

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

February 5, 2004
1:35 p.m.

TAPE(S) 04-5, 6

MEMBERS PRESENT

Senator Con Bunde, Chair
Senator Ralph Seekins, Vice Chair
Senator Gary Stevens
Senator Hollis French

MEMBERS ABSENT

Senator Bettye Davis

COMMITTEE CALENDAR

^WORKSESSION - Pulltab Regulations

WITNESS REGISTER

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

Mr. Jack Powers
Pulltab Operator
Anchorage AK

Mr. Mac Meiners
Juneau Gun Club
Juneau AK

Mr. Dennis Smith, President
Board of Directors
Kenai Peninsula Oilers

Mr. Wayne Stevens, Executive Director
Kodiak Chamber of Commerce
Kodiak AK

Mr. Jeff Prather, Supervisor,
Gaming Group
Tax Division
Department of Revenue
PO Box 110400
Juneau, AK 99811-0400

Dr. Sven Haakenson, Director
Alutiiq Museum
Kodiak AK

Ms. Julie Kangan, Chairman
Gold Cache Bingo of Anchorage
Anchorage AK

Mr. David Sanden
Hidden Treasures
Juneau AK

Mr. Jerry Lewis, President
Alaska Bingo Supply
Anchorage AK

Mr. Steven Bochording, General Manager
Gold Cache Bingo
Kodiak AK

Mr. John Regan
Spennard Lions
Anchorage AK

Mr. Robert Loescher
Tlingit-Haida Central Council
Juneau AK

Mr. Dave Lambert
Fairbanks Operator
Fairbanks AK

ACTION NARRATIVE

TAPE 04-5, SIDE A

^WORKSESSION ON PULLTAB REGULATIONS

CHAIR CON BUNDE called the Senate Labor and Commerce Standing Committee work session to order at 1:35 p.m. Present were

Senator Stevens, French, Seekins and Chair Bunde. Senator Davis was excused. The first order of business to come before the committee was a work session on pulltab regulations. He noted that this committee had passed a bill last session that increased taxes and that was still being considered in the other body; another bill might be introduced that would discuss establishment of a gaming commission.

He recapped that the members of the Subcommittee on Charitable Gaming were Senator Hollis French and Senator Ralph Seekins who addressed many issues including accountability, oversight, financial return to charities, the definition of charities and the question of limiting participation to geographic areas.

MR. LARRY MEYERS, Deputy Director, Tax Division, Department of Revenue (DOR), explained that the subcommittee report before them discusses a permittee/vendor gaming relationship in which the permittee delivers the games to the vendor and receives a check for 70 percent of ideal net in return. The vendor then becomes the owner of the games, but doesn't have to do any accounting. In this instance, the permittee would be guaranteed a certain percentage at the time the game is played. He thought that the committee should deliberate on what percentage the permittee receives and if it should be received up front.

CHAIR BUNDE asked if he could recommend a percentage.

MR. MEYERS replied that 30 percent is the current statutory minimum; but the division has heard of instances where rents were inflated by three times the going rate and is concerned about the detection of possible fraudulent gaming expenses.

CHAIR BUNDE asked how many new people would have to be hired to conduct audits.

MR. MEYERS replied that there are two auditors for approximately 1,000 permittees and 27 operators and he felt that staff would have to be tripled to do an adequate job.

CHAIR BUNDE suggested instituting a licensing requirement for all employees of pulltab operations to pay for the audits.

MR. MEYERS added that generally an appeals forum goes along with an audit situation.

SENATOR GARY STEVENS asked how the triple rent situation was exposed and if the operator could be relied on to report what the going rate for rent is.

MR. MEYERS responded that the state hired appraisers to determine the market value of the rents in that instance and had eventually settled with two parties over that issue.

CHAIR BUNDE noted a suggestion that the multiple beneficiary permittees (MBPs) be required to pay 30 percent up front, but he didn't know if that would be productive.

MR. MEYERS replied that the MBP permits are "a different animal" than operators and vendors. An MBP is a co-op with two to six members who band together with the idea of seeking economies of scale and efficiencies. "It's not set up to do that [pay themselves a minimum]."

