

HOUSE FINANCE COMMITTEE  
April 29, 2005  
8:48 A.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [8:48:34 AM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair  
Representative Kevin Meyer, Co-Chair  
Representative Richard Foster  
Representative Mike Hawker  
Representative Jim Holm  
Representative Mike Kelly  
Representative Carl Moses  
Representative Bruce Weyhrauch

MEMBERS ABSENT

Representative Bill Stoltze, Vice-Chair  
Representative Eric Croft  
Representative Reggie Joule

ALSO PRESENT

Representative Pete Kott; Michael O'Hare, Staff,  
Representative Pete Kott; Brett Fried, Economist, Tax  
Division, Department of Revenue; Ethan Billings, Small  
Business Owner/Operator, Juneau; Chip Wagoner, Alaska  
Catholic Conference, Juneau

PRESENT VIA TELECONFERENCE

Larry Meyers, Deputy Director, Tax Division, Alaska  
Department of Revenue, Anchorage; William Pharr, Houston,  
Alaska; Robert Hall, Houston, Alaska

SUMMARY

#HB217

HB 217 An Act relating to the determination of full and true value of taxable municipal property for purposes of calculating funding for education and certain other programs.

HB 217 was SCHEDULED but not heard.

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HB 272 An Act relating to card rooms and card operations.

CS HB 272 (FIN) was reported out of Committee with a "no recommendation" and with a new indeterminate note by the Department of Revenue.

#HCR6  
HCR 6

Relating to the continuation of the Alaska Information Infrastructure Policy Task Force until the first day of the First Regular Session of the Twenty-Fifth Alaska State Legislature in January 2007.

HCR 6 was SCHEDULED but not heard.

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#HB272  
HOUSE BILL NO. 272

An Act relating to card rooms and card operations.

[8:50:24 AM](#)

Co-Chair Chenault MOVED to ADOPT work draft #24-LS0916\F, Kurtz, 4/28/05, as the version of the bill before the Committee. There being NO OBJECTION, it was adopted.

MICHAEL O'HARE, STAFF, REPRESENTATIVE PETE KOTT, commented on the growing popularity of poker. Many networks are regularly televising tournaments and enjoying sky rocketing popularity and revenues. Poker playing is one of the world's fastest growing forms of entertainment.

Men and woman, old and young, from all walks of life, are joining the poker trend, which shows no signs of slowing. Due to that growth in interest, the intent of the legislation is to allow social card games to be played in a tightly controlled public environment.

Mr. O'Hare suggested that Alaska could address the trend and bring the popular pastime into compliance with safety and revenue laws of the State. The types of games allowed are non-banking card games, games where players play against each other as opposed to banked games that the house pays the winners and takes money from the loser. The games would be played for tokens or chips and not negotiable currency.

Mr. O'Hare listed the games included:

- Poker
- Pan Rummy
- Bridge
- Cribbage
- Pinochle

A limited number of licenses for card room operations would be available for municipalities over 30,000. The licensee would be required to:

- Pay a non-refundable application fee of \$25,000 to the Department of Revenue;
- Post a \$500K Cash Bond at least 60 days in advance of commencement of a card room operation;
- Pay an annual fee of \$10 thousand dollars for each card table;
- Be fingerprinted with background checks;
- Pay for all investigative costs incurred over the initial \$25000 application fee;
- Host quarterly tournaments with the gross proceeds to be distributed to a nonprofit educational institution or group designated by the owner; and
- The license would be good for 5 years.

Mr. O'Hare added that an individual would not be able to apply for a license if they were:

- Convicted of a felony;
- Knowingly falsifying the application;
- Currently, a manager, owner, director, or managerial employee of an existing operation;
- Employer of any of owner, director, or managerial employee of an existing operation.

HB 272 provides for the Department of Revenue to strictly enforce regulations imposed on card room operations while allowing card players to enjoy safe, regulated playing environment of their favorite pastime. Additionally, it gives back to the community by creating decent paying jobs, while supporting nonprofit educational charities, and removing at least 75% of the so-called "after hour" card rooms.

Mr. O'Hare offered to answer questions of the Committee

[8:54:51 AM](#)

Representative Holm asked why pinochle had not been included. Mr. O'Hare said it was.

REPRESENTATIVE PETE KOTT, SPONSOR, indicated that he supports the addition of pinochle, adding that all non-banking areas were intended to be included.

[8:56:35 AM](#)

Representative Hawker pointed out that the fiscal note indicated the census basis had not been addressed. Representative Kott replied that had been taken care of.

[8:57:03 AM](#)

ETHAN BILLINGS, OWNER/OPERATOR BUSINESS, JUNEAU, spoke in support of HB 272. He commented that the bill is past due and necessary to regulate the "card playing fever" happening statewide. Card games are entertainment and more entertainment is needed not only for local citizens but also for the tourist that visit the State. He recommended that if the bill does pass, that current local card games continue to be allowed. Mr. Billings urged passage of the bill.

