

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

October 1, 2003

11:07 a.m.

**TAPE(S) 03-39, 40, 41**

**MEMBERS PRESENT**

Senator Con Bunde, Chair  
Senator Gary Stevens  
Senator Bettye Davis  
Senator Hollis French

**MEMBERS ABSENT**

Senator Ralph Seekins, Vice Chair

**OTHER MEMBERS PRESENT**

Senator Thomas Wagoner  
Representative Bob Lynn

**COMMITTEE CALENDAR**

SENATE BILL NO. 178

"An Act establishing a state lottery; and providing for an effective date."

HEARD AND HELD

SENATE BILL NO. 186

"An Act relating to authorizing charitable gaming permittees to use up to five electronic gaming machines at certain locations with certain liquor licenses or certain other places where access is restricted to persons 21 years of age or older as an authorized form of charitable gaming; limiting the maximum number of electronic gaming machines for which a vendor may have an endorsement to not more than 10; relating to licensing manufacturers and distributors of electronic gaming machines; relating to local prohibition of electronic gaming; limiting the authority of municipalities to tax electronic gaming machines; relating to penalties concerning charitable gaming; making conforming amendments; and providing for an effective date."

HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

SB 178 - See Labor and Commerce minutes dated 5/1/03.

SB 186 - See Labor and Commerce minutes dated 5/1/03.

**WITNESS REGISTER**

Ms. Kelly Huber, Staff  
Senator Taylor  
Alaska State Capitol  
Juneau, AK 99801-1182

**POSITION STATEMENT:** Commented on SB 178 and SB 186 for the sponsor.

Mr. Larry Meyers, Deputy Commissioner  
Tax Division  
Department of Revenue  
PO Box 110400  
Juneau, AK 99811-0400

**POSITION STATEMENT:** Commented on SB 178 and SB 186.

Mr. Darwin Biwer  
Darwin's Theory  
416 G Street  
Anchorage AK 99501

**POSITION STATEMENT:** Commented on SB 178 and SB 186.

Mr. Gary Superman  
PO box 8425  
Nikiski AK 99635

**POSITION STATEMENT:** Supported SB 178 and SB 186.

Mr. Frank Dahl  
Cabaret, Hotel, Restaurant and Retailer Association (CHARR)  
3437 Sagan Circle  
Anchorage AK 99517

**POSITION STATEMENT:** Supported SB 186.

Mr. Gregory Peterson  
Ketchikan AK

**POSITION STATEMENT:** Opposed SB 178 and SB 186.

Reverend Michael Keys  
Central Lutheran  
Alaska Synod of the Evangelical Lutheran Church of America  
1420 Cordova  
Anchorage AK 99501

**POSITION STATEMENT:** Opposed SB 178 and SB 186.

Mr. David Lambert  
3431 Airport Way  
Fairbanks AK 99709

**POSITION STATEMENT:** Supported SB 178 and SB 186 with changes.

Ms. Lynn Reese  
PO Box 141086  
Anchorage AK 99509

**POSITION STATEMENT:** Submitted written testimony.

Mr. John Perry  
The Woodshed/Rippiking  
PO Box 92827  
Anchorage AK 99517

**POSITION STATEMENT:** Opposed SB 178 and supported SB 186.

Ms. Mary Magnuson, Legal Counsel  
National Association of Fundraising Ticket Manufacturers (NAFTM)  
No address provided

**POSITION STATEMENT:** Commented on SB 178 and SB 186.

Ms. Bernadette Bradley, Owner  
Bradley House  
PO Box 110003  
Anchorage AK 99511

**POSITION STATEMENT:** Supported SB 178 and SB 186.

Mr. Larry Hackenmiller  
CHARR  
518 Farmer's Loop  
Fairbanks AK 99712

**POSITION STATEMENT:** Supported SB 186.

Reverend Dennis Holoway  
United Methodist Church  
3402 Wesleyan Dr.  
Anchorage AK 99508

**POSITION STATEMENT:** Opposed SB 178 and SB 186.

Mr. Tom Grey, Executive Director  
National Coalition Against Gambling Expansion  
Rockford IL

**POSITION STATEMENT:** Opposed SB 178 and SB 186.

Mr. Jerry Lewis

Alaska Bingo Supply  
3707 Woodland Dr.  
Anchorage AK 99517

**POSITION STATEMENT:** Supported SB 178 and SB 186.

Mr. Jeff Harmen  
Juneau AK

**POSITION STATEMENT:** Supported SB 186 with changes.

Mr. David Sanden  
Hidden Treasures  
PO Box 210306  
Auke Bay AK

**POSITION STATEMENT:** Commented on SB 178 and SB 186.

Mr. John Regan  
3104 Delta Dr.  
Anchorage AK 99502

**POSITION STATEMENT:** Commented on SB 178 and SB 186.

Ms. Rhonda Hotefi  
Oregonians For Gambling Awareness  
Oregon

**POSITION STATEMENT:** Opposed SB 178 and SB 186.

Mr. Alex Flyum  
Elks 2127  
345 W. Sterling Hwy.  
Homer AK 99603

**POSITION STATEMENT:** Supported SB 178 and SB 186.

Mr. Ted Brown  
5761 Silverado Way  
Anchorage AK

**POSITION STATEMENT:** Supported SB 178 and SB 186.

Mr. Mike Loman  
Wasilla Bar  
574 Paystreak  
Wasilla AK 99654

**POSITION STATEMENT:** Supported SB 186.

Ms. Louise Stutes  
Kodiak CHAR  
PO Box 170  
Kodiak AK 99615

**POSITION STATEMENT:** Commented on SB 178 and SB 186.

Mr. Robert Gregory  
Crazy Horse Saloon  
PO Box 140662  
Anchorage AK

**POSITION STATEMENT:** Supported SB 178 and SB 186.

Mr. Tim Smith  
Nome Fishermen's Association  
PO Box 396  
Nome AK 99762

**POSITION STATEMENT:** Supported SB 186.

Mr. Randy Ruedrich  
Republican Party of Alaska  
1201 W. Fireweed  
Anchorage AK

