additional revenues to the state. Mr.

Gruenberg said that [the City & Borough of Juneau] has no position on whether that's a fair rate of taxation for the state.

Number 1652

REPRESENTATIVE ROKEBERG returned to Mr. Loescher's notion of a cap in order to protect the charitable share. He asked if the City & Borough of Juneau would have any thought on that particular notion.

MR. GRUENING suggested that the City & Borough of Juneau's view would be that it's a local decision. If the state is going to greatly increase its taxation in this area, then it should take into account the overall impact. [Version U] eliminates the aforementioned effect in those municipalities [that are already taxing pull-tabs]. Whether it's too much for another area of the state is for the legislature to decide.

REPRESENTATIVE ROKEBERG pointed out that Juneau has a tax of 5 percent of the gross, which seems to be the only municipality with that specific number.

MR. GRUENING informed the committee that Nome now has the same.

REPRESENTATIVE ROKEBERG pointed out that Version U specifies that rate of taxes of gross receipts can't exceed 5 percent. Therefore, he questioned whether all those below 5 percent will be able to raise their tax rates.

MR. GRUENING replied yes.

REPRESENTATIVE ROKEBERG commented, "So, we give them a free ride, a pass, and then encourage them to raise their taxes. I don't get."

MR. GRUENING clarified that he isn't advocating that the state increase its present tax from 3 percent of the gross after prizes to 15 percent of ideal net. Given the list of those municipalities that would be grandfathered in, "it's probably going to be ... not much more than you see on that total on the list, which totals about \$1.8 million."

Number 1516

REPRESENTATIVE LYNN commented on the tremendous differences in revenue rates and asked if there have been any calculations of the amount of revenue raised per capita.

CHAIR ANDERSON said that the committee could try to obtain that information.

Number 1436

GERALD DORSHER, Legislative Officer, Veterans of Foreign Wars (VFW), Department of Alaska, began by informing the committee that the VFW and Ladies Auxiliaries are listed as having 34 pull-tab permits. Last year, \$270,966 was returned to the communities. Furthermore, 31,000 hours of community services came from the VFW and its families. This year, \$329,484 has already been returned to the communities from pull-tabs. The additional tax embodied in SB 102 would be detrimental to the process. Mr. Dorsher recalled earlier testimony that the City & Borough of Juneau gives money from its 5 percent to various organizations, however it's a very complicated application process. On the other hand, [the VFW and similar organizations] see a need and proceed with a donation. He urged the committee to vote down HCS CSSB 102, Version U.

Number 1308

MR. LOESCHER noted that he may have been in error with regard to the 5 percent conversion, which may actually be 21.5 percent. If it is 21.5 percent and to that is added the 3 percent and the 1 percent of the state, it amounts to between 26-28 percent. Still, when the 15 percent is added it's a lot for a charity to pay. Mr. Loescher expressed the need to keep in mind equity when making broad public policy. Therefore, he reiterated that charitable gaming is a matter of state concern and should be managed and regulated by the state. If the city is grandfathered at 21 percent, it's still higher than what the state might have in whatever comes out of the legislature. Furthermore, the rates will vary across the state. The question is in regard to equity and applicability of tax law. Mr. Loescher related that he would lean toward the notion that there should be fair taxation on all charities across the state. If the committee decides to go in the direction of the grandfathering provision, the municipalities should be grandfathered but should not be allowed to tax in an amount greater than the state taxes statewide. Therefore, the City & Borough of Juneau would have to reduce its tax to 15 percent under Version U.

CHAIR ANDERSON turned the gavel over to Vice Chair Gatto.