SENATOR FRENCH asked how the 30 percent payout happens in a typical transaction using a \$100 pulltab for an example.

MR. MEYERS replied that a \$1,000 game pays out \$800 in prizes, about 78 percent. That would leave \$200, the ideal net; 30 percent of that (\$60) would go right into the hands of the permittee in this example. It would be an up front transaction. The permittee vendor would get 70 percent (\$140), but he would have to pay the taxes and other expenses. Under the scenario before them [subcommittee report], who should pay the expenses would have to be worked out, but he would like to see the expenses stay in the hands of the operators.

CHAIR BUNDE said the vendor should want some economies in their operation, because they get 70 percent and if their expenses go up, their profits go down.

MR. MEYERS agreed with that statement.

SENATOR SEEKINS asked who pays for the cost of the game.

MR. MEYERS replied that the operator (who gets 70 percent) would in this instance. He reiterated that any proposed legislation would have to carefully state what expenses the parties would be responsible for paying. The cleanest accounting would be to say that the permittee would get 30 percent of the ideal net, which is the value of the game less the prizes.

CHAIR BUNDE said he wanted to limit the committee's current discussion to the 30 percent of the ideal net proposal.

MR. JACK POWERS, Anchorage operator, informed the committee that operators are already bonded and, from his experience dealing with various locations and about 25 permittees, said, "It would take one heck of a bank roll to be paying up front."

CHAIR BUNDE asked if the state didn't require a bond, could that money be used to make the up front payments.

MR. POWERS said he would have to think about that, but he thought they should really be addressing the 14 MBPs that are bigger operations as well as the 27 operators.

SENATOR SEEKINS inserted that this summer he heard that very few licensees would challenge their operator if they thought something wasn't right, because they would be quickly booted out while five more [licensees] were waiting to come in to work with that operator.

MR. POWERS replied that he had never experienced that situation with his non-profits and maybe Senator Seekins was referring to a few isolated cases.

SENATOR SEEKINS made his point saying if he made a claim on Mr. Powers' bond, he didn't think they would be friends any more.

CHAIR BUNDE asked Mac Meiners what he thought.

MR. MAC MEINERS, Juneau Gun Club, said he is also the designated member of the Juneau Ski Club and the United Fishermen of Alaska. He stated that he has vendor relationships with those entities and explained that there are four distinct groups of permittees: the vendor relationships, the MBPs, the fraternal organizations and the operators - and they are all different.

CHAIR BUNDE said the committee wasn't focused on increasing taxes to the state, but rather on whether the American Cancer Society should have to compete for space on the shelf with the Nome Chamber of Commerce.

MR. MEINERS said in his instance, he is hired to generate revenue for his group and, "The harder you work, the more you get."

His groups do the 70/30 split and pay all the expenses including games, city sales tax, wages, if any, and other expenses that go with gaming. Their records are submitted to the state for review and if they don't have the 30 percent minimum to give to the group, he isn't gaming any longer. However, he thought that he remitted closer to 40 percent to the group.

CHAIR BUNDE said the 30 percent minimum might not apply to him, because he is hired by a group of organizations. If he wanted to pay himself an exorbitant salary, it's incumbent upon the permittees to keep that from happening.

MR. MEINERS agreed. He explained further that:

The clubs I started with when I started gaming had nothing. So, to come out and say you have to put a 30 percent limit on your operation would not let clubs that have zero get started. You would actually be limiting them.

He felt that a person should be able to game anywhere if the rules are met and the game is played properly and suggested maybe using an area registration.

SENATOR HOLLIS FRENCH asked how a new player would not be able to get into the gaming industry under the 30 percent up front idea.

MR. MEINERS replied using the United Fishermen of Alaska (UFA), which had no money when it started, as an example. UFA qualified as a 501 (c)(3) and he explained that:

The Juneau Gun Club had more prize limitations than it could handle. Remember, you're only good for \$1 million and an operator is only good for \$500,000. I had a little over \$1 million - I think I had \$1,350,000 or \$1,400,000. So, that means there's enough room for two permittees. So, the Gun Club in the goodness of their heart - to keep their location - allowed the United Fishermen of Alaska use their gaming equipment, which is legal.