[8:58:43 AM](#)

CHIP WAGONER, EXECUTIVE DIRECTOR, ALASKA CATHOLIC CONFERENCE, JUNEAU, testified against the legislation, which he believed would be legalized gambling.

He stated that the legislation would take the State from charitable gaming into a commercial gaming enterprise called "card rooms", operated by the professional gambling industry.

Mr. Wagoner discussed that HB 272 would add to, but not replace, illegal gambling already happening. There has been no evidence presented that passage of the bill would lead to less crime or less illegal gambling in Alaska. After looking into the effects that the expansion of gambling would do, the Voice of the Church strongly opposes the bill.

Mr. Wagoner outlined the reasons for that opposition:

- Some Alaskans will be hurt and hurt badly by the bill.
- The State does not have money willing to spend to fund the necessary programs to deal with all of the problems that will flow out of the expansion of legalized gambling.

He maintained that gambling for some Alaskans would become an addiction. The National Research Council of the National Academy of Sciences has reviewed over 4,000 references on the literature on pathological and problem gambling. That study concluded that within 12 months, 1% of the gamblers would be pathological and another 2% would become problem gamblers.

Mr. Wagoner emphasized that the bill will increase gambling addictions and that gambling addictions are difficult to

overcome. He observed that problem gamblers cost society \$715 dollars annually and pathological gamblers cost \$1,200 annually. Oregon has funded 27 treatment-clinics for gambling problems.

Mr. Wagoner maintained that the economic benefit to State government would not come close to funding the treatment of addicted gamblers. Even if the industry paid for itself, the Legislature should not look at economic growth if our citizens will be hurt.

[9:10:43 AM](#)

Co-Chair Chenault inquired about the studies referenced by Mr. Wagoner and if they specifically addressed gambling or addictions including slot machines and poker. Mr. Wagoner responded that the National Commission study dealt with all forms of gambling. Some types of gambling are more addictive than others. The speed of the game provides a good indicator regarding the addictiveness. He warned that research has shown that speed is important to addicting temptation to the young. Co-Chair Chenault thought that card room gambling was slow moving compared to machine gambling.

[9:12:53 AM](#)

ROBERT HALL, (TESTIFIED VIA TELECONFERENCE), HOUSTON, ALASKA, voiced concern with the proposed legislation for other reasons. He addressed the impact the legislation will have on other business from the player's perspective. It would limit card rooms to two. He recommended adjusting the bill for bars so they are able to have one table as well as fraternal organizations.

Mr. Hall pointed out that the legislation does not provide the advisory board with any per diem or travel costs. He did not want to see participation limited on the board. He noted that he supports the idea but believed that adjustments need to be made. He noted areas outside of Anchorage, which would not meet the 30,000 residential limit.

[9:16:28 AM](#)

WILLIAM PHARR, (TESTIFIED VIA TELECONFERENCE), HOUSTON, ALASKA, voiced support for legalized gambling throughout the State.

[9:16:58 AM](#)

Representative Weyhrauch inquired if implementation should be subject to a municipality vote of the people. Representative Kott responded that could be a policy call.

He thought that the card rooms should first gain momentum and then by a vote of the people, determine whether it stays or not.

[9:18:30 AM](#)

Representative Weyhrauch referenced language on Page 2, the wagering subject to sales tax. Representative Kott requested that the Department respond to that. He did not believe they could place a sales tax on a chip.

[9:19:23 AM](#)

Representative Weyhrauch expressed concern with purchasing chips with credit. Representative Kott acknowledged that the bill language was broad and would be controlled by the Board. The Board will determine the rules and regulations regarding operations and extension of credit.

[9:20:58 AM](#)

Representative Weyhrauch asked the intent of the language regarding investigating and reinvestigating. Representative Kott wanted to make sure that the operations were legal and that the Department had the authorization to investigate as long as needed.

[9:21:43 AM](#)

Representative Weyhrauch referenced language on Page 4, providing the Department the authority to enter into the card room to obtain evidence. He asked if that would allow the Department to go in without a warrant. Representative Kott clarified that the legislation has provided the Department the sole authority to enter a card room under any suspicion.

[9:22:28 AM](#)

Representative Hawker asked about the 30,000-population regulation. He thought that it would restrict the card room to only a couple of population centers in the State. He asked why not give every 15,000 residents in the State one card room. Representative Kott replied that the 30,000-number was arbitrary. It was attempted to determine what population base could support a card room and that number was developed for operations to be successful. He continued, the licensee must show that it will continue for five years. He noted that 80% of the tables would need to be fully occupied for success. The 30,000-number would be established on a trial base.

[9:25:13 AM](#)

Representative Hawker understood that the concept underlying the legislation is that the card room would be professionally managed and highly regulated. Representative Kott agreed that was the intent and thought that the legislation would provide about a 75% reduction of on-going, illegal activity in Anchorage alone.