**POSITION STATEMENT:** Commented on SB 178 and SB 186.

Mr. Don McKee, Member  
Two Rivers Grange  
15 Farewell Ave.  
Fairbanks AK 99701

**POSITION STATEMENT:** Opposed SB 178 and SB 186.

#### **ACTION NARRATIVE**

#### **TAPE 03-39, SIDE A**

^#SB178

#### **SB 178-STATE LOTTERY** **SB 186-CHARITABLE GAMING/ELECTRONIC GAMING**

**CHAIR CON BUNDE** called the Senate Labor and Commerce Standing Committee meeting to order at 11:07 a.m. Present were Senators French, Stevens, Davis and Chair Bunde. He announced that gaming issues in Alaska would be discussed and noted that the National Gambling Impact Study Commission, authorized by Congress, has put some interesting information together. One fact from the University of Buffalo said that 82 percent of people gamble and that it is legal in some form in all states except Hawaii and Utah. Lotteries exist in 37 states and casinos are legal in more than half the states. Lotteries are the most prevalent form of gambling.

**CHAIR BUNDE** stated that the Economics of Gambling by Professor Earl Brenner, Department of Economics, University of Illinois,

points out some of the downside of gambling and its expansion. His data indicates that while 82% of people gamble, about 10% of gamblers account for 60 - 80% of all wagers and he had some concern about the addicted or pathological gambler on a nationwide basis, which was estimated to cost \$10,000 a year per pathological gambler. The study focused on small populations and said in a typical county of 100,000 adults, a casino would create the additional social cost of \$12 million annually and a direct social benefit of \$4 million.

CHAIR BUNDE noted that gaming is in Alaska currently - from pulltabs to neighborhood cards games and those are not illegal as long as the house doesn't take a cut or charge for their services.

MS. KELLY HUBER, Staff to Senator Taylor, sponsor of SB 178 and SB 186, said that SB 178 establishes a state lottery and creates a corporation rather than a commission to run it. It would be a quasi-governmental entity with a board of directors and an executive director. She said last year they were told there was potential revenue of \$5 - \$10 million. SB 186 allows for electronic gaming machines to be added to the current gaming statutes, permits automatic gaming through registered vendors, establishes a minimum percentage to be paid from the income and limits the number of machines.

She said that the reason Senator Taylor introduced these bills was to have a starting point for discussions. He did not want the charities that benefit from gaming to be hurt.

MR. LARRY MEYERS, Deputy Director, Tax Division, Department of Revenue, said he oversees the gaming division in Alaska. He explained that since SB 178 didn't cover specifics, he didn't have revenue projections in the fiscal note. Alaska is unique in that it's not contiguous with other states and few people cross our borders. The population is small and for lotteries to be successful, they have to rely on more than just one form including instant winners so that people can get an immediate reward to keep their interest going.

The corporation created in SB 178 would have to determine what game would be played and then advertise it in order to be successful. In that way it is different than most taxing schemes run by governments. This is why it lends itself so well to a corporate structure.

SENATOR FRENCH asked if the bill laid out where the percentages were supposed to go in terms of payout and expenses.

MR. MEYERS replied no.

SENATOR FRENCH asked what the payout was in other states.

MR. MEYERS replied that the amounts vary all over. However, he has referred to South Dakota for electronic gaming. It has a similar population and is relatively new with some of its gaming practices. South Dakota projected net income of \$6.3 million from lottery games and instant tickets.

SENATOR HOLLIS FRENCH asked him to explain his estimated income of \$1.3 million for Alaska.

MR. MEYERS replied that were a lot of variables to consider and \$1.3 million was probably in the lower range.

SENATOR FRENCH said the difference between the lottery and pulltabs and video gaming is that in the lottery situation, the state will create a corporation that will run it. The state wouldn't just condone gambling, it would actually be promoting it to get income.

CHAIR BUNDE asked what the state's net was on pulltabs now.

MR. MEYERS replied that gaming in Alaska is predominantly pulltabs and bingo. In FY 2001, charitable gaming generated \$350 million in gross sales. After prizes of \$267 million, there was approximately \$84 million net of which \$52 million went to prizes and \$30,700,000 was distributed to the permittees. Their research indicates if other forms of gaming were introduced, the markets would be competing against each other- depending on how it is marketed. The best odds or the biggest prize would control where the dollars are. One state introduced gaming to keep their residents spending money in their home state instead of a neighboring state.

CHAIR BUNDE asked how much the state got of the \$350 million gross.

MR. MEYERS replied about \$2.5 million.

CHAIR BUNDE said he didn't have a moral issue with gambling, but with the economics. "If there's a net gain for the state

considering the social costs, that's an important part of the equation...."

SENATOR GARY STEVENS wanted to know where the \$350 million gross went.

MR. MEYERS explained that \$267.7 million goes to prizes, which leaves a net of \$84 million to cover expenses and distributions to the permittees. Out of that \$84 million, \$52 million covers expenses leaving \$30 million to be distributed to the permittees.

CHAIR BUNDE said he assumed that a lottery would require the same kind of payout for it to be successful.

MR. MEYERS agreed.

CHAIR BUNDE said there is discussion that an Alaska lottery could be connected to power ball and asked if he had information that would encourage or discourage that.