SENATOR FRENCH apologized for interrupting and asked which gaming equipment he was referring to.

MR. MEINERS replied the cash registers and a scale to measure the pulltabs.

CHAIR BUNDE asked what the scale was used for.

MR. MEINERS replied:

In a vendor relationship, when I drop the game by the bar, it's theirs. I relieve myself of all responsibility. I don't micromanage them. It's their responsibility to get their money out of the game. So, at times when you think there's impropriety, you can weigh the pulltabs and that will tell you if anybody is dipping into the jar or not - or you can use a camera to watch your operations. That is done.

CHAIR BUNDE asked, "So, when you drop them by the bar, you get paid at that time and then if they sell them or not, it's on their head."

MR. MEINERS said that was right.

CHAIR BUNDE asked him if he was basically remitting the 30 percent right now.

MR. MEINERS replied yes, but the bar gives him the money when he gives them the game.

MR. WAYNE STEVENS, Executive Director, Kodiak Chamber of Commerce, said they are a MBP operating at a bar in Kodiak. He encouraged the committee to look at the current language allowing landlords to charge "up to 20 percent of the ideal net" and thought tightening up "fair market value" would help reduce operating costs. He testified that a good auditing program and a gaming task force could be valuable in designing effective oversight of the gaming industry.

MR. DAVE LAMBERT, owner of seven operations in Fairbanks, said he has over 700 games out. As an operator, he receives a minimum of 30 percent, but the cost of operating is going up. He said every year his rents go up by 3 percent and last year the minimum wage was increased, as well. He informed them that his games cost about \$15,000 a piece and that paying 30 percent up front would be about \$5,000 and that's just not possible for him.

SENATOR FRENCH asked what he is paying per square foot for his rental space.

MR. LAMBERT replied that it varies; he is paying \$1,400 for one 900 sq. ft. place and he is paying almost \$2,000 for another place that is a lot smaller. However, the \$2,000 place returns three times the revenue the other place returns.

MR. JACK POWERS commented again that he gave a minimum of 30 percent at the end of the year to his non-profits and last year one of them got about \$1,400,000 - but he pointed out that he had all year to come up with it.

TAPE 04-5, SIDE B

MR. POWERS stated that if he had to pay \$1,400,000 in advance, he would have to close his doors. He felt that comparing a bar operating pulltabs with a bingo hall operation was comparing apples and oranges.

CHAIR BUNDE corrected him saying that he didn't think the whole yearly amount would be required up front, but rather a fee per game. He asked if he bought a year's supply at a time.

MR. POWERS explained that he buys about a month's worth of games at a time and that up front payments would be \$300,000 for any given month.

CHAIR BUNDE changed the discussion to the question of proximity and the fact that charitable gaming can raise money statewide for a particular community or entity. He asked if there were questions or comments from the committee.

SENATOR SEEKINS said while he was working on this issue in the interim, he ran into some people who liked the idea that they could work with an operator who had locations in different towns.

He would run twenty different licensees in Juneau, the same twenty some place in Anchorage and the same twenty some place in Fairbanks.

Other times, we had some indication that people either in a small population or in one [town] where there was a sales tax on the pulltab, that they would prefer to operate someplace where there was either a larger population to benefit their smaller population or in a population where they didn't have to pay sales tax to get a higher net.... So, the discussion was dependent upon where you were from.

Folks in some of the smaller entities that were trying to get into an operator situation couldn't because those slots were filled with people from other communities and made it very difficult for them to enter into a pulltab relationship and wanted the foreign entities, so to speak, to be gone.

In some cases we found that there were actual municipalities that were involved and it was alluded to that some of these municipalities had a leg up because they could appropriate the money to go in and help set up a pulltab parlor someplace so that they could supplement their municipal income by having something up front to go in and get going with - where a smaller non-profit that was just trying to get into the game could not do that. They were somewhat hampered by not being able to go with themselves; so they had to go find a vendor relationship or try to find an operator relationship. And, again, if it was a permittee from some other location that was there blocking their ability, there was some concern that that's not right and he ought to go back to wherever and do his gaming there. So, it kind of came down to where you were from and how you were benefiting as the discussion went along.

