

S B

263

FILE 2



Ben Esch 272-4475

"gamsee" - sectional

SENATE STATE AFFAIRS COMMITTEE

BILL NUMBER SB 263

SPONSOR Pouchot by request

BILL TITLE Video gaming devices on premises

DATE REFERRED 4/5/89

^{Clay Galante}
Lamar Forque, Music Vend Distributing Co
PO Box 24807, Seattle 98124 1-800-242-7729

HEARING SCHEDULED 4-17-89

FISCAL NOTE PREPARED
req Kettle 4-12am.

Reno (702) 688-1115 → Agent Healy
Nevada (702)-687-6530 + see
State Gaming Commission, notes
Carson City m-file
Montana - Dept. Commerce Video Gaming
Control Bureau (406) 42-7325
Kathy Anderson on Robinson

SPONSOR CONTACTED ✓

INTERESTED PARTIES CONTACTED

✓ Kim Hutchingson 586-1116
Dan Coffee

11th floor
50B, side B

Julie Liederhaus, Clarion Hotel, Auch

Steve Kettle, Dept Revenue 2320
John Hansen

Pat Sharrack, ABC 277-8638
FAX # 278-5026

Linda Wild, DCEO 2500 Randall Bureau 2534

Fahrenkamp (Moyer) 3834

Szymanski

Jim O'Connor
431 Jnu St
Fbx AK 99701
SB 263

~~Mike Ford~~ 2450 / Chenoweth

OTHER

VID - memo to Pat 3/2/1 (Montana, sectional)

VIDNV - New gambling

PHONE MESSAGE

TO: *Jeanna* DATE: *2/5* TIME: *1:52* AM/PM

FROM: *Hackett Bennett* AREA CODE

OF: *Ocean Pacific Seafood* NO. *562-4111*

5401 Codina St. EXT. *Ext. 201*

phone back by 2:05 or tomorrow

am - any time after 8:00. Re

JB 263 / video gambling. 9950

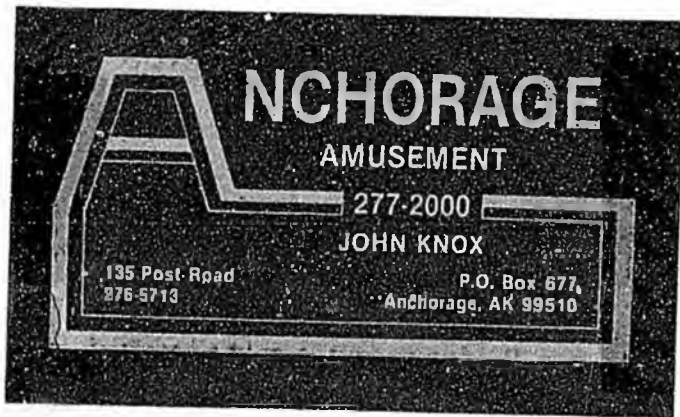
SIGNED: *D*

PHONED CALL BACK RETURNED CALL WANTS TO SEE YOU WILL CALL AGAIN WAS IN URGENT

GHARR

DAN K. COFFEY
ATTORNEY AT LAW

KAY, SAVILLE, COFFEY, HOPWOOD & SCHMID
2550 DENALI STREET, SUITE 1300
ANCHORAGE, ALASKA 99503
TELEPHONE (907) 276-4335 • FAX (907) 278-1812



gamsec.txt sectional ^{3/90}~~1/89~~
vidsumm.txt summary 12/89
vidpen.txt penalties 12/89
vid 2.txt 12/22/89 redraft
ballot.txt summary initiative
vidam.txt amend. to SS
vidchart.txt compare other states
263inerno.txt 3/10 Staff memo

MUSICVEND

MUSIC-VEND DISTRIBUTING CO.
1550 Fourth Avenue South
P.O. Box 24807
Seattle, WA 98124 • (206) 692-5700
Res.: (206) 271-3069
Cable Address: MUSIVEND

W. Lamar Forque, Jr.

Alaska State Legislature

Sen. Pat Pourchot, Chairman

Sen. Jan Faiks, Vice Chairman
Sen. Al Adams
Sen. Tim Kelly
Sen. Rick Uehling



P.O. Box V
State Capitol
Juneau, Alaska 99811

907-465-3712

Senate State Affairs Committee

MEMORANDUM

TO: Senate State Affairs Committee Members
FROM: Senator Pat Pourchot
RE: Wednesday, March 7 Committee Hearing
DATE: March 6, 1990

On Wednesday, March 7 at 1:30 p.m. in the Beltz Room the Senate State Affairs Committee will hear the following bills:

SS SB 263, An Act establishing the Alaska Gaming Commission and authorizing the commission to regulate video gaming.

SB 263 was heard by the State Affairs Committee last session. The Sponsor Substitute, which is modeled after Montana's video gaming law, clarifies many of the bill's provisions. In brief, SSSB 263 would establish a 5-member Gaming Commission in the Department of Commerce to license and regulate video gaming.

Under the bill, a municipality could prohibit by ordinance the installation of video gaming devices within its boundaries. The devices could be installed only in bars, and would be tested and approved by the commission before installation; the number of devices per bar would be limited. Device distributors and bar operators would be licensed by the commission, allowable bets and payouts would be minimal and substantial penalties would apply to violators.

License fees, device taxes and 15% of each device's net income would accrue to the state's general fund; 1/3 of the device tax and net income would to municipalities in which are located.

SB 348, An Act granting probation officers status as peace officers under the public employees' retirement system; and providing for an effective date.

This bill would amend the definition of "peace officer" in Title 39 to include probation officers and would permit adult and juvenile probation officers to retire after 20 years service, whereas most state employees retire after 30 years service. Prior years as probation officer would be credited service. Currently when a correctional officer is promoted to a probation officer, they lose the peace officer status and move into the regular PERS.

CS SB 254, An Act relating to Group Health Insurance; and providing for an effective date. Scheduled for final action, the CS reflects a majority of the changes discussed at the last hearing. Changes are highlighted.