Number 1145

ALLYN YANISH, C&A Distributors, highlighted that this proposed tax is a 500 percent increase on the charities. Furthermore, nonprofits using a vendor relationship will experience a decrease in net pull-tab income ranging from 75-80 percent. Mr. Yanish also highlighted that he didn't know of any other industry in the state that has a taxed dollar amount that's greater than the actual price of the product itself. Mr. Yanish turned to the Department of Revenue statement that the difference can be made up with a lower payout game. He provided the following example:

One of the games popular ... in Southeast - based on an industry standard in Alaska is about a ... 85 percent payout .... The current price from a distributor would be about \$43 for the ... deal of the game. ... the net profit of the game is \$320 and currently the tax that that charity spends is \$9.60. The total price to the nonprofit ... would be \$52. But, then if you take the 70:30 split between the bar or the vendor, which 70 percent goes to the nonprofit group 30 percent goes to the bar, right now the net pull-tab income for the nonprofit would be \$171.22 basically. That's the price of the game, the profit, and the split. Under the ... change on SB 102, the same price on the game, 15 percent tax on that game would be \$48. So, right there is \$5 more, just on the tax, than what the game is worth .... The total price to the nonprofit would be \$91.18 for about a 78 percent decrease in revenue. The net pull-tab income for the nonprofit, then at the 15 percent, is \$132. Then to tax at the lower payout - I got a game here that I did numbers on - it has a 28 percent profit or about a 72 percent payout and you would have about an 80 percent decrease in net revenue to the nonprofit.

Number 0984

REPRESENTATIVE GUTTENBERG turned to Mr. Yanish's calculation of the decrease in revenue to the nonprofits of between 75 and 80 percent. He related his understanding that the administration expects that loss to be absorbed by the administration of these games. He asked if Mr. Yanish could comment.

MR. YANISH informed the committee that under the 15 percent on the ideal net proposal, he ran an 85 percent payout game and a 72 percent payout game. According to his calculations, there will be a higher decrease on the lower payout. Players won't play because they won't be winning, and therefore the games won't be sold fast enough. He expressed the need to allow those in the industry and those who know the industry to come together to develop an equitable solution.

Number 0872

LAYNE ST. JOHN, Yukon Quest International Sled Dog Race, recommended that the legislation be killed. However, if that's not to be, then he suggested a more reasonable increase because a 500 percent increase will be detrimental to every nonprofit in the community. Mr. St. John turned to the issue of equity and pointed out that under [Version U] it seems that Juneau would have no money removed from its community while Fairbanks would experience a loss of nearly \$1 million. Therefore, those permittees in those areas with a sales tax would actually take a reduction "in what they're paying" while the remaining permittees would have to cover it with the increase. Mr. St. John said that this legislation takes directly from the nonprofit's coffers. Furthermore, the people receiving the services from the nonprofits lose.

Number 0759

DAVID LAMBERT, Pull-Tab Operator, informed the committee that he represents about 20 nonprofits. Mr. Lambert specified that this legislation would put him out of business and in excess of 20 nonprofits would [receive no funds]. There isn't room for a 12 percent profit in this business, he said. Based on last year's figures, the proposal in SB 102 would have placed his business \$168,000 in the hole. "What works in Juneau doesn't necessarily work here," he remarked. Mr. Lambert echoed earlier remarks that people knowledgeable about gaming should be working on this issue. He indicated support of the notion of a gaming commission, although he wasn't supportive of Mr. Sanden being on it.

Number 0631

TJ ROGERS, Downtown Bingo, informed the committee that Downtown Bingo is a MBP representing three nonprofit permittees. He pointed out that all of his permittees, as he imagined is the

case for all in the state, fall under one of the categories of 501(c) tax laws that are tax exempt. However, he noted that the federal government does tax [the pull-tab industry] minimally. Up to this point, Mr. Rogers said he thought the state was "in line" with the aforementioned and taxed the industry at a rate [commiserate] with its oversight responsibilities. The entire notion of tax-exempt nonprofits is due to the community service they provide, which relieves the state and the federal government of that burden. However, [this legislation] will take the money right from the nonprofits and reduce their ability to provide the services they currently provide. Furthermore, he didn't believe the state would "pick up the tab" for those lost services. Mr. Rogers opined that the state should only collect what is necessary to cover the costs for its responsibilities and not try to fill the coffers of state government.

Number 0485

FRED RICHARDSON, Western District Commander, American Legion, informed the committee that he represents some 24 American Legion posts and some 7,000 members. Although Mr. Richardson recognized that the state is in a budget crunch, increasing the gaming tax to 15 percent isn't the way to [address it]. He explained that most of the American Legion posts spread out the gaming. He related that his post sponsors high school baseball programs for coaches, Veterans in Distress, a local Boy Scout troop, 4-H programs, junior shooting programs, et cetera. "I don't think any of the money you wanted to take out and increase gaming taxes will be used for these community projects, which means we should have to cut back or drop some of these worthwhile programs," he remarked. In conclusion, he urged the committee not to pass SB 102 because it will hurt many people and many needed community programs.

