

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSHB 272(FIN)
 (H) Publish Date: 4/30/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
 Title Card Rooms & Operations RDU Treasury and Tax
 Component Tax Division
 Sponsor Representative Kott
 Requester (H) FIN Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*
CAPITAL EXPENDITURES	*	*	*	*	*	*
CHANGE IN REVENUES ()	*	*	*	*	*	*

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	*	*	*	*	*	*
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	*	*	*	*	*	*

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

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

ANALYSIS: (Attach a separate page if necessary)

Revenue Discussion

This bill would legalize non-banked card rooms in Alaska, subject to voter ratification of local ordinances authorizing card rooms and with the caveat that "the total number of owner's licenses issued in a municipality may not exceed the total population of the municipality divided by 30,000." A non-banked card room is one in which players compete against each other rather than against the house and the house has no stake in the outcome of a game; Texas Hold-Em poker is an example of a game that might be played in a non-banked card room. There are two issues associated with estimating the maximum number of card rooms that would be allowed under this bill. First, it is not clear if "the most recent federal census information" refers to the Decennial Census or the most recent estimate by the U.S. Census Bureau for purposes of estimating the number of card rooms allowed. Second, the term "municipality" is not defined in the bill.

(continued on next page)

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 Division Tax Division Date/Time 4/29/05 8:10 AM
 Approved by: Dan Dickinson, Director of Tax Date 4/29/2005
 Agency Revenue

FISCAL NOTE #2

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. CSHB 272(FIN)

ANALYSIS CONTINUATION

Revenue Discussion, Continued

For our reference case, we used the definition of "municipality" in AS 29.71.800 (cities and boroughs) and the April 1, 2000 U.S. Census to estimate that a maximum of 13 card rooms would be possible under this bill: 8 in Anchorage, 2 in the Fairbanks North Star Borough, 1 in Juneau, 1 in the Kenai Peninsula Borough and 1 in the Matanuska-Susitna Borough. If we were instead to use the July 1, 2004 annual estimates of population from the Census Bureau, then 15 card rooms would be possible: 9 in Anchorage, 2 in the Fairbanks North Star Borough, 1 in Juneau, 1 in the Kenai Peninsula Borough and 2 in the Matanuska-Susitna Borough. The most restrictive interpretation would be if "municipality" referred only to cities. Using this definition and the April 1, 2000 U.S. Census, a maximum of 10 card rooms would be possible: 8 in Anchorage, 1 in Fairbanks and 1 in Juneau. It is important to note that these estimates, including our reference case, assume all eligible municipalities will quickly ratify ordinances authorizing card rooms. Clearly, if a municipality such as Anchorage were not to authorize card rooms this would dramatically reduce card room operations in the state.

In addition to the voter ratification and population rules, there are three other reasons why we did not include a revenue or cost estimate on the front page of this fiscal note. First, the decision to open and operate a card room is a business decision. Second, under this bill the department is given authority to set many rules and regulations that will affect this business decision. These rules and regulations will be formulated after receiving recommendations from the five member governor-appointed advisory board created under this bill. Third, the fees imposed on card rooms in different states and localities vary widely and make comparisons to Alaska difficult. For example, the state of Montana charges a processing fee to cover the cost of determining whether to issue a license plus \$250 for the first table and \$500 for each additional table. Washington charges \$3,650 for up to 5 tables and \$1,060 per additional table up to a maximum of 15, plus any investigation costs exceeding the license fees. CSHB 272 imposes an owner's license fee of \$25,000 to apply for a five-year license plus an annual \$10,000 per table fee. Operators are also responsible for investigation costs that exceed the portion of the \$25,000 fee that is assessed for the investigation, posting of a \$500,000 cash bond and biannual occupational licensing fees to be set by the department.

Based on several assumptions, we estimate that one card room in Alaska could generate about \$201,000 in fees for the state in the first year. During years 2 through 5, we estimate a card room in Alaska could generate between \$150,000 and \$167,000 in annual fees for the state. These estimates assume that the average card room will have 15 tables (15 is the maximum allowed in Washington and in California the average is 14.3). The card room is assumed to pay its owner's license fee in the first year with no transfer of ownership over the 5-year license period. This estimate also assumes an occupational licensing system similar to Washington, where annual licenses are \$175 initially and \$84 for renewals (for Alaska's biannual licenses this would translate into $\$175 + \$84 = \$259$ initially and $\$84 + \$84 = \$168$ for renewals). We assume that Washington's average of 6.7 card room occupational licenses per table will hold in Alaska and that after the first year, all of the licenses will be renewals. We assume that, like in Washington, all gaming employees will be covered but non-gaming employees such as bartenders will not require licenses. A significant variable affecting revenues would be the actual number of tables card rooms would have. This is difficult to estimate, as in California non-banked card rooms range from a single table to 243 in the Commerce Casino in Los Angeles with the average being 14.3 tables per card room. One or more very large card rooms in Alaska could significantly boost revenues.

One provision of this bill instructs the department to set maximum wagers for card rooms; this restriction along with any maximum rake could have an effect on the revenue generated by potential card rooms. In Washington, non-banked card room wagers are capped at \$25 per player per round, and rakes are capped at \$10 per player per hour or \$1 per player per hand or 10% of the pot up to \$5. Annual gross revenue to card rooms per non-banked table in Washington is \$162,000. In California, there are no maximums placed on rakes or wagers, and the annual gross revenue per non-banked table is about \$409,000.

This bill stipulates that card rooms must hold at least one card tournament per quarter with gross proceeds donated to a nonprofit group. There are many variables that would help determine the total amount generated for charities, including the number of card rooms, the number of tables and rules and regulations adopted by the department. Also, "gross proceeds" is not defined in the bill so it is unclear if prizes or any expenses would be included in this calculation. In Michigan the average Texas Hold-Em tournament generates \$2,920 in revenue and \$1,099 in profit for charities, with a \$500 per person per day prize limit. Any prize limits in Alaska would be determined by the department and may influence the profitability of tournaments. In a 2005 article in the Boston Globe, card tournament supplier Mike Sheehy estimated that "A well-run tournament will attract up to 200 players, each of whom pays a \$100 entrance fee [...] A tournament of that size can offer pots of \$5,000 for the first-place player and a few thousand for the second and third and still generate \$10,000 for the charity after expenses."

Cost Discussion

The costs of implementing this bill are difficult to estimate because we do not know the number nor size of potential card rooms. Given the assumptions in our revenue discussion, we anticipate \$532,000 in personnel costs and related expenditures would be necessary to investigate, license and regulate up to 15 card rooms. Also about \$5,930 in RSAs to Public Safety for fingerprint background checks would be required for each card room (assuming 15 tables times 6.7 employees per table times \$59 per employee). The personnel costs are for an Investigator IV, four Investigator III's and an Admin Clerk III. Based on the experience of other states and our own experience, this staff should be sufficient to investigate, license and regulate up to 15 card rooms with an average of 15 tables each. Also having two teams of investigators would ensure that teams could be available during all hours of card room operations (assumed to be 12:00 noon to 2:00 am). If the card rooms are larger on average than the assumed 15 tables, we would require additional staff and resources for investigation and regulation. We did not include any additional costs that would be incurred by municipalities as a result of this bill.

Sources: California Division of Gambling Control; Michigan State Charitable Gaming Division; Montana Gambling Control Division; Washington State Gambling Commission; American Gaming Association "2004 State of the States"