SB 263, ESTABLISHING THE ALASKA GAMING COMMISSION AND
AUTHORIZING THE COMMISSION TO REGULATE VIDEO GAMING

TO TESTIFY:

DAN COFFEY, C.H.A.R.R.

RANDALL BURNS, DIV. OCCUPATIONAL LICENSING, DEPT. COMMERCE

OTHERS?

F.Y.I.

REMEMBER 3 TECHNICAL AMENDMENTS (IF BILL IS GOING TO MOVE
OUT). MEMBERS HAVEN'T SEEN YET; I'VE GOT COPIES.

IN ADDITION, BILL DRAFTER HAS SUGGESTED AMEND TO "ALASKA VIDEO
GAMING COMMISSION".

NO

DIFFERENCES FROM MONTANA LAW:

MONTANA DOESN'T LIMIT TO BARS

MONTANA GIVES 2/3 TO LOCAL GOVERNMENT; WE GIVE 1/3

MONTANA MAXIMUM KENO PAYOUT IS \$800; OURS IS \$100

(MONTANA'S RATIONALE IS THAT KENO IS PLAYED WITH 8
CARDS AND YOU CAN WIN \$100 ON EACH; OUR RATIONALE IS
THAT WE WANT TO KEEP THE GAME CONSERVATIVE AND THE
STAKES LOW)

SPOKE TO PAT SHARROCK, A.B.C. BOARD. THEIR INVOLVEMENT IS
LIMITED TO POSSIBILITY THAT GAMING COMMISSION WOULD CONTRACT
WITH THEM TO INSPECT MACHINES -- HE SEES NO PROBLEMS. ALSO,
A.B.C. COULD REVOKE LIQUOR LICENSE FOR VIOLATION OF VIDEO
GAMING STATUTE (I.E. ILLEGAL GAMBLING).

FISCAL NOTE: BASED ON 5 MACHINES PER BAR (MAXIMUM 20 ALLOWED)
AND MONTANA'S PER-MACHINE ANNUAL REVENUE OF \$9,300. ESTIMATE
TOTAL REVENUE AT \$7.5 MILLION -- AFTER SHARING 1/3 OF TAX WITH
MUNICIPALITIES AND PAYING COST OF GAMING COMMISSION, NEW
REVENUES TO STATE WOULD BE \$4.4 MILLION ANNUALLY.

(LAST YEAR'S FISCAL NOTE SHOWED MORE REVENUE -- STATE WAS
TAKING 25% OF NET INCOME RATHER THAN 15%, NONE OF WHICH
WAS SHARED WITH MUNICIPALITIES. BOTH FISCAL NOTES WERE
PREPARED BY JOHN HANSEN -- HE WORKED FOR DEPT. REVENUE
LAST YEAR AND TRANSFERRED TO D.C.E.D. WHEN THEY TOOK OVER
GAMING.)

*that's
good*

- 5-Commission - reg + collect taxes
- licenses by distributors + operators
- ~~no~~ criminal background checks
- 1W Bars only - Age 21
- Machine testing, computer printouts
- Inspectors on Kenosha
- video poker / \$100 payout
- \$2 limit
- 20 machine limit
- 80% payout - no coins
- \$200 tax/machine + 15% net
- $\frac{1}{3}$ to munics but muni option



- Gaming commission
- Gov appoint
- House "
- Com of commerce
- dist/operator conflict
- \$2 - standard

PAT

BY SEN. POURCHOT BY REQUEST

1 IN THE SENATE

2 SPONSOR SUBSTITUTE FOR SENATE BILL NO. 263

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska Gaming Commission,
7 authorizing the commission to regulate video gaming
8 devices and persons who manufacture, assemble, pro-
9 duce, distribute, and operate them, and exempting
10 video gaming devices from the definition of gambling
11 devices; relating to state laws applicable to regu-
12 lation of gambling, state criminal laws defining
13 criminal mischief, municipal regulation and taxation
14 of video gaming devices, and taxes imposed on and
15 regulation of video gaming and coin-operated devices;
16 and providing for an effective date."

17 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

18 * Section 1. AS 05 is amended by adding a new chapter to read:

19 CHAPTER 45. ALASKA GAMING COMMISSION.

20 ARTICLE 1. ESTABLISHMENT AND OPERATION OF COMMISSION.

21 Sec. 05.45.010. ALASKA GAMING COMMISSION. (a) The Alaska
22 Gaming Commission is established in the Department of Commerce and
23 Economic Development. The commission is composed of five members.
24 Four members shall be appointed by the governor, subject to confirma-
25 tion by the legislature. The fifth member of the commission is the
26 commissioner of commerce and economic development or the commis-
27 sioner's designee.

28 (b) Each member of the commission shall at the time of the
29 member's appointment be a resident of the state.

*Commission
make-up*

TAG

no
criminal
element
commission

5 (c) Except for the commissioner of commerce and economic devel-
6 opment or the commissioner's designee, a person may not serve as a
7 member of the commission if that person has been convicted of
8 (1) a felony; or
9 (2) an offense under AS 05.15, AS 11.66.200 - 11.66.280, or
10 a comparable provision of municipal, state, or federal law.

games of
chance gambling

11 (d) Except for the commissioner of commerce and economic devel-
12 opment or the commissioner's designee, a person may not serve as a
13 member of the commission until the investigation required under
14 AS 18.65.080(b) is completed.

background check

15 (e) The commission shall elect a chair from its membership.

16 (f) Three members of the commission constitute a quorum for the
17 transaction of business.

18 Sec. 05.45.020. TERM OF OFFICE. Members of the commission
19 appointed by the governor serve staggered terms of three years. A
20 vacancy is filled by appointment for the unexpired term. A member of
21 the commission holds office until a successor is appointed and qual-
22 ifies.