Number 0321

WILL KING, YMCA - Alaska, Armed Services, informed the committee that YMCA of Alaska is a 501(c)(3) nonprofit charitable organization, which provides programs and services for military members and their families throughout the state. The organization has a gaming permit and is currently self-directed. Currently, the organization uses four vendors in Anchorage to use pull-tabs as a source of revenue for the organization. Mr. King expressed concern with SB 102 because it increases the pull-tab tax by 500 percent. The additional expense would be borne by the pull-tab permittee or charity, and furthermore the

net proceeds would significantly decrease. Mr. King related the standpoint of his organization as follows. Based on 2003 charitable gaming revenues, a 15 percent pull-tab tax would amount to a \$22,000 decrease in his organizations' ability to provide programs and services. He noted that for his organization, charitable gaming represents about 10 percent of the annual operating budget. There are other charities that rely more heavily on gaming revenues, he highlighted.

MR. KING expressed concern that only the pull-tab permittees are being taxed. Although he didn't mind being a part of the solution for the state budget problems, he suggested that other areas of the industry should be looked at as well. There is no language in this legislation or any other proposed legislation that would increase fees on pull-tab manufacturers, operators, bingo raffles, or other lottery activities. "This bill simply applies to taxing permittees who vend pull-tabs and directly takes money out of the pocket of the nonprofit charitable organizations gaming was designed to help," he pointed out. Therefore, he proposed returning "charitable" back to charitable gaming statutes by not penalizing an entity with a 500 percent increase in taxes. Mr. King echoed earlier testimony that under this legislation, the tax on the pull-tabs would amount to more than the cost of the pull-tab games.

[Vice Chair Gatto returned the gavel to Representative Anderson.]

Number 0023

MR. KING pointed out that the original legislation proposed by the governor in SB 102 and HB 169 proposed a 5 percent tax, which has now grown to 15 percent.

**TAPE 04-2, SIDE A**

MR. KING suggested that perhaps gaming fee permits, which currently range from \$20-\$100, could be increased. Similarly, perhaps vendor permits, currently \$50, could be increased. He also suggested that there could be an increase in permit or license fees for the manufacturers, distributors, and operators.

Number 0119

ED MOEGLEIN, Alaska Non-profit Charitable Organization, informed the committee that the aforementioned organization is a member of a local charitable organizations of the VFW, the American

Legion, and Vets Elks and Eagles. The aforementioned organizations have united to protect the organizations' ability to raise revenue for the organizations, members, programs, and services. He opined that collecting revenue for the state from charitable gaming would be more harmful to all Alaska communities than could any funds to help the state's revenue shortfalls. Mr. Moeglein highlighted that the members of the community service organizations volunteer their own time and money to support their communities, local charities, and people who need support that isn't provided by any other agency. Mr. Moeglein requested the committee's support against any legislation that would take away any volunteer effort or revenue from any [charitable organization]. In conclusion, Mr. Moeglein requested that the committee defeat SB 102 and all other legislation that would be harmful to all volunteer efforts.

Number 0287

GEORGE BRIGGS, Executive Director, Chamber of Commerce, City of Dillingham, opined that SB 102 doesn't do any gaming association any good. Mr. Briggs noted that the City of Dillingham has a sales tax of 6 percent. Therefore, he assumed that under [Version U] the City of Dillingham would be grandfathered in and decrease its [rate of tax on gross receipts] to 5 percent. In the aforementioned scenario, he questioned how that would impact the 3 percent on ideal net. He asked if the 3 percent on ideal net would be paid as well as the 5 or 6 percent sales tax.

CHAIR ANDERSON answered that he didn't believe so.

MR. BRIGGS related that even so, he isn't in favor of SB 102. However, if there's going to be a tax, somewhere between 3-6 percent of ideal net would be a good compromise.