MR. MEYERS responded that 24 out of 37 gaming states have lotteries. He wasn't certain that South Dakota participated, but he thought so.

CHAIR BUNDE asked him what he thought about SB 186.

MR. MEYERS replied that the fiscal note outlines their estimations of what the revenue and expenses would be, but Alaska doesn't have any experience in this kind of gaming and they had to look at other states. Seven states have electronic gaming machines and of those they looked at Oregon, Montana and South Dakota. No revenues were projected for the first year as there would be start up costs for computers and other things that would be needed to run the program. In 2010, they projected the state's share would be around \$15 million.

SENATOR FRENCH asked if they had estimated the social costs of gambling.

MR. MEYERS replied no.

SENATOR STEVENS asked if municipalities could choose whether or not they want to participate.

MR. MEYERS replied that there is a current opt out provision in charitable gaming law for municipalities. He added that a municipality can be a corporation and if they chose to be the

permittee, they could take 30% plus their 25% and actually take in 55 percent if they chose to play.

CHAIR BUNDE asked if electronic gaming was more likely to be promoted by the businesses that have the machines or would the state have to promote it.

MR. MEYERS replied following South Dakota's scheme, the state would not own the machines and the vendors would be actively promoting. Oregon is the only state that owns the machines themselves.

CHAIR BUNDE announced that Senator Wagoner arrived at the Kenai LIO.

SENATOR FRENCH asked if there was a reason the Department of Revenue didn't make an estimate of what the social cost of gambling is.

MR. MEYERS replied that Health and Social Services normally handles those issues.

SENATOR FRENCH asked if Mr. Meyers had read articles about the social cost of gambling and he replied that he had.

MR. DARWIN BIWER, owner of Darwin's Theory, an Anchorage bar, said he was involved in the Anchorage charitable gaming issue as a member of CHARR. He said a problem with a lot of studies on gambling is that Internet gambling is relatively new and it's hard to quantify. However, he said the state could help pay for education and roads with the money it brings in from gambling. He would have to expand his clientele and promote gambling as well. He figured it was a partnership between businesses, the state and municipalities and it had to work efficiently.

MR. BIWAR informed them that Mr. Dennis Jackson, the former head of the Idaho lottery, has two major issues with gaming legislation. Gaming has to be run like a business corporation and it has to have a strict monitoring and enforcement structure in place.

MR. BIWAR supported those ideas in SB 176 as well as establishing the education account within the commission. He felt that a class C felony penalty was okay, but penalties for further offenses needed to be addressed.

Regarding SB 186, he felt on page 12, line 9, that there could be a problem with inspections if the charities owned the machines and contracted with the vendor, because the bill says that the vendor should pay all of the expenses. He felt that issue should be dealt with by individual contract. Anything over \$600 needed to have a 1099 filed with the IRS and Oregon has a \$600 maximum.

**TAPE 03-39, SIDE B**

He reminded them that no state had ever gambled their way out of debt.

MR. GARY SUPERMAN, from Kenai, said he owns an establishment that could be affected by this and felt this was a viable mechanism for creating a new revenue stream for the municipalities. He said while the municipality of Kenai was doing okay now, in the future they were looking at deficit spending, like the state, and were looking for ways to augment their revenues without going to the general public.

SENATOR FRENCH asked if he saw any downside at all to this concept, especially the electronic gambling machines (EGM).

MR. SUPERMAN said the only downside he had been exposed to is that abuse of gaming may increase by 1 - 2 percent. He felt there was lots of gambling in Alaska and that the state enabled it to begin with.

SENATOR FRENCH said that a study of 331 gamblers indicated that machine gambling was the most problematic form and he felt they needed to keep that in mind.

MR. FRANK DAHL, from Anchorage, supported gaming saying it would increase revenues for his business and the state. He figured the state would get as much as \$50 - \$100 million more per year. It is a good alternative to taxes and using the Permanent Dividend Fund. He felt there were addiction and crime issues, but other states say they don't see any increase in crime and see a very small problem with addiction. Most of the crime issues in Anchorage had to do with the after-hours gaming places. Police have told him there are 17 of those in Anchorage and, if those were turned into legitimize operations, the result would be less crime. He didn't see a problem with the pulltab people having EGMs in their establishments as long as they play with the same rules. He thought a lot of pulltab operators are concerned about competition.

He reminded the committee that gaming is completely voluntary and that churches and other organizations across the state are the recipients of pulltab permits and they use the money for a good cause.

SENATOR FRENCH asked if it could be demonstrated that the social cost of gambling is higher than the amount of money the state was going to get, why wouldn't the state just look at it just as a business proposition.

MR. DAHL replied that he thought that would be a good argument, but in the states he has looked at the opposite is true.

SENATOR FRENCH said that South Dakota went through a period when they had video gambling from 1989 - 1994. Then their Supreme Court said that video gambling was unconstitutional and shut it down. The voters reauthorized it under new language after 14 weeks. During that time the gambling clinics that dealt with problem gamblers went from having 16 inquiries per month and treating 10 serious cases to having nothing. Once it was reauthorized, the problem started creeping back again. There seems to be a tight correlation between video gambling and problem gambling.

MR. DAHL responded that he felt that it was finding the matter of degree and the right balance in our society.

MR. GREGORY PETERSON, Ketchikan resident, said he has read a lot of articles about the problems associated with gambling and pointed out that you have to be 21 to play pulltabs and the 26 operators and 4 MVPs do only a small portion of the actual gaming. Individual permittees do most of it. He was very much against video electronic games, but asked the committee to consider if a bill were passed to give 40 percent of the revenue to the state and 40 percent to the charities and 15 percent to the municipalities and 5 percent to the bar owners, he asked if they would support that.