23 Sec. 05.45.030. REMOVAL AND SUSPENSION OF MEMBERS. (a) Except
24 for the commissioner of commerce and economic development or the
25 commissioner's designee, the governor may remove a member for cause,
26 including incompetence, neglect of duty, or misconduct in office. A
27 member being removed for cause shall be given a copy of the charges
28 and afforded an opportunity to publicly present a defense in person or
29 by counsel upon not less than 10 days' notice. If a member is removed
for cause, the governor shall file with the lieutenant governor a
complete statement of all charges made against the member and the
governor's findings based on the charges, together with a complete
record of the proceedings.

1 (b) The governor may immediately suspend a member for a viola-
2 tion of law or for misconduct in office pending removal from office
3 under (a) of this section.

4 Sec. 05.45.040. COMPENSATION AND PER DIEM. Except for the
5 commissioner of commerce and economic development or the commis-
6 sioner's designee, members of the commission do not receive a salary
7 for their service on the commission but are entitled to per diem and
8 travel expenses authorized for state boards and commissions under
9 AS 39.20.180.

10 Sec. 05.45.050. DUTIES AND POWERS OF THE COMMISSION. (a) The
11 commission shall

*Commission
powers*

12 (1) license, regulate, and supervise video gaming under
13 this chapter;

14 (2) as to the regulation and supervision of video gaming
15 devices, have and exercise all duties and powers that the Department
16 of Revenue may exercise under AS 43 to levy, collect, and enforce the
17 payment of taxes and fees imposed by this chapter;

18 (3) adopt regulations establishing the minimum machine
19 specifications for video gaming devices that may be used in the state;

20 (4) hire staff as needed to enforce and administer this
21 chapter; and

22 (5) adopt regulations necessary to carry out the provisions
23 of this chapter.

24 (b) The commission may

25 (1) issue subpoenas to compel witnesses to appear before
26 it;

27 (2) compel the production of documents showing the receipts
28 and disbursements of a person licensed under AS 05.45.200 or 05.-
29 45.210;

1 (3) appoint a hearing officer to conduct a hearing required
2 by this chapter or by a regulation adopted under it.

3 Sec. 05.45.060. EMPLOYEES OF THE COMMISSION. Employees of the
4 commission are in the partially exempt service under AS 39.25.120.

5 Sec. 05.45.070. ENFORCEMENT OF REGULATIONS. The attorney
6 general shall enforce the regulations of the commission.

7 Sec. 05.45.080. RECORDS OF THE COMMISSION. All records of the
8 commission are public records and subject to public inspection.

9 Sec. 05.45.090. ADMINISTRATIVE PROCEDURE ACT. The operations of
10 the commission are subject to the Administrative Procedure Act
11 (AS 44.62).

12 Sec. 05.45.100. CONFLICT OF INTEREST ACT. The commission is
13 subject to AS 39.50 (conflict of interest).

14 ARTICLE 2. REGULATION OF PERSONS ENGAGED IN VIDEO GAMING.

15 Sec. 05.45.200. DISTRIBUTOR'S LICENSE. (a) A person may not
16 manufacture, assemble, produce, or distribute a video gaming device in
17 this state without a valid video gaming distributor's license issued
18 by the commission. To remain valid, a distributor's license must be
19 renewed annually on or before a date set by the commission.

*distributor's
license*

20 (b) An applicant for a license or renewal of a license under (a)
21 of this section shall pay to the commission an annual fee of \$1,000.

22 Sec. 05.45.210. PREMISES OPERATOR'S LICENSE. (a) A person may
23 not install or allow another to use a video gaming device without a
24 valid video gaming premises operator's license issued by the commis-
25 sion. The commission shall refuse to issue a gaming premises opera-
26 tor's license to a person unless the person holds a license described
27 in AS 05.45.230. *beverage dispensary, club, pub, common carrier*
28 To remain valid, a premises operator's license must
29 be renewed annually on or before a date set by the commission.

*operator's
license*

(b) An applicant for a license or renewal of a license under (a)

1 of this section shall pay to the commission an annual fee of \$100.

2 Sec. 05.45.220. LICENSING PROCEDURE. (a) The commission

3 (1) shall refuse to issue a license to a person under

4 AS 05.45.200 or 05.45.210 if the person has been convicted of

(A) a felony; or

(B) an offense under AS 05.15, AS 11.66.200 - 11.-
66.280, or a comparable provision of municipal, state, or federal
law;

5
6
7
8
9 (2) may refuse to issue a license to a person under AS 05.-
10 45.200 or 05.45.210, if the person fails to comply with a provision of
11 this chapter or of a regulation adopted under it;

12 (3) may require an applicant for a license or renewal of a
13 license issued under AS 05.45.200 or 05.45.210 and, if the applicant
14 is a corporation, each shareholder and employee of the corporation, to
15 file an affidavit that the applicant has never been convicted of a
16 crime identified in (1) of this subsection.

17 (b) A person who is denied a license under (a) of this section
18 has the right to a hearing on the commission's decision and may appeal
19 the denial to the superior court.

20 Sec. 05.45.230. INSTALLATION OF VIDEO GAMING DEVICES. (a) A
21 person licensed under AS 05.45.210 may install or allow another to use
22 video gaming devices only in premises that sell alcoholic beverages
23 and for which has been issued

24 (1) a beverage dispensary license under AS 04.11.090;

25 (2) a duplicate beverage dispensary license for additional
26 rooms under AS 04.11.090(e);

27 (3) a club license under AS 04.11.110;

28 (4) a common carrier dispensary license under AS 04.11.180;

29 or

include ferries

*no criminal
element -
licensees*

*in
bars
only*

UAF is only one

(5) a pub license under AS 04.11.220.

(b) A person may not install more than 20 video gaming devices on a licensed premises.

ARTICLE 3. REGULATION OF VIDEO GAMING.

Sec. 05.45.300. TESTING OF PROTOTYPE VIDEO GAMING DEVICES. (a)

Before a video gaming device is sold or distributed for use in the state, the commission shall test and approve a prototype of the device to ascertain whether a device manufactured to the specifications of the prototype meets minimum machine specification standards.