Number 0430

CELENA BROWN, Gaming Manager, Senior Center, City of Dillingham, read a letter from Lauralee Mitchell, Director, Senior Center, City of Dillingham, as follows:

The City of Dillingham Senior Center is a nonprofit organization. Seniors in Dillingham and 32 surrounding villages and Bristol Bay benefit from our services and programs. The NTS grant that drives our program was cut more than \$200,000 for FY 04. Our pull-tab operation has helped us supplement a larger percentage of the most needed of services in Bristol

Bay. Others have been dropped. Our association with the City of Dillingham has many benefits in the form of lower prices in gas, heating fuel, propane, and freight. The city extends in-kind services to us in the form of building maintenance, snow removal, vehicle maintenance, ... personal services, and volunteers. The City of Dillingham takes an active role in our program as well as programs in the school. And we would like to see them to continue to grow for our seniors and the future of our children. The tax that the city charges on pull-tabs goes into our general fund, which is distributed to various departments to run our city, one of which is our school district ... [with] a budget of \$6.6 million a year and which the city provides \$1.1 million from our general fund.

MS. BROWN [speaking for herself] opined that she didn't believe the committee understood the impact this legislation would have on the smaller communities. Without [charitable gaming] many seniors will have to go to the state and request money.

Number 0563

JOHN LANDERFELT, Laborers Local 341, began by relating Laborers Local 341's opposition to SB 102. He explained that SB 102 would result in undue harm to an industry that provides Laborers Local 341 with funds that it distributes to a large number of charities. The charities include youth sport teams, educational charities, scholarships, and medical charities.

Number 0626

LYNN REESE, Lynn's Pull-Tabs, Operator 77, informed the committee that she contracts with the American Red Cross, the American Lung Association, the Alzheimer Association, Blood bank of Alaska, and Community Schools. "Quite simply, SB 102 shuts my doors and throws me and the aforementioned out on the street," she said. She opined that if SB 102 shuts her down, it will also cause other small operators and programs to close. She noted her agreement with the economics of this legislation on the industry as presented by Mr. Yanish and Mr. Lambert.

MS. REESE highlighted that currently bingo paper, a form of charitable gaming, isn't being taxed. She suggested that the state could collect, in conservative terms, approximately \$2 million. Unlike pull-tabs, a tax on bingo paper could be passed

on to the consumer for a nominal cost. These taxes could be collected at the distributor level. Ms. Reese said she would happily prepare a written proposal based on the 2002 Annual Gaming Report. Ms. Reese urged the committee not to pass SB 102 without looking for alternative resources within the gaming community.

Number 0719

JIM PEOT, General Manager, Whaler Casino Supply, informed the committee that he has been involved with charitable gaming for over two years. Mr. Peot said that he is opposed to the current form of the legislation, HCS CSSB 102, Version U. Mr. Peot paraphrased from a September 28, 2003, letter he drafted to Senators Wilken as follows:

This letter is initiated in opposition to the current form of ... SB 102 ..., which raises the gaming tax from 3 to 15 percent of the ideal net profits. Whaler Casino Supply is a distributor of pull-tabs and other gaming supplies throughout the state. Currently, our business collects and pays the state department of gaming ... up to \$50,000 per month of gaming tax. This equates roughly to 14 to 20 percent of our monthly company gross sales. If the tax were increased 15 percent - that's a 500 percent increase - we'd be collecting and paying to the state an estimated 50 percent, and that's going to be anywhere from \$100-\$200,000 per month of our monthly gross sales to the state. This proposed increase in the tax will place the burden and liable of tax collection on the distributors. If this proposed bill passes in its current form, we can change our current business model from being a premier supplier of pull-tabs and gaming supplies to primarily being tax collectors for the state. And that's why providing gaming supplies would be our secondary business. I do not believe distributors should primarily be in the business of [tax] collectors for the state while assuming considerable financial risk. It should be the state's responsibility to collect these monies ....