CHAIR BUNDE asked, as a general rule, did people from smaller communities think that permittees from bigger communities ought to stay out, but the smaller communities wanted to be able to go into the bigger communities.

SENATOR SEEKINS said they ran into that thinking, also.

SENATOR FRENCH said a preliminary report from the gaming activity for Juneau-Douglas and Auke Bay, Alaska, tabulates how much money each of the organizations collected and what sort of permit they hold, etc., but it didn't indicate where the games were played.

MR. JEFF PRATHER, Supervisor, Gaming Group, Department of Revenue, explained that the report is just a summary of the activity of permittees that are located in Juneau and wouldn't indicate where the games were being played.

SENATOR FRENCH said he assumed the smallest communities in the state where pulltabs were played were Kenai and Nome.

MR. PRATHER replied that pulltabs are played in some smaller Bush communities, also.

SENATOR FRENCH asked where those are tabulated in the department's annual report.

MR. PRATHER replied that one could look under Native villages.

SENATOR FRENCH noted that the report just says who has a permit, but doesn't show where it is played.

MR. PRATHER responded that he gave the subcommittee a list of all the permit holders who were gaming outside of their own locality this past summer and he would be glad to provide that list to him.

CHAIR BUNDE asked him how many people are in his division.

MR. PRATHER replied seven people.

SENATOR GARY STEVENS asked if Alaska is the only state that allows groups to have gambling operations outside of their immediate vicinity.

MR. PRATHER didn't know the answer, but he did know that in Alaska, only municipalities are prohibited from gaming outside of their own location.

CHAIR BUNDE asked how Nenana gets to sell ice pool tickets in Juneau.

MR. PRATHER replied that those tickets are sponsored by an organization other than the city.

SENATOR STEVENS said that the Koniag Corporation from Kodiak has reached a point where half of the membership lives outside of Kodiak and asked Dr. Sven Haakenson to comment on that.

DR. SVEN HAAKENSON, Director, Alutiiq Museum in Kodiak, asked if he was referring to regional proximity or geographic.

CHAIR BUNDE responded that those terms have probably been used interchangeably, but the question being discussed is what action, if any, the Legislature should take regarding permits issued for an organization in one area being played in another.

DR. HAAKENSON revealed that the Alutiiq Museum is a permittee of an MBP permit. Without that support, the Museum, which runs ongoing cultural programs that benefit the entire community, wouldn't be able to operate.

CHAIR BUNDE pointed out that they wouldn't be able to operate based on a donation to the City of Kodiak, but that doesn't mean that other entities couldn't generate funds.

MS. JULIE KANAGAN, Chair, Board of Directors, Gold Cache Bingo of Anchorage, said she represents the Kodiak Union of Native Associations that is a part owner of the MBP Gold Cache Bingo Operation in Anchorage. Currently, six permits are used by Gold Cache Bingo; a manager was hired and reports to the board monthly. She expressed their desire to keep the pulltab operation in Anchorage, because it has been that way for more than 15 years already and the revenues are used to benefit youth and cultural programs. She added that the permittees are paid on a monthly basis.

CHAIR BUNDE asked her how she would feel if another community like Juneau started gaming in Kodiak and if she had any suggestions that would resolve the issue.

MS. KANAGAN replied if Juneau wanted to come to Kodiak, that risk would be Juneau's decision.

MR. STEVENS inserted that for a number of years a Juneau permit was operating in Kodiak and no one tried to run them off.

SENATOR FRENCH observed that the only permit he sees [in the division's report] being operated in Kodiak is a National Multiple Sclerosis Society permit at the Breakers Bar. He asked if there was a market for pulltabs in Kodiak.

MR. STEVENS replied that the City of Kodiak has passed legislation that does not allow "operators" to do their pulltab operations in Kodiak. All Kodiak gaming activities are MBP, vendor permit or directed gaming. "There are no operators in Kodiak and there are pulltabs in a number of places around the community...."