(b) The commission may contract with another state to fulfill the requirements of (a) of this section.

(c) The commission shall require the distributor seeking the examination and approval of a new video gaming device to pay the anticipated actual costs of the examination in advance and, after the completion of the examination, shall refund overpayments or charge and collect amounts sufficient to reimburse the commission for underpayments of actual costs.

Sec. 05.45.310. INSPECTION. The commission may provide for regular inspection of video gaming devices that are approved for installation and use under this chapter. Regular inspection may include a review of the audit trail of the video gaming device to ensure compliance with the payout requirements of AS 05.45.340. The commission may contract with the Alcoholic Beverage Control Board to conduct regular inspections authorized by this section.

Sec. 05.45.320. REGULATION OF PLAY. (a) A person who has not reached the age of 21 years may not use a video gaming device.

(b) The operator of premises in which video gaming devices have been installed may allow use of the video gaming devices only during hours when a person may sell alcoholic beverages on the premises under

max. 20

machine testing

machine inspection

age 21

1 AS 04.16.010 and AS 04.21.010.

2 Sec. 05.45.330. LIMITATION OF WAGER. The maximum amount that
3 may be wagered on a game that is played or simulated by a video gaming
4 device is \$2. A video gaming device may not be programmed to accept a
5 wager in an amount that exceeds the maximum amount authorized by this
6 section.

*max. \$2
bet*

7 Sec. 05.45.340. PAYOUT REQUIREMENTS. (a) Each video gaming
8 device shall pay out not less than 80 percent of the value of the
9 amount played during the useful life of the device. Each video gaming
10 device must have an electronic accounting device that the commission
11 may use to verify the payout percentage.

80% payout

12 (b) Based on the play of a video gaming device, the video gaming
13 device shall provide the user of the device who is successful a maxi-
14 mum cash payout of \$100 per game.

*max \$100
per game*

15 ARTICLE 4. ENFORCEMENT.

16 Sec. 05.45.400. LICENSE TERMINATION. (a) The commission shall
17 suspend or revoke a license issued under AS 05.45.200 or 05.45.210 if
18 the person holding the license has been convicted of

19 (1) a felony; or

20 (2) an offense under AS 05.15, AS 11.66.200 - 11.66.280, or
21 a comparable provision of municipal, state, or federal law.

*license
suspension*

22 (b) The commission may suspend or revoke a license issued under
23 AS 05.45.200 or 05.45.210 if the person holding the license fails to
24 comply with a provision of this chapter or of a regulation adopted
25 under it.

26 (c) A person whose license is suspended or revoked under this
27 section has the right to notice of and a hearing on the commission's
28 decision and may appeal the suspension or revocation to the superior
29 court.

1

ARTICLE 5. TAXES AND FEES.

*device
tax
\$200/ea.*

2

Sec. 05.45.500. TAXES. (a) A person who maintains a video gaming device for use or permits the use of a video gaming device on premises under the person's control shall first pay to the commission a tax of \$200 a year for each video gaming device.

3

4

5

6

(b) In addition to the tax payable under (a) of this section, the holder of a video gaming device premises operator's license under AS 05.45.210 shall, not later than 15 days after the end of the calendar quarter,

7

8

(1) pay to the commission 15 percent of the net machine income earned in the previous calendar quarter from a video gaming device; and

9

10

(2) file a statement with the commission showing the total net machine income earned in the previous calendar quarter from the licensee's video gaming devices and the amount due the department based on the net machine income.

11

12

13

(c) A person who fails to pay the taxes and fees or file a statement required under this section is subject to a civil penalty of not more than \$1,000 for each violation. Each day a person fails to comply constitutes a separate violation. The civil penalty may be imposed by the commission in an administrative proceeding or by a court.

14

15

(d) In this section, "net machine income" means money received from a video gaming device less money paid out in cash for credits earned from the video gaming device.

16

17

Sec. 05.45.510. DISTRIBUTION OF REVENUE. Subject to an appropriation made for the purpose, the commission shall pay one-third of the proceeds of the taxes collected under AS 05.45.500(a) and (b) to municipalities in the proportion that the revenue was earned within

18

19

1/3 moni.

1 them.

2 ARTICLE 6. GENERAL PROVISIONS.

3 Sec. 05.45.900. DEFINITIONS. In this chapter,

4 (1) "commission" means the Alaska Gaming Commission;

5 (2) "video gaming device"

6 (A) means an electronic machine that uses a video
7 screen or display and microprocessors to play or simulate the
8 play of the game of draw poker or the game of keno, as defined by
9 regulation of the commission, or of another game authorized by
10 the commission, and that upon insertion of money allows a user by
11 skill or chance to receive

12 (i) free games; or

13 (ii) credits that may be redeemed for cash;

14 (B) does not include a machine that directly dispenses
15 coins, cash, tokens, or anything else of value.

16 * Sec. 2. AS 05.15.060 is amended to read:

17 Sec. 05.15.060. REGULATIONS. The department shall adopt regu-
18 lations under the Administrative Procedure Act (AS 44.62) necessary to
19 carry out this chapter covering, but not limited to,

20 (1) the issuance, renewal, and revocation of permits and
21 licenses;

22 (2) a method of ascertaining net proceeds, the determina-
23 tion of items of expense that may be incurred or paid, and the limita-
24 tion of the amount of the items of expense to prevent the proceeds
25 from the activity permitted from being diverted to noncharitable,
26 noneducational, nonreligious, or profit-making organizations, indi-
27 viduals, or groups;

28 (3) the immediate revocation of permits and licenses au-
29 thorized under this chapter if this chapter or regulations adopted

*poker
keno*

no coins

*excludes
someone
with revoked
video license
from activity
in games
of chance*

games of chance

1 under it are violated;

2 (4) the requiring of detailed, sworn, financial reports of
3 operations from permittees and licensees including detailed statements
4 of receipts and payments;

5 (5) the investigation of permittees, licensees, and their
6 employees, including the fingerprinting of those permittees, licens-
7 ees, and employees when the commissioner considers it advisable to
8 fingerprint;