He summarized saying that the state and the charities are benefiting from the current system and he couldn't understand why people wanted to change it and take money away from the people who are benefiting now.

REVEREND MICHAEL KEYS, Alaska Synod of the Evangelical Church of America, said that state sponsored gambling is not a good solution to the fiscal challenges we face. Independent studies

have indicated there are impacts that are absolutely devastating to communities and families and that fact has to be taken very seriously. When the state sponsors gambling, it is violating one of its prime responsibilities to protect its citizens. The state of Oregon has documented big problems with legalized gambling like prostitution, bankruptcy, etc. The province of Alberta also has a study that shows the problems with gambling.

He pointed out that this is really a very unjust form of taxation. Studies have proved that poor and lower wage earners not only spend more money proportionally of their income, but more money on gaming overall than those who are wealthier. The reality is that this revenue burden is being put on the people who are least able to afford it. He felt the legislature should take some leadership on this issue saying that every single person needed to contribute to the common good. He urged them to do the research necessary to find out what the social impacts really are.

CHAIR BUNDE asked if he would eliminate gambling that is already allowed.

REVEREND KEYS replied that his establishment doesn't do those kinds of activities now and his concern is that the gaming they are talking about would be state-sponsored.

REPRESENTATIVE BOB LYNNE asked why poor folks would have less free will than rich folks.

REVEREND KEYS replied that when they target a market whose dreams and hopes are more challenged, the state is taking part of their will away and it's a fact that advertising influences people. He felt the state had a responsibility to protect the common good.

SENATOR FRENCH said he thought the reverend's strongest objection was that the state shouldn't promote these activities, but he wanted to know how he felt about electronic gaming machines that the state would simply be condoning.

REVEREND KEYS replied when a business is taxed for its business, that is one thing, but when you start talking about 30 - 50 percent returns, you are a major player. He felt the state was trying to game its way out of a fiscal crisis, which is irresponsible.

CHAIR BUNDE announced a five-minute break.

MR. DAVID LAMBERT, from Fairbanks, thought the state would benefit from allowing operators to sell the lottery tickets, because some of the major bingo halls are run under operators.

Concerning SB 186, he knew it was not the intent to expand to numerous locations and he didn't want electronic games to be put just anywhere, but he wanted them to consider how current operators could qualify to have electronic gaming machines so they wouldn't go out of business. He also thought the prize limitations should be changed to allow more non-profits to be able to participate in electronic gaming.

**TAPE 03-40, SIDE A**

CHAIR BUNDE announced that Senator Seekins would be heading a task force that would further explore pulltabs and the definition of non-profit charities. He said at this point, that definition is fairly broad. Senator Seekins will be asking about the location issue, i.e., whether a charity that is located in Ketchikan should be able to have a pulltab operation in Anchorage. He asked him his opinion of that issue.

MR. LAMBERT replied that he does not like to see non-profit organizations from Juneau come into the Fairbanks area. He noted that some permits are run in Fairbanks are from non-profit organizations that are located in rural villages without a large enough population base to support a pulltab operation.

He also thought that permits should be regionalized. He is an operator in both Fairbanks and North Pole and he would not run a Fairbanks permittee out of the North Pole location, because he feels that funds raised in North Pole should stay in North Pole for its non-profits.

CHAIR BUNDE asked Mr. Lambert to share his view with Senator Seekins. He then called Lynn Reese to testify. Ms. Reese said she would submit written testimony. Chair Bunde then called Mr. Perry to testify.

MR. JOHN PERRY, representing the Woodshed Nightclub and Rippiking, an Anchorage operator, told members he has been involved in almost every aspect of charitable gaming in Alaska for 15 years, so he has watched the industry mature and become more honest. He said he is opposed to SB 178, simply because he does not believe that state involvement will be fiscally and socially responsible. He stated:

Fiscally, you're talking about setting up a corporation that's going to market lotteries and hopefully make money. Well, you only have 600 and some thousand people in Alaska. How are you going to give away a million dollar prize, which is what it's going to take to really generate interest in it? And if you're gonna give away a million dollar prize, are you going to give it every week? If you give it away every week, that's a lot of tickets to sell, you know, just to break even to pay for the prize, let alone pay for all the infrastructure, all the marketing that's gonna go on. I think it's unreasonable to think that that's going to be possible.

MR. PERRY said he would hate to see valuable state resources used to support a white elephant. He explained that the Woodshed Nightclub and Rippiking support SB 186, with the exception that they would like to see operators be able to utilize SB 186. He said as an operator, Rippiking employs 3 to 4 people; and when electronic gaming first comes into a state, pulltab sales typically drop 50 percent for the first two years. If Rippiking's sales dropped 50 percent, it would go out of business. The video poker would allow it to remain in business by providing another gaming activity for their customers.

MR. PERRY said restricting operators will have a second effect. It will force people who may want to play video poker to go to a bar. He noted that many people who go to pulltab stores do not drink and have no desire to go to a bar. He pointed out that the minimum age to enter a pulltab store is 21.

CHAIR BUNDE asked if the minimum age is 21 to enter a place that conducts bingo and pulltabs.

MR. PERRY said most bingo halls do not allow children because they are disruptive and the minimum age to play is 19. According to the statute, such a place is supposed to have a separate area for the pulltab operation to avoid commingling of the age groups. He said, in response to the concern about the social costs of gambling, a lot of gambling is going on in Alaska. He believes video gaming would allow some of that revenue to come into the state coffers and will create additional jobs if operators are not penalized. He estimated there might be 10 machines per bar in 700 or 800 bars and those machines will require maintenance. He said if operators were penalized, the job situation would remain about the same. He said video poker

machines on average generate \$95 per day in gross sales per machine. He suggested lowering the maximum prize amount to \$500 to prevent a get rich quick mentality while still providing an activity for people. He said the Woodshed Nightclub and other bars in downtown Anchorage would generate more revenue from tourists if it had video poker games in its bar.