MR. DAVID SANDEN said he is the primary member in charge of the MBP Hidden Treasures, a group of three local Juneau groups. He said:

On the proximity issue specifically, we game only in Juneau, but we're finding that increasingly more difficult through the double taxation burden.

However, we have hesitated to enter any other markets because we feel that we use 100 percent of our money in Juneau and we feel like it's kind of ethical to raise it in Juneau. But I do understand the problems with groups that have a larger statewide purpose than our groups do and also groups from very small and rural communities that, frankly, need a medi-vac airplane and they have to go raise money in Anchorage.

MR. SANDEN said 2003 census data indicates that Anchorage and Mat-Su have 53 percent of Alaska's population; Fairbanks, Denali and Yukon-Koyukuk have 15 percent; Kenai Peninsula, Kodiak, Valdez and Cordova have 12 percent; Southeast Alaska has 11 percent; Southwest Alaska has 6 percent and the Northwest Arctic has 3 percent. He pointed out:

There were some errors, in our opinion, made when the charitable gaming statutes were created. Gaming has sort of been regulated and dealt with through taxation. That's because it's gambling and gambling is a vice. Like all vices, gambling seems - all vices pay a large tax burden. In the State of Alaska it's a proportionately small tax burden. However, we're the only state in the union that allows individual municipalities to tax gaming in addition to the state.

He explained that throughout the United States the larger entity [federal government] would tax the ideal net of the "big fish" and distribute that money based on where proceeds are raised by location.

MR. SANDEN said that Hidden Treasures proposes, and has proposed for years, that everyone has to report by location. He backtracked noting that the indirect negative social consequences of gambling cost cities money and the only practical mechanism to provide funds to deal with those consequences is through the tax code. He proposed that whatever tax rate gets decided upon in SB 102 that the money gets split with the municipalities proportionately. Regulating how proceeds are spent - no matter who raises them - can be decided by the Legislature. He added, regarding giving 30 percent to the operators:

I think the ultimate test there would be for the Department of Revenue to run those numbers by a banker and, if a banker would give that operator a loan to front the money for his games, then it's feasible; if not, it's not feasible. That's pretty much it.

CHAIR BUNDE thanked him and said he wanted get a few more comments.

MR. STEVENS asked the members to consider that 30 percent of the ideal net leaves the community where the gaming activity took place, but the other 70 percent already stays there.

CHAIR BUNDE remarked that the negative social impact stays in the community as well.

MR. JERRY LEWIS, President, Alaska Bingo Supply, said he distributes in Anchorage and sells statewide, but he didn't want to comment on the proximity issue.

MR. JOHN REGAN, Spenard Lions, felt if an outside organization (Kodiak, for instance) took all the money they made in another community (Anchorage) out of that community, that is doing a disservice to the organizations in Anchorage. "Perhaps a percentage should be spent in the community where the money is raised by that permittee holder."

CHAIR BUNDE asked him to comment on the increased economic activity gaming brings to the economy of a community.

MR. REGAN said his organization turns around and uses the money they make for people who need the help.

CHAIR BUNDE said he understood his point and moved the discussion to the definition of a permittee. He asked Senator Seekins to comment on whether the definition should be narrowed to those who are really doing charitable work or continue to include those who work for community advancement.

SENATOR SEEKINS responded that he, personally, felt that the door has been opened way too far.

Anyone with an IRS non-profit status that has 20 members and has been in existence for 3 years can apply for a permit....

I have a problem when a membership organization that is going to pursue a particular agenda and try and develop a certain segment of the community competes in the charitable gaming industry for pulltabs. I don't have a problem and no one seems to object to different organizations being able to do raffle permits.

I had comments from people who said, you know, we're a group that supports a particular youth sport for our children. We have a team, we have 20 families, we run a permit because we don't want to have to pay out of our pocket for our kids to play hockey or to ski or to play baseball or whatever sport you want to fill in.

Under the current situation they can get there. In some respects, I don't particularly think that those folks should be competing for dollars from the so-called charitable gaming industry so that they don't have to pay for the recreational activities of their own children....

SENATOR SEEKINS reiterated that many of these choices are based on personal preference but, in general, most people he talked to thought the interpretation of a charity for purposes of charitable gaming may have gone too far and certain licenses should be restricted to absolutely identified raffle-type games and the pulltabs should be reserved for true charities.