9 (6) exclusion from participation as a permittee, licensee,
10 or employee of a permittee or licensee, of a person

11 (A) convicted of, in prison for, or on parole for a
12 felony within the preceding five years, or convicted of a crime
13 involving theft or dishonesty or of a violation of a municipal,
14 state, or federal gambling law; or

15 (B) whose video gaming license has been suspended or
16 revoked under AS 05.45;

17 (7) the method and manner of conducting authorized activ-
18 ities and awarding of prizes or awards, and the equipment that may be
19 used;

20 (8) the number of activities that may be held, operated, or
21 conducted under a permit during a specified period; however, the
22 department may not allow more than 14 bingo sessions a month and 35
23 bingo games a session to be conducted under a permit;

24 (9) a method of accounting for receipts and disbursements
25 by operators, including the keeping of records and requirements for
26 the deposit of all receipts in a bank;

27 (10) the disposition of funds in possession of a permittee
28 or a person, municipality, or qualified organization that possesses an
29 operator's license at the time a permit or a license is surrendered,

1 revoked, or invalidated;

2 (11) restrictions on the participation by employees of the
3 Department of Fish and Game in salmon classics;

4 (12) other matters the commissioner considers necessary to
5 carry out this chapter or protect the best interest of the public.

6 * Sec. 3. AS 05.15.122(c) is amended to read:

7 (c) The department may not issue an operator's license to an
8 applicant if the applicant or a person employed by the applicant in a
9 managerial or supervisory capacity

10 (1) [.] has been convicted of, in prison for, or on parole
11 for a felony within the preceding five years, or has been convicted of
12 a crime involving theft or dishonesty or of a violation of a municipi-
13 pal, state, or federal gambling law; or

14 (2) has had a video gaming license suspended or revoked
15 under AS 05.45.

16 * Sec. 4. AS 05.15.122(d) is amended to read:

17 (d) A licensee may not employ a person in a managerial or super-
18 visory capacity if the person

19 (1) has been convicted of, in prison for, or on parole for
20 a felony within the preceding five years, or has been convicted of a
21 crime involving theft or dishonesty or of a violation of a municipal,
22 state, or federal gambling law; or

23 (2) has had a video gaming license suspended or revoked
24 under AS 05.45.

25 * Sec. 5. AS 05.15.140(b) is amended to read:

26 (b) In an application for a permit, a municipality or qualified
27 organization shall disclose the name and address of each person re-
28 sponsible for the operation of the activity and whether any person
29 named

games of chance

James of chance

1 (1) has been convicted of, in prison for, or on parole for
2 a felony within the preceding five years, or convicted of a crime
3 involving theft or dishonesty or of a violation of a municipal, state,
4 or federal gambling law; [OR]

5 (2) has a prohibited financial interest, as defined in
6 regulations adopted by the commissioner, in the operation of the
7 activity; or

8 (3) has had a video gaming license suspended or revoked
9 under AS 05.45.

10 * Sec. 6. AS 05.15.140(c) is amended to read:

11 (c) The commissioner may not issue a permit for an activity
12 operated by a person who

13 (1) has been convicted of, in prison for, or on parole for
14 a felony within the preceding five years, or has been convicted of a
15 crime involving theft or dishonesty or of a violation of a municipal,
16 state, or federal gambling law; or

17 (2) has had a video gaming license suspended or revoked
18 under AS 05.45.

19 * Sec. 7. AS 11.46.482(a) is amended to read:

20 (a) A person commits the crime of criminal mischief in the *class C felony (max \$50,000, 5 yrs.)*
21 second degree if, having no right to do so or any reasonable ground to
22 believe the person has such a right,

23 (1) with intent to damage property of another, the person
24 damages property of another in an amount of \$500 or more;

25 (2) the person tampers with an oil or gas pipeline or
26 supporting facility or an airplane or helicopter with reckless disre-
27 gard for the risk of harm to or loss of the property;

28 (3) the person recklessly creates a risk of damage in an
29 amount exceeding \$100,000 to property of another by the use of widely

1 dangerous means; [OR]

2 (4) the person drives, tows away, or takes the propelled
3 vehicle of another and the vehicle or any other property of another is
4 damaged or the owner incurs reasonable expenses as a result of the
5 loss of use of the vehicle in a total amount of \$500 or more; or

6 (5) the person physically manipulates or interferes with a
7 video gaming device regulated under AS 05.45 to alter the outcome of
8 or payoff from a game played or whose play is simulated on the device.

9 * Sec. 8. AS 11.66.280(2) is amended to read:

10 (2) "gambling" means that a person stakes or risks some-
11 thing of value upon the outcome of a contest of chance or a future
12 contingent event not under the person's control or influence, upon an
13 agreement or understanding that that person or someone else will
14 receive something of value in the event of a certain outcome; "gam-
15 bling" does not include

(A) bona fide business transactions valid under the
17 law of contracts for the purchase or sale at a future date of
18 securities or commodities and agreements to compensate for loss
19 caused by the happening of chance, including contracts of indem-
20 nity or guaranty and life, health, or accident insurance; [OR]

(B) playing an amusement device that

22 (i) confers only an immediate right of replay not
23 exchangeable for something of value other than the privilege
24 of immediate replay; and

25 (ii) does not contain a method or device by which
26 the privilege of immediate replay may be cancelled or re-
27 voked;

28 (C) an activity authorized by the commissioner of
29 commerce and economic development under AS 05.15; or

penalty

*Video gaming
is not
illegal
gambling*

1 (D) using a video gaming device regulated under
2 AS 05.45;

3 * Sec. 9. AS 11.66.280(3) is amended to read:

4 (3) "gambling device" means any device, machine, parapher-
5 nalia, or equipment that is used or usable in the playing phases of
6 unlawful gambling, whether it consists of gambling between persons or
7 gambling by a person involving the playing of a machine; "gambling
8 device" does not include

9 (A) lottery tickets, policy slips, or other items used
10 in the playing phases of lottery or policy schemes; [OR]

11 (B) an amusement device as described in (2)(B) of this
12 section; or

13 (C) a video gaming device regulated under AS 05.45;

14 * Sec. 10. AS 11.81.900(b) ^{criminal code} is amended by adding a new paragraph to
15 read:

16 (58) "video gaming device" has the meaning given in AS 05.-
17 45.900.