MR. PERRY summarized that it is important to look at the economics of providing this revenue source for non-profit organizations, vendors, the state and local governments because the benefits will far outweigh the social costs that may be involved. He said allowing video poker will not solve the state's fiscal problems, but it would help.

CHAIR BUNDE said he attended a seminar in Las Vegas in which he learned that success in a gambling venture is dependent on an influx of out-of-town, out-of-state, out-of-country money. Otherwise, dollars from the local economy are just being traded. He thanked Mr. Perry for his testimony and continued taking public testimony.

MS. MARY MAGNUSON, legal counsel to the National Association of Fundraising Ticket Manufacturers (NAFTM), a group of companies that manufacture products for the charitable gaming industry, made the following comments about the effects of any kind of electronic gaming on the charitable gaming market. NAFTM does an annual report on the status of charity gaming around the country and in Canada. She noted that she recently attended a National Conference of Legislators from gaming states and offered her perspective on how the state budget crises have impacted charity gaming. She said that NAFTM has noticed, as it has gathered statistical data for its report this year, that a significant number of states have looked to expanded gaming as an opportunity to raise state revenues. She told legislators that can sometimes be a two-edged sword. NAFTM has tried to convey that church groups, social service organizations, arts and cultural groups and civic organizations depend on charity gaming as a source of revenue. During the last 10 years, social service organizations have endured a \$35 billion decrease from the federal government. The federal contributions to the arts organizations have decreased by nearly 45 percent. She said that according to her morning newspaper, more than 5,000 people in Minnesota will no longer be eligible for state sponsored health care because of their budget problems. They are hoping that various non-profit agencies will be able to fill the gap.

MS. MAGNUSON said her point is that many non-profit groups rely on charitable gaming for necessary revenues to provide social services, arts and cultural functions and civic duties and that expanded gambling opportunities do have an impact on charitable gaming. She asked committee members to consider that for revenues are raised, other revenues will be lost to the non-profit organizations that are dependent upon them. She told members that during the 2003 legislative cycle, 27 states considered expanding gaming opportunities, most notably video and electronic gaming activities in racetracks, bars and restaurants. With the exception of the State of Maine, not one legislature passed an expanded gambling initiative. The piece of legislation that was passed by the Maine Legislature was promptly vetoed by the Governor. She said legislatures are obviously concerned about the issue and its impacts are measurable.

MS. MAGNUSON pointed out that Louisiana's gaming industry was thriving until video gaming was introduced in 1992. Since then, the revenues raised from charitable gaming for non-profit groups have decreased by 65 percent and continue to decline. NAFTM said revenues in Nebraska have decreased nearly 43 percent due to riverboats in Iowa. Revenues in Texas have declined by nearly 30 percent since that state legalized amusement-style slot machines. She asked members to consider that many non-profit organizations will no longer be able to use charity gaming to raise revenues if they must compete with expanded electronic gaming opportunities.

CHAIR BUNDE asked if, in Louisiana, the [non-profits] were unable to use the same types of gambling devices as those used by private interests.

MS. MAGNUSON said they were not. In Louisiana, [non-profit organizations] were limited to conventional Bingo games and pulltab games at the Bingo games and at the veterans and fraternal clubs. The video slots were in racetracks, bars and taverns and at truck stops, where they are very popular.

CHAIR BUNDE jested that's what you do when you don't have scenery. He thanked Ms. Magnuson and called Bernadette Bradley.

MS. BERNADETTE BRADLEY said she would be testifying on her own behalf. She is the owner of the Bradley House in South Anchorage and is a member of the Alaska Cabaret, Hotel, Restaurant and Retailers Association (referred to as CHARR). She said she does not believe this legislation will affect the Bingo games as they

have a very loyal clientele. She told members she would like to tell them about her experiences with gambling in Anchorage. When she was in her early 20s, she went to an after hours establishment to play the slot machines. She hit a jackpot, but the manager promptly put an "Out of Order" sign on the machine and refused to pay her. She said that happens every day in Anchorage. Money that is being made illegally is being taken from citizens. She said people wonder why there are so many after-hours places in Anchorage. The Anchorage Police Department believes that is because prosecution is expensive and time consuming and whenever one place closes, another immediately opens.

MS. BRADLEY said that she and her mother visit Las Vegas two or three times per year. She was told that Alaska Airlines has reported that 80,000 Alaskans fly to Las Vegas each year so a lot of money is leaving the state to gamble in Nevada. She said if this legislation passes, she will play the video poker machines.

MR. LARRY HACKENMILLER, a Fairbanks bar owner and a member of CHARR, said he supports SB 186. The proposal to create a gaming commission is a wise move. If a commission is established, then any future expansions and deliberations will fall under its realm and it would have the facts, which would make decision making easier. However, he does not want the issue of creating a commission to hold up the bill. He said electronic gaming is already a proven technology. The security features are unsurpassed. The reporting requirements are the best thing that could happen to charities. Right now, many charities have volunteers doing their paperwork. They enjoy the funding from pulltabs, but voluntary staff sometime jeopardizes permits because they do not know how to deal with the red tape and paperwork required. The state could easily get the information it needs instantly. He said that no NSF checks are involved with electronic gaming. The electronic transfers are immediate. Government agencies do not have to fill out paperwork. If the vendor does not get the money in the right account, the machines shut down and the vendor would have to justify why the funds were not paid.