SENATOR FRENCH agreed saying that he felt the most good the Legislature could do for truly charitable organizations is to open the field up for people who are doing the most good and restrict those organizations that are doing less good. He really couldn't see why the Alaska Democrats and the Alaska Republicans needed to be considered charitable organizations.

MR. DENNIS SMITH, Kenai Peninsula Oilers, prefaced his remarks by saying that he runs an amateur baseball organization that consists of NCAA eligible players that come up for the summer. The Oilers use the MBP and return 40 percent to the permittee for its use. His organization felt that defining charities would be like opening Pandora's Box. He referenced riverboat gambling in the central Midwest where the thought was to have tourists gambling on the boats; but once the laws were written, essentially a pontoon raft with a walkway along the waterway would be eligible to be a casino. He said:

We like to think we create jobs for our community; we offer scholarships to students and members of the community; we have a growing source of summer entertainment at a very minimal cost to the community. This is something that we sought out as a revenue source over two decades ago.... I think you're going to have a very difficult time trying to pin down what constitutes a charity without seeing further loopholes or aggravations in the future.

CHAIR BUNDE said that maybe the definition of charitable gambling needs to be changed to non-profit or just fund-raising gambling.

SENATOR FRENCH asked Mr. Smith how much his net proceeds are per year.

MR. SMITH answered the return is currently 40 percent or about \$241,000.

MR. STEVEN BORCHORDING, General Manager, Gold Cache Bingo in Anchorage, said defining what is charitable gaming and what isn't would be significantly problematic. He said:

I don't at this time need to go to Easter Seals and get a pair of crutches for my son. However, I like to take my son to the baseball games in Anchorage and they are very inexpensive entertainment. He can watch kids who someday might be major league players. Is that charitable or not? I don't know. Is that bettering the community? I would think so. The fact that I hear not letting kids play sports concerns me, because I have a son and I would love for him to be able to play sports. If I can afford it great, and if I can't I would love to have somebody help if I could. And how is that not bettering the community? He could be off doing something else, which we hear about all the time. So, what is the definition of a charity and what isn't?

MR. BORCHORDING said that both pulltabs and raffles are gambling; someone is wagering money to win something. He thought it is more important to make sure that the permittees are actually used properly and that a lot of today's discussion is already in place.

CHAIR BUNDE mentioned that he heard that his organization returned more than the required 30 percent.

MR. BORCHORDING agreed saying that in 2001 it returned 57 percent; in 2002 it returned 54 percent; and in 2003 it returned 53 percent (using pulltabs).

CHAIR BUNDE asked if he attributed those returns to being an MBP.

TAPE 04-6, SIDE A

3:10 p.m.

MR. BORCHORDING replied no and that it had more to do with building the business.

CHAIR BUNDE asked him if he was hired by his organizations.

MR. BORCHORDING replied that a board of directors hired him under contract with certain parameters and fiduciary responsibilities.

SENATOR SEEKINS said he had just talked with Red Boucher, founder of the Fairbanks Goldpanners Baseball Team, about all the good players who had played for them. Pulltabs were not used for revenue back then. While on the board of directors for the Alaska Goldpanners, Senator Seekins said he founded the North Pole Knicks and became the commissioner of the Alaska Baseball League. He used to hire kids to work in his dealership.

Kids don't work in the summer now; they work at the ballpark mowing the grass, because they have pulltab revenue. They don't have to have community involvement as much as they used to have. So, there's been a culture change....

He continued saying that pulltabs are an alternative, easier, less confrontational way to raise money. Other organizations started using pulltabs to raise money and there is an ever-increasing number of permittees. "Are we just going to let it grow and see where it ends or should there be some constraint as to what a true charity is?"

MR. BORCHORDING responded that he talked to some groups who are technically charitable even under the senator's definition (including one who runs Alaskan Independent Blind, Inc.) and the

fact is that knocking on doors and telephone calls are not creating the kind of revenue they used to. This [pulltabs] fills the gap without having to ask the government for money.