MR. PEOT paraphrased a later paragraph in the aforementioned letter as follows:

I strongly believe that such a drastic tax increase will have a profound effect on the state's gaming

industry. Raising the gaming tax 500 percent will most likely result in the collapse of many charities that participate in gaming as a source of revenue, collapse of many operators, and insolvency for many of us distributors. ... it's unfair, there needs to be some ... protection measures to protect the distributors for slow payers or no payers. That is quite a tall order for the state to pass on to the distributors, is to raise that tax up to 500 percent. If we were to miss a few payments, we really have no recourse. Any of the charities are not bonded, the operators are the only ones that are bonded and their bond is not even applicable if they pay their distributor. And what we have found in many cases is that some of these charities refuse to pay the state, the state will suspend their license. But there's really no recourse for the distributors because we can't really go after anything because what are you going after. You're going after an entity that has no assets and really has no tangible things connected to it. ... if we were to pass this bill, and I just think that we should re-look ... at the amount of tax. Do a study to see if that's the right thing and put in some "protectionary" measures to protect the distributors. Now also speaking from the distributor's point of view, I'd say that we're kind of at the hub of the industry. We see stuff coming from the manufacturers and we really have our ... finger on the pulse because we ... deal with all different shapes, sizes ... of all the different charities. And from the people I've spoke with, including Ms. Reese ..., she's pretty indicative ... of a typical person. Now the big players, I would say they will be able to absorb this new cost, but many of these people that have high costs -- they're really going to take a hit. And if the state is proposing to raise this ... tax, going from \$2 million up to \$10 million, that \$8 million is ... basically you're going to be taxing the charities, that's who's going to be paying for it.

CHAIR ANDERSON commented that he didn't enjoy taxing pull-tabs. He further commented that the state needs an overall fiscal plan, but he said he didn't believe this is the way to do it. Moreover, this [legislation] won't solve [the state's fiscal] problem. However, he expressed the desire for continued debate

and dialogue on this matter. Chair Anderson informed the committee that there was a request to send SB 102 to the House Labor and Commerce Standing Committee in order to have more testimony and review the impact this legislation would have on municipalities. He said he felt that the aforementioned has been accomplished with the work [the committee has done] with the municipal league and the cities that have testified. Although he felt that the cities have come to somewhat of an agreement with [Version U], he opined that the charities still have a point with regard to the level of taxation and unfairness. Therefore, he expressed the need to continue the dialogue in the House Finance Committee. He mentioned his desire for the House Finance Committee to work with the charities to amend the legislation to a reduced rate. He concluded by announcing his desire for the committee to move the legislation on [to the House Finance Committee].

Number 1070

REPRESENTATIVE LYNN said that he wants to support the charities and not kill them with this tax. He expressed the need to act with great caution. Representative Lynn expressed concern with this attempt to remedy the state's fiscal situation with "patchwork" taxes. He stressed the need to have a long-term fiscal plan that may include a tax and a reduction in spending.

REPRESENTATIVE LYNN informed the committee that every evening he tries to contact five or so constituents and ask if they have any questions, complaints, or concerns. Although the constituents address a host of issues, the conversation usually boils down to the need to address the state's fiscal situation. Representative Lynn opined that the legislature is debating this small tax bites to small segments of Alaska, while evading the larger issue. "I'm very uncomfortable with the way this thing is going," he said.

Number 1224

REPRESENTATIVE CRAWFORD stated that he is opposed to legalized gambling, which he believes takes the money from many and places in the hands of a few. He further stated that he is opposed to the state depending on gambling money. Recalling the testimony regarding how this legislation will hurt the charities and the operators, Representative Crawford suggested that the only entity this legislation helps is the coffers of the state. He stressed that he didn't want the state to obtain more money from gambling. Furthermore, he said he didn't like grandfathering in

municipalities because of the inequity it cases. Therefore, he felt that the state would be better served with the status quo.

Number 1323

REPRESENTATIVE CRAWFORD moved that the committee table HCS CSSB 102, Version U. He requested a roll call vote.

CHAIR ANDERSON objected and directed attention to his earlier statements that this is the governor's legislation and the dialogue should continue in order to develop an equitable plan.

A roll call vote was taken. Representatives Crawford, Guttenberg, Gatto, Dahlstrom, and Lynn voted in favor of tabling HCS CSSB 102, Version U. Representative Anderson voted against it. Therefore, HCS CSSB 102, Version U, was tabled by a vote of 5-1.

#### **ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 5:25 p.m.