MR. HACKENMILLER said the bottom line is the amount of money will be determined by the degree of participation by fellow community members. If a community is not into gambling, it will not make a lot of money. He suggested including a provision in the bill to allow municipalities to restrict permits to local organizations. He does not feel that is an issue the state

should be involved in. He said he questions what the term "poverty level" means anymore but if the state is worried that people will spend their welfare checks on electronic gaming, one way to solve the problem is to give them no more money. He said that apparently the state has a lot of "gamboholic" programs that are abused. He said many of the [social] problems have already been identified and addressed by other states. He admitted that electronic gaming will result in a decrease in pulltab sales and the ticket manufacturers are concerned not because of the decrease of revenue to charities, but because the manufacturers will be losing revenue. He said although the pulltab business will be directly impacted, pulltabs will still have their place in Alaska.

MR. HACKENMILLER said this bill is set up so that the vendor would be a bar. Package stores, operators or Bingo Halls are not included. The bill also would allow him, as a bar owner, to have 10 video gaming machines, but each permittee can have a maximum of five machines. He expressed concern about Section g on page 12, which says, "The contract between the vendor and permittee must contain allocations that permit all the costs of purchasing, leasing, operating and monitoring the electronic gaming machines to the vendor." Because, if he didn't own or lease the machines, he didn't know why he would be responsible for the costs of purchasing, operating and monitoring. He noted that he is the one who has to have the liquor license; he also has to have the cash available for the payment of it and is obliged to make sure the funds are deposited in the electronic gaming account.

SENATOR FRENCH asked if he thought the state should be able to limit the amount of money a person can gamble away on a machine in any given day.

MR. HACKENMILLER replied no.

CHAIR BUNDE asked if he knew of firewalls or something that would prevent a hacker from messing with computer central of a video gaming process in a state.

MR. HACKENMILLER replied that G-Tech is one of the groups that has the information on a central computer and they have security necessary to prevent this type of thing.

REVEREND DENNIS HOLOWAY, United Methodist Church, said he sees his anti gambling stance as one of compassion. Legalized gambling has a downside particularly among the poor who can

least afford it. "Those who suffer from addiction to gambling will eventually come back to the state for aid for themselves and for their families."

REVEREND HOLOWAY said that the state will not have funds to deal with such individuals and will outsource them and their needs to the faith based communities, because they are people of compassion and can't turn their backs on them. This is the beginning of a dehumanizing cycle that could be stopped by not passing this legislation. He said if his son or daughter was caught in this cycle, it would not be just a small negative downside - quite the contrary.

CHAIR BUNDE asked him if he thought existing gambling should be curbed.

REVEREND HOLOWAY replied that his denomination is opposing adding on other elements of gambling.

REPRESENTATIVE LYNN asked what his position was on the issue of free will.

REVEREND HOLOWAY responded that free will was more of a clear issue for people who are middle class on up. People who have less income often represent minority groups where all kinds of issues are tied in with race.

REPRESENTATIVE LYNN asked if he was saying that free will was relative.

REVEREND HOLOWAY replied that as a white person he is still trying to understand what it means to have white privilege in a racist society. "I think for many ethnic minorities, they don't have the same choices that we have in our society."

They don't have equal access to some jobs, for instance, because they are not white.

MR. TOM GREY, Executive Director, National Coalition Against Gambling Expansion, said he was surprised that the task force had no knowledge of the National Gambling Impact Study that was commissioned by Congress to extend over the course of two years. Five million dollars was spent examining the rapid expansion of gambling in the Lower 48. The report says that of all the forms of gambling, convenience gambling has the least amount of economic benefit and the most social impact and cost. It advises states to not do it. Of the nine commissioners, four of them

were from the gambling industry. Twenty-five states have already said no to gambling expansion; 19 have said no to putting slot machines at race tracks; six states have said no to expanding casinos and five had said no to putting a lottery in. He felt that they have realized the social cost.

**TAPE 03-40, SIDE B**

MR. GREY said the people of South Dakota put the question of removing them on the ballot and the governor said if they were removed, they would have the highest tax increase in their history, as 14 percent of their budget was based on their income. Given that, 52 percent voted to keep it, but 48 percent voted to remove them. He felt that 48 percent was a persuasive percentage.

MR. JERRY LEWIS, Alaska Bingo Supply, said he had been involved in gaming all of his professional life. He has heard and believes that SB 186 would eliminate pulltabs and replace them with slot machines. He didn't know if they would bring in any more money, but that we should learn from other peoples' mistakes. South Dakota tried limited stakes gaming and lotteries, which didn't work; Nevada is petrified to put in any charitable gaming; however, Colorado has a very strong limited stakes historical gaming and is a very good example. The first year that it opened there \$17 million was generated for the state and last year \$90 million was generated. It could easily generate \$10 - \$20 million for the state and leave the charitable gaming industry to prosper on its own the way it is.

MR. LEWIS suggested taking three Colorado cities that are close to a population base, like Whittier, and two close to Juneau and one close to Fairbanks and approve limited stakes gambling, and see what happens.

In Colorado, the industry is heavily regulated and there has been no corruption. Licenses are very expensive and you don't get one if you have a background. The Historic Action Committee determines how the buildings are built, how the parking lots are laid out and seeks to maintain the history of the three towns of Cripple Creek, Black Hawk and Central City. He felt that the pulltab industry would be enhanced with electronic gambling. He didn't feel that SB 186 would affect the bingo halls that much, but he thought the others would have to change.

CHAIR BUNDE said he had been to the casino in Black Hawk and asked what he meant by limited stakes.

MR. LEWIS replied that it limits the games that can be played and has a \$5 maximum bet. Black jack, poker and slot machines are the only games that can be played in Colorado.