MR. JOHN REGAN, Spenard Lions, said that his club used to raise money going door-to-door selling brooms and light bulbs.

That takes time. Volunteers have only so much time they can give. By using money gained from gaming, we can donate and use more of our volunteer time than if we had to go out and raise the money other ways.... So this has helped us help more people.

CHAIR BUNDE said the bigger question is that there are only X amount of dollars in the non-profit gaming community and if the Legislature "tightened it up," would the Lions Club get a bigger share - not should they go back to selling brooms. He then asked Mr. Loescher what he thought.

MR. ROBERT W. LOESCHER, Tlingit-Haida Community Council (THCC), said he also represents a number of Alaska Native Brotherhood Associations (ANB). He agreed that trying to define charitable would be an impossible task. It might be easier to look at how the federal government classifies gaming, which is how the National Gambling Impact Study Commission (a 20-year report on gambling) looked at it.

He warned that non-profit organizations need to deal with government agencies and tax entities within some sort of legal framework and many elect to go to non-profit status and IRS tax code classifications (even though it takes a while).

MR. LOESCHER stated that local communities don't get the federal and state funding that they used to and local communities have tried to solve problems; for instance, pulltabs in Juneau pay for the high school basketball and football teams. He urged the committee to consider the kind of gaming it wants to enable and what purposes the funding will go toward.

CHAIR BUNDE asked Mr. Prather if he would comment on his ideas about the definition of charity.

MR. PRATHER commented, "Mr. Chairman, that is a minefield I would rather not walk through."

SENATOR FRENCH said he was told that some charitable gaming operators formed a trade association and ran a permit and used

some of the proceeds from it to defend themselves when they were sued by the state for not turning over all the money they were supposed to in their other operations.

MR. PRATHER replied that did take place. An operator conducted gaming on behalf of a number of permittees, one of whom was a trade association called the Charitable Gaming Association of Alaska. An audit determined that the operator had underpaid his permittees by \$186,000 and one of the beneficiaries of that should have been the Charitable Gaming Association of Alaska. The operator hired an attorney and during the course of the hearing it came out that all the legal fees paid to the attorney came from the Charitable Gaming Association of Alaska (one of the groups the money was being recovered for). That case continued to the Supreme Court and was eventually settled before the final decision. "That's one of the most egregious abuses that we've seen of gaming money."

SENATOR FRENCH asked what statute would prohibit that from happening again.

MR. PRATHER replied that particular organization is no longer in business, but one other exists that is spending the money the way the laws were intended for them to spend it. He explained that the department would not object if a trade association used its money to file a lawsuit over proposed regulations.

MR. POWERS closed with an idea he had to charge a \$1 "user fee" admission to each bingo session. He thought this fee would be easy on the operators and MBPs and bring in a couple of million dollars to the general fund. The money could be sent in to the state every month.

CHAIR BUNDE said that really wasn't the focus of today's meeting, but he would circulate any correspondence on it to the rest of the committee. He asked if there were any more closing comments.

MR. DAVE LAMBERT, Fairbanks, asked the committee to look at "pooling" and better enforcement in relation to licensees' employees.

MR. DENNIS SMITH closed saying that his organization is very satisfied with current enforcement.

DR. HAAKENSON closed also agreeing with the status quo, but wanting clearer definitions to deal with the next time he was asked to speak on this issue.

MR. BORCHORDING closed saying that he hadn't raised his main point yet, which is to do away with authorized expenses.

Set a specific amount that must be paid from each pulltab game that is closed. If I close out 10 \$1,000 games this month and I'm an operator, so to speak; show me the check for \$3,000. You're out; it's done. If I'm a self-directed permit like I run right now, of course, I'm going to be trying to maximize my profits. So, I must submit a check of at least 30 percent. If it's more than that, wonderful, my charities make more money. It's very simple....

He agreed with Mr. Power's suggestion of a \$1 fee and the need for accountability. He supported mandated sentencing for violations of gaming statute and for the licensee to be the responsible party, not an employee.

CHAIR BUNDE asked anyone with more comments to submit them in writing and said he would distribute them to the committee. There being no further business to come before the committee, he adjourned the meeting at 3:30 p.m.