[9:26:41 AM](#)

Representative Holm referenced language on Page 9, Line 14, the non-refundable \$25,000 dollar fee needed to obtain a license. He asked about provisions in the bill that would provide the loser applicants, their fee returned. Representative Kott explained that if only a certain number of licenses were available, he assumed the Board would make regulations regarding repayment of that fee. The funds would absolutely be returned.

[9:28:52 AM](#)

Representative Holm asked who chooses which request becomes the successful bidder. Representative Kott anticipated that the board would draft policy procedures regarding the application process and licenses. There is not a deadline included yet; he guessed that those who take the initiative would be given the first look. He agreed that a timeline would need to be established, which would be the work of the board.

[9:31:37 AM](#)

Representative Holm warned about a first come, first serve base and the value of the license with a limitation. He thought that there should be some sort of mechanism that makes it more of a lottery system. He reiterated his concern with the process, given the potential amount of interest. Representative Kott acknowledged that was a valid concern. He said that given the requirements of the license fee and bond, there might not be too many able to apply.

[9:35:22 AM](#)

Representative Weyhrauch MOVED to ADOPT Amendment #1. Co-Chair Meyer OBJECTED.

Representative Weyhrauch explained that the amendment would add language on Page 6, Line 13, "after attorney" inserting, ", if any".

Co-Chair Meyer WITHDREW his OBJECTION. There being NO further OBJECTIONS, Amendment #1 was adopted.

[9:36:17 AM](#)

Representative Weyhrauch MOVED to ADOPT Amendment #2. Co-Chair Meyer OBJECTED.

Representative Weyhrauch explained that the amendment would delete language on Page 7, Lines 3-4, "on the business day" and replaces it with "three business days".

Co-Chair Meyer WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment #2 was adopted.

[9:37:19 AM](#)

Representative Weyhrauch questioned the sales tax issue, listed on Page 2. He asked where a taxable event would be listed and how it would help the municipality to obtain any revenue.

[9:38:16 AM](#)

BRETT FRIED, ECONOMIST, TAX DIVISION, DEPARTMENT OF REVENUE, was not familiar with municipal ordinance tax but imagined that the fee paid by each player would be taxed based on the fee the house charged the player.

[9:39:19 AM](#)

LARRY MEYERS, (TESTIFIED VIA TELECONFERENCE), DEPUTY DIRECTOR, TAX DIVISION, ALASKA DEPARTMENT OF REVENUE, ANCHORAGE, stated that it would be up to the local municipality to determine whether or not they wanted to tax the activity.

Representative Weyhrauch asked if the card room took money in exchange for tokens and chips, could the municipality rule that was a taxable event. Mr. Meyers explained that the municipality has already addressed that in the pull-tab arena.

[9:40:15 AM](#)

Representative Holm said that each action would not indicate a transfer of money. There would be no earnings made by individuals making it a taxable event. He understood it could be the same difficultly as using pull-tabs.

[9:41:13 AM](#)

Representative Weyhrauch inquired if pull-tabs were taxed. Representative Holm replied that they were taxed on the entire roll and taxed one time only. Representative Weyhrauch agreed that made sense.

[9:41:31 AM](#)

Representative Hawker understood that sales taxation of gaming activities was a specialized area within the whole body of sales tax policy procedures and that municipality would choose a specific exclusion. If a premium were charged on that service and the municipality choose to tax services, then the service would be subject to taxation. He concluded it would all fall back into the local sales tax realm.

Representative Weyhrauch pointed out that there is nothing in the bill, which governs what a municipality, may or may not do with respect to taxation.

[9:43:22 AM](#)

Co-Chair Meyer suggested that it would be best left open. Representative Weyhrauch agreed that was his preference.

[9:43:37 AM](#)

Representative Holm asked if the bond would be a cash bond. Representative Kott replied it would be a \$500,000 cash bond. The bond would be held by the State and the State would earn the interest off of it.

[9:44:27 AM](#)

Representative Kelly believed his position would offend the former speaker. He questioned if a municipality could opt out. Representative Kott acknowledged they could.

Representative Kelly asked if the legislation would be of value to the State. Representative Kott responded that there are provisions in the bill requiring the State to look at the best proposal. The applicant must meet a number of the qualifications and criteria.

[9:47:03 AM](#)

Representative Foster MOVED to REPORT CS HB 272 (FIN) out of Committee with individual recommendations and with the accompanying indeterminate note. Representative Kelly OBJECTED.

CS HB 272 (FIN) was reported out of Committee with a "no recommendation" and with a new indeterminate note by the Department of Revenue.

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AT EASE: [9:48:52 AM](#)

RECONVENE: [9:50:43 AM](#)

ADJOURNMENT

The meeting was adjourned at 9:53 A.M.