CHAIR BUNDE asked if alcohol was available at no cost like in Las Vegas.

MR. LEWIS replied that is up to the casino. He added that the impaired laws in Colorado are very strict. If you are impaired in any way, you can't gamble and casinos close at 2:00 a.m.

SENATOR FRENCH asked how much a person could play at bingo in a night.

MR. LEWIS replied that he had no idea, but there are several riverboats, for instance, that have limited the amount of loss possible in a certain day. His experience is that that doesn't work very well and there are ways around it.

CHAIR BUNDE thanked him for access to his information.

MR. JEFF HARMEN, Juneau, said SB 186 was introduced to create revenue for the State of Alaska, but he felt that concept should be clarified, because charities will be affected greatly. He was also concerned that expanding electronic gaming would kill pulltabs. He is not against gaming machines and felt that they solve a lot of problems that pulltabs have, but he is opposed to the way the money is split up.

Currently CHARR owners are going to get \$2 for every \$1 that the charity gets. That concerns him because that is where the biggest share of the money is going. The government receives 35 percent versus the charities' 30 percent cut and that concerns him, also, because the charities will take the biggest hit on this. He felt the charities do a better job with the dollar than the government can as far as supporting the people that actually need the money.

CHAIR BUNDE recessed the meeting until 3:00 p.m.

MR. DAVID SANDEN, MVP Manager for several businesses in Juneau, said he would concentrate on the numbers and felt that the fiscal note was in the ballpark. In the first year, SB 186 is projected to bring in no revenue, which attests to the massive costs of start-up. However, it would be interesting to know how

many of those dollars would stay in-state and what interests would actually consume all the revenue during the first year.

It is also projected that there will be \$1.1 billion of gross wagers. There are 410,000 residents in Alaska over the age of 21 and that would be the equivalent to \$2,682 per resident spent on gaming each year. He explained that gaming is a concentrated vice with only a minority of the population participating. He commented that when taxation is shifted from any one group to another, whether it is a vice or not, it's interesting.

MR. SANDEN, Hidden Treasures in Juneau, pointed out that when you compare the \$1.1 billion fiscal note in SB 186 with what is actually being spent on pulltabs in the state, you find that those numbers mean that electronic gaming will attract new people to gambling in the state of Alaska. Currently, pulltabs, unlike electronic gaming, incur a physical limitation on how much money an individual can spend. With electronic gaming the physical limitation disappears because it's much more efficient and a more attractive form of gambling. That draws more people into the demographics of that gambling pool. "Make no mistake about it, you will bring new faces into the gambling arena in the state of Alaska...."

He personally has stopped four people from gambling because of their gambling addiction. Electronic gambling will increase those numbers.

By 2010, the Department of Revenue is predicting \$15 million for the state, which he thought was accurate. Early last session, he proposed a 20 percent ideal net tax split 50/50 with the municipalities and state based on where the gaming revenue is raised. That would have raised \$15 million as well.

MR. SANDEN said that the only way to bring more non-profits into gaming is for a permittee to meet their cap and then another one could step in. With electronic gaming there are no limits whatsoever to the activity any one permittee is allowed to partake in. Market forces would dictate that they concentrate.

CHAIR BUNDE asked him to send them his written testimony.

MR. SANDEN concluded by pointing out that it would be hard to limit gaming to people 21 years old, because minors can go in a bar accompanied by their parents. He summarized a concept in a research paper on gaming:

I'd like to expound on two general issues before finally concluding. The first of these relations is the role of gambling in any economic system. It is a transfer item. This means that money is merely transferred from one individual to another. There is no creation of wealth or consumer goods. The pie has not been enlarged. As economic professors like to illustrate, such problem with the United States is that we are not creating enough wealth...

MR. JOHN REGAN, Anchorage resident, said he thought the legislation was slanted. He wanted to know why EGMs would be allowed only in bars; and, if you want to raise money, why prohibit them anywhere? He wanted to know if gaming money could be used to purchase them as very few non-profits have excess money they can purchase the machines with and doing that would be taking money away from where it needs to go. He asked why the state should have to offer a vendor 30 percent to install an EGM when the game should be the drawing card. He also asked why charitable gaming was established in the first place. He thought it was supposed to be people helping others than themselves.

CHAIR BUNDE reminded everyone that the committee does not intend to take any action on these bills, but is here to gather information.

MS. RHONDA HOTEFI, Oregonians For Gambling Awareness, said she runs this organization after her brother who committed suicide due to his gambling addiction. She said that people who have lost their jobs are being asked to gamble more so the state can work on their budget deficit that they are not able to control. Their video gaming machines have added more problems, which resulted in less money for their state overall.

**TAPE 03-41, SIDE A**

MR. ALEX FLYUM, Elks 2127, said he is in favor of the gaming machines, because they are always swamped with requests for more money for things like scholarships or organizations that help people with drug problems and others. He said they have a gaming permit from the state and use pulltabs now.

MR. TED BROWN, Anchorage resident, said he is a salesman for a distribution company that sells pulltabs. He reminded them that the permittee is the charity and if they are supposed to be getting helped out, why are they the ones who have to spend millions of dollars on the video game machines. He thought the

bar-owners who are members of CHARR are the ones who would make most of the money. He asked them to find out what the social cost would be from other states so they know what they are walking into.

He estimated that out of 100 pulltabs, a person would get about 80 back to rip again on the same dollars; you can play the same money over and over and that is the physical limitation. A person could take all day to play \$1,000, but it may generate \$10,000 in sales. A person could go through \$1,000 on a machine in a half-hour with no problem at all and there is no limit.