18 * Sec. 11. AS 18.65.080 is amended by adding a new subsection to read:

19 (b) The Department of Public Safety shall investigate and ascer-
20 tain whether a person appointed by the governor to serve as a member
21 of the Alaska Gaming Commission has been convicted of a crime set out
22 in AS 05.45.010(c).

23 * Sec. 12. AS 29.10.200 ^{home rule limitations} is amended by adding a new paragraph to read:

24 (51) AS 29.35.085 (video gaming devices)

25 * Sec. 13. AS 29.35 is amended by adding a new section to read:

26 Sec. 29.35.085. VIDEO GAMING DEVICES. (a) A municipality may
27 prohibit the installation and operation of video gaming devices within
28 the municipality by ordinance.

29 (b) Except as provided by (a) of this section, a municipality

background checks

mun. option

1 may not license or regulate video gaming devices.

2 (c) This section applies to home rule and general law municipal-
3 ities.

4 * Sec. 14. AS 29.45.650(f) is amended to read:

5 (f) This subsection applies to home rule and general law munic-
6 ipalities. A borough may not levy and collect a sales tax on

7 (1) a purchase made with

8 (A) [(1)] food coupons, food stamps, or other type of
certificate issued under 7 U.S.C. 2011 - 2025 (Food Stamp Act);

9 (B) [OR (2)] food instruments, food vouchers, or
10 other type of certificate issued under 42 U.S.C. 1786 (Special
11 Supplemental Food Program for Women, Infants, and Children); or
12

13 (2) transactions involving video gaming devices. [THIS
14 SUBSECTION APPLIES TO HOME RULE AND GENERAL LAW MUNICIPALITIES.]

15 * Sec. 15. AS 29.45.700(d) is amended to read:

16 (d) This subsection applies to home rule and general law munic-
17 ipalities. A city that levies and collects sales and use taxes under

18 (a) of this section may not levy and collect a sales tax on

19 (1) a purchase made with

20 (A) [(1)] food coupons, food stamps, or other types of
21 certificates issued under 7 U.S.C. 2011 - 2025 (Food Stamp Act);

22 (B) [OR (2)] food instruments, food vouchers, or other
23 type of certificate issued under 42 U.S.C. 1786 (Special Supple-
24 mental Food Program for Women, Infants, and Children); or

25 (2) transactions involving video gaming devices. [THIS
26 SUBSECTION APPLIES TO HOME RULE AND GENERAL LAW MUNICIPALITIES.]

27 * Sec. 16. AS 29.71.800 is amended by adding a new paragraph to read:

28 (26) "video gaming device" has the meaning given in AS 05.-
29 45.900.

no moni
tax

clarify that video gaming device isn't a coin-operated device (like pin-ball, cigarette, etc.)

1 * Sec. 17. AS 39.25.120(c) is amended by adding a new paragraph to
2 read: *partially exempt service*

3 (21) employees of the Alaska Gaming Commission.

4 * Sec. 18. AS 39.50.200(b) is amended by adding a new paragraph to
5 read: *Conflict of interest*

6 (50) Alaska Gaming Commission (AS 05.45.010).

7 * Sec. 19. AS 43.35.010(a) is amended to read:

8 (a) A person who maintains for use or permits the use on premi-
9 ses under the person's control of a coin-operated device class 1,
10 class 2, or class 3 shall first pay a tax as follows:

- 11 (1) \$48 a year for each coin-operated device class 1;
- 12 (2) \$120 a year for each coin-operated device class 2;
- 13 (3) \$240 a year for each coin-operated device class 3,
14 other than a video gaming device.

15 * Sec. 20. AS 43.35.030 is amended by adding a new subsection to read:

16 (b) The provisions of (a) of this section do not apply to a
17 person who is licensed as a distributor of video games under AS 05.-
18 45.010 - 05.45.900.

19 * Sec. 21. AS 43.35.090(3) is amended to read:

20 (3) "coin-operated device class 3"

21 (A) means a slot machine or other apparatus or device
22 that [WHICH] operates by means of insertion of a coin, token, or
23 similar object and that [WHICH], by strict dependence upon the
24 element of chance, may deliver or may entitle the person playing
25 or operating the machine to receive cash, premiums, merchandise,
26 or tokens; the term includes a device or apparatus that is other-
27 wise a coin-operated device class 2 [A DEVICE OR APPARATUS OTHER-
28 WISE FALLING WITHIN THE CLASSIFICATION OF (2) OF THIS SECTION,
29 THOUGH NOT STRICTLY DEPENDENT UPON THE ELEMENT OF CHANCE, IS

1 TAXED ACCORDING TO THE RATE APPLICABLE TO SLOT MACHINES] if the
2 device or apparatus itself delivers cash directly to the person
3 playing or operating it;

4 (F) does not include a video gaming device;

5 * Sec. 22. AS 43.35.090 is amended by adding a new paragraph to read:

6 (5) "video gaming device" has the meaning given in AS 05.-
7 45.900.

8 * Sec. 23. AS 44.62.330(a) is amended by adding a new paragraph to
9 read: *Admin. Procedures Act*

10 (55) Alaska Gaming Commission (AS 05.45.010).

11 * Sec. 24. INITIAL COMMISSION APPOINTMENTS. The governor shall make
12 the initial appointment of members of the Alaska Gaming Commission within
13 120 days after the effective date of this Act.

14 * Sec. 25. This Act takes effect July 1, 1990.

SUMMARY OF SSSB 263. AN ACT ESTABLISHING THE ALASKA GAMING COMMISSION, ETC.