MR. BROWN explained that even though a charity is a permittee, they cannot be self-directed and the machines would have to be only in places where there are people 21 years and older. However, any child in Alaska can go into a bar accompanied by a parent. The state won't let him have electronic pulltab gaming dispensers even if they are behind a bar and the bartender is administering it. Every pulltab in the state is administered by a human being who is looking at another human being and making sure he is 21 years old, for instance. "A machine, you walk up to like a pack of cigarettes and I hope you're 21 - hope you're 18. Pull the handle, poke the button, put the money in...."

He hoped the money that's generated would help a lot of people who need it. However, already 1.5 percent of gamblers have a potential addiction problem or are already addicted. That's roughly 10,000 people in Alaska. So, if a report says that video gaming adds only another 1.5 percent, that's approximately 18,000 people - who are over 21 years old and potentially heads of households. If there are two kids in each household, that affects 60,000 human beings in the state of Alaska. Then they are talking about treatment centers, bankruptcies, divorce and domestic violence because the state wanted to get \$15 million.

MR. MIKE LOMAN, Wasilla Bar, supported SB 186 because the revenue would help close the fiscal gap and more revenue would be generated for charities and local governments, which eventually works its way back into the economy. He also wanted to avoid additional taxes for as long as possible.

He did not see anything in the bill that set aside money for those who cope with a gambling addiction, which was addressed in another bill. He felt that the state should receive a higher percentage of revenue than 15 percent when the machine is in a municipality, since they are the ones who going to put up all the money to develop the program. He suggested using language

saying that the machines had to be in a specific area where people had to be 21 years or older to be there.

MS. LOUISE STUTES, Kodiak CHARR, said she is a beverage license holder in Kodiak, as well as a vendor for pulltabs. She thought this was a wonderful way to increase revenue for everybody involved. "Kodiak and all the license holders in Kodiak are greatly in favor of the electronic gaming machines."

CHAIR BUNDE asked her if she thought there was a difference between a charity and a non-profit.

MS. STUTES replied that there wasn't. It was the terminology that she is used to using.

MR. ROBERT GREGORY, Crazy Horse Saloon, said that they have only one pulltab jar - only one charity they are benefiting now. With electronic gaming machines they would be able to have as many as five charities they could help. Even though they are not a panacea, they could facilitate more drug treatment facilities or whatever.

SENATOR FRENCH asked why they have just one pulltab jar right now.

MR. GREGORY replied that they only sponsor one charity at a time so they can monitor the situation and keep it under control and there is a question of space. Also, the establishment owner is paying for the upkeep, electricity, maintenance and security. Electronic gaming is all self-contained and the overhead would be higher than with pulltabs.

4:00 - CHAIR BUNDE announced at 10-minute break.

MR. TIM SMITH, Nome Fisherman Association, said he had testified before a number of committees on electronic gaming in the past. He noted that whenever they talk about electronic gaming, they never hear any opposition from the people who will be paying the taxes and that doesn't happen often with a revenue bill. The opposition comes from three sources: people who would never use the machines themselves, but are driven to protect other people from making decisions on how to spend their own money; professional campaigners usually from out-of-state working for organizations who are trying to reduce gambling in general and permittees and people who support charitable gaming.

MR. SMITH did not think the state should tell people how to spend their money. Most of the talk about addiction is misguided. He did not think that he should be prevented from gambling on either the stock market or gaming. He felt that new opportunities would be created with electronic gaming and that pulltabs would not go away completely. He also felt that revenues would increase dramatically if electronic gaming were authorized; in Oregon they tripled.

CHAIR BUNDE asked if he saw a conflict in running both pulltabs and electronic gaming.

MR. SMITH replied that he didn't see a problem.

CHAIR BUNDE announced a recess and called the meeting back to order at 5:15 p.m.

MR. RANDY RUEDRICH, Republican Party of Alaska, read a short resolution into the record as follows:

Whereas the Republican Party of Alaska supports the financial integrity of the family; and,  
Whereas the Republican Party of Alaska supports bolstering the local and state economies by encouraging the work ethic; and,  
Whereas casinos and other forms of gambling adversely affect both the family and the poor in our state; now,  
Therefore be it resolved that Republican Party of Alaska does not support the expansion of gambling in the state including video poker or slot machines - adopted May 31, 2003 by the Central Committee of the Republican Party in Homer, Alaska.

He explained that the Central Committee discussed the concept of lotteries, video poker and slot machines and there was substantial effort to divide those issues. It was felt that lotteries were a different endeavor and narrowed the opposition to the specific video poker and slot machine type processes rather than the more generalized lottery activities.

CHAIR BUNDE noted that there was testimony in opposition to lotteries because it takes a significant investment of state time and money to promote them. It would necessitate the state taking far more ownership of the lottery than it would for video poker, for instance. States that have successful lotteries don't have a just one form of lottery; they have some groups that are instant payoffs and others that are periodic.

SENATOR STEVENS said some people's underlying concern is addiction.

MR. RUEDRICH said that was the underlying theme as some people had seen family members or others who were close to them become totally overwhelmed by the gambling process.

MR. DON MCKEE, Fairbanks Two Rivers Grange, said they have pulltabs in three different locations and this is one of their ways of raising funds for a playground and other charitable projects. But he understands that the bills cut the funding the charitable organizations will get.

CHAIR BUNDE reminded him that these bills are just a vehicle for the legislature to consider in their deliberations on what to do with gambling in Alaska.

MR. MCKEE said further that he did not favor slot machines and electronic devices. Pulltabs was as far as he wanted to go.

CHAIR BUNDE thanked everyone for the testimony and said there would be further opportunity to testify on these issues in Juneau.

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CHAIR BUNDE adjourned the meeting at 5:55 p.m.