REGULATION Gaming Commission in DCED would license distributors and operators, collect license fees, approve machines for use in the state, collect annual device fee and tax, provide enforcement. Municipalities could prohibit by ordinance.

GAMES Video draw poker, video keno, and other video games authorized by the commission.

MACHINE TEST Required before machine is sold or distributed. Gaming Commission performs test, or contracts with another state. Machine standards set in regulation.

LICENSES Distributor -- \$1000/yr. (must not have any gambling related offenses).
Premises Operator (bar owner) -- \$100/yr. (must have beverage dispensary license, club license, common carrier license, or pub license; no gambling related offenses).

MACHINE FEE \$200/device paid by Premises Operator -- shared 1/3 to local government, 2/3 to state.

TAX *Winnings*
15% of net income paid by Premises Operator -- shared 1/3 to local government, 2/3 to state (defined as money received from a device less money paid out in winnings).

SPECIFICS Located only in bars.
Maximum 20 machines per bar.
Age 21 to play.
Restriction on hours of play same as restriction on sale of alcohol.
Maximum bet \$2.
Maximum payout \$100.
Expected payback 80%.

PENALTIES License denied/revoked if commit felony or gaming offense.
\$1000/day civil fine if fail to pay 15% tax.
Class C felony (maximum 5 years, \$50,000) if tamper with machine to affect outcome of game.
Under existing law: Class C felony if promote or profit from unlawful gambling enterprise or if possess gambling record used in unlawful enterprise); Class A misdemeanor (maximum 1 year, \$5000) if promote or profit from unlawful gambling, if possess unlawful gambling record, or manufacture, sell, transport, or possess unlawful gambling device); Class B misdemeanor (maximum 90 days, \$1000) for second general offense, violation for first general offense.

*Fiscal Note - \$7.4 mil → 1/3 to municipalities (2.5)
+ ferry system 150-170K/yr.*

Sen. Pourchot
March 7, 1990

SECTIONAL SUMMARY
SSSB 263, AN ACT ESTABLISHING THE ALASKA GAMING COMMISSION

- Section 1 Lays out make-up and duties of the Gaming Commission.
- 05.45.010 Establishes the Alaska Gaming Commission in the Department of Commerce: 5 members, including the Commissioner of Dept. Commerce -- no felony convictions or gaming violations.
- 05.45.020 Serve 3-year staggered terms.
- 05.45.030 Governor may remove members for cause.
- 05.45.040 Receive per diem and travel.
- 05.45.050 Duties: License, regulate, and supervise video gaming; levy collect, and enforce payment of taxes and fees; adopt regulations regarding machine specifications; hire staff.
- 05.45.060 Employees are in partially exempt service.
- 05.45.090 Commission's operations are subject to Administrative Procedures Act.
- 05.45.200 Distributor's license required to manufacture, assemble, produce, or distribute devices; annual fee \$1000.
- 05.45.210 Premises Operator's license required before may install on premises; annual fee \$100.
- 05.45.220 licensees may not have felony convictions or have committed a gaming offense.
- 05.45.230 Gaming devices may be installed only on premises that sell alcohol (must hold beverage dispensary license, club license, common carrier dispensary license, or pub license). Maximum 20 devices per premise.
- 05.45.300 Commission must test and approve a prototype of each device before sale or distribution in the state; cost of test to be paid by distributor. Commission may contract with another state for this service.
- 05.45.310 Commission may regularly inspect devices once installed.
- 05.45.320 Must be age 21 to play. Play allowed only during hours that alcohol may be sold (under current statute, no sale between 5 a.m. and 8 a.m.; municipalities may restrict further by ordinance).
- 05.45.330 Maximum bet \$2.00
- 05.45.340 Expected payback must be at least 80%; maximum payout \$100.

- 05.45.400 Distributor and Premises Operator licenses may be revoked if the license holder commits a felony conviction or a gaming offense.
- 05.45.500 Annual \$200 fee per device, to be paid by Premises Operator. Quarterly tax of 15% of the net machine income to be paid by Premises Operator (defined as money received from a device less money paid out in winnings). Civil penalty of \$1000 per day for failure to pay.
- 05.45.510 Annual \$200 fee and 15% net income tax to be shared 1/3 to municipalities in which it's collected and 2/3 to state.
- 05.45.900 "Video gaming device" means an electronic draw poker or keno game, or another game if authorized by the commission. Games may not directly dispense coins or cash.
- Sections 2-6 Amend "games of chance and skill" statute to prohibit activity of persons convicted of video gaming offenses.
- Section 7 Class C felony if physically manipulate or interfere with a device to alter the outcome or payoff of a game.
- Sections 8-9 Clarify that video gaming is not an unlawful form of gambling.
- Section 10 Adds definition of video gaming device to the criminal code.
- Section 11 Mandates that the Department of Public Safety perform criminal record checks on Gaming Commission members.
- Section 12-16 Municipalities may by ordinance prohibit the installation and operation of video gaming devices; may not apply additional regulations or taxes.
- Section 17 Employees of the Gaming Commission would be partially exempt.
- Section 18 Members of the Gaming Commission would be subject to conflict of interest laws.
- Sections 19-22 Amend the Coin Operated Device statute (administered by Dept. Revenue; includes pinball and cigarette machines) to clarify that video gaming devices are to be administered by the Gaming Commission under a separate statute.
- Section 23 Includes the Alaska Gaming Commission under the Administrative Procedures Act.
- Section 24 Initial appointments to commission must be made within 120 days.
- Section 25 Effective date July 1, 1990.

PAT

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: An Act relating to video gaming devices
Sponsor: Purchase by request
Requestor: Senate State Affairs

Agency Affected: Commerce & Economic Dev.
BRU: Occupational Licensing
Components: Operating and Revenue

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	394.9	394.9	394.9	394.9	394.9	394.9
TRAVEL	36.3	36.3	36.3	36.3	36.3	36.3
CONTRACTUAL	104.5	104.5	104.5	104.5	104.5	104.5
SUPPLIES	12.0	10.0	10.0	10.0	10.0	10.0
EQUIPMENT	84.5*					
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	632.2	545.7	545.7	545.7	545.7	545.7

CAPITAL						
---------	--	--	--	--	--	--

REVENUE	7.481	7.481	7.481	7.481	7.481	7.481
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5 of this, 2,486 would go to munis. Balance to state 4,995

FUNDING: (Thousands of Dollars)

GENERAL FUND	632.2	545.7	545.7	545.7	545.7	545.7
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	8	8	8	8	8	8
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

SEE ATTACHED

*One-time equipment item

*less costs =
4,363 in new revenues*

Prepared by: Randall P. Burns, Director
Division: Occupational Licensing

Phone: 465-2581
Date: 2/20/90

Approved by Commissioner: Larry Merculieff *SM*
Agency: Department of Commerce & Economic Development

Date: 3/6/90

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

SSSB 263

This bill would provide for video gaming devices to be exempted from the definition of gambling devices. It provides for regulation and taxation of these devices as well as the licensing of premises operators and distributors through a five-member Gaming Commission.

In addition to license fees, it provides for a tax at the rate of 15% of the net machine income and a per-device tax of \$200 per year. One-third of the taxes collected are to be distributed by legislative appropriation to municipalities in proportion to the revenue earned from the video devices found within each community.

The bill provides for the installation of video gaming devices only in premises licensed under AS 04.11:

1. a beverage dispensary license under AS 04.11.090;
2. a duplicate beverage dispensary license for additional rooms under AS 04.11.090(e);
3. a club license under AS 04.11.110;
4. a common carrier dispensary license under AS 04.11.180; or
5. a pub license under AS 04.11.220.

The bill would permit a maximum of 20 devices per premises. For the purposes of this fiscal note, an average of five machines per licensed premises was used for the revenue projection.

FY 91 OPERATING EXPENSES

Personal Service Costs

<u>Location</u>	<u>Position</u>	<u>Range/Step</u>	<u>Annual Salary and Benefits</u>
Juneau	Executive Director	24A	\$73.2
Juneau	Revenue Auditor III	18A	\$50.3
Juneau	Tax Examiner II	12A	\$35.0
Juneau	Investigator III	18A	\$50.3
Juneau	Clerk Typist III	8A	\$28.6
Anchorage	Revenue Auditor III	18A	\$50.3
Anchorage	Investigator III	18A	\$50.3
Fairbanks	Investigator III	18A	\$56.9
Total Personal Services			\$394.9

Travel Costs

<u>Staff</u> - Perform inspections, audits, investigations, regulation hearings	\$ 20.0
<u>Commission</u> - travel and per diem	\$ 16.3
Total Travel	\$36.3

Contractual

For Testing of Devices	\$ 15.0
For Routine Inspections (R/SA with ABC Board)	\$ 12.5
For Hearing Officer Services	\$ 25.0
For General Contractual (phones, photocopiers, postage, printing, etc.)	\$ 32.0
For Lease Space	\$ 12.0
For Staff Training	\$ 8.0
Total Contractual	\$ 104.5

Supplies (miscellaneous office supplies - start-up): \$ 12.0

Equipment:

Office furnishings and files
(chair, module, S drawer file) -

\$9.9 x 6 staff	\$ 59.4
\$7.7 x 2 staff	\$ 15.4
Wang Laser Printer	\$ 9.7
Equipment Total	\$ 84.5*

TOTAL OPERATING \$ 632.2

*This represents a one-time expenditure.

REVENUE PROJECTION

This projection is based on the average of only five video gaming devices licensed in each premises. SSSB 263 would allow up to 20 devices per licensed premises. Under AS 43.35.210, approximately 935 premises could be licensed. In 1987 the State of Montana implemented "Video Draw Police Machine Law of 1985," which is similar in content to SSSB 263. Our revenue projection for this bill is based on an assumed annual gross profit per device of \$9,300, which was Montana's gross profit per device in 1988. Montana currently has 7,500 devices licensed and collected tax of \$10,500.0 in the first year of the law's enactment. Montana's tax rate is 15%, the same as in SSSB 263.

TAX REVENUES

15% Tax on Gross Receipts

Approx. number of licensed premises	935
Est. total average devices per premise	5
Total estimated number of gaming devices (5 x 935)	4,675
Projected gross profit per device	\$ 9,300

1/3 → munis.

Total gross profits (tax base; 4,675 x \$9,300)	\$43,477,500
--	--------------

15% TAX REVENUE (.15 x \$43,477,500)	\$ 6,521,625
--------------------------------------	--------------

\$200 Per-Device Tax

Total estimated gaming devices	4,675
Annual licensing fee	\$ 200
Total gaming device license fees (4,675 x \$200)	\$ 935,000

1/3 → munis.

<u>TOTAL ESTIMATED TAX REVENUE</u>	<u>\$ 7,456,652</u>
------------------------------------	---------------------

(2,485,551 would go to munis)

LICENSING FEE REVENUE

Premise Operator's License

Licensed Premise	935
Annual license fee	\$ 100
Total operator's license fee	\$ 9,350

Distributor Licenses

Est. number of distributors fee	15
Distributor License Fee	\$ 1,000
Distributor license revenue	\$15,000

<u>TOTAL LICENSING REVENUE</u>	<u>\$ 24,350</u>
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<u>TOTAL ESTIMATED REVENUE</u>	<u>\$7,481,002</u>
--------------------------------	--------------------

Sen. Pourchot
March 7, 1990

TECHNICAL AMENDMENTS
SSSB 263, AN ACT ESTABLISHING THE ALASKA GAMING COMMISSION

#1 Page 6, lines 7-9
Wording is awkward. Amend to read:

"... the commission shall test [AND APPROVE] a prototype of the device and approve the prototype if it determines that [TO ASCERTAIN WHETHER] a device manufactured to the specifications of the prototype meets minimum machine specification standards."

#2 Page 7, lines 13-14
Wording conflicts with prohibition against cash payouts on page 9, lines 14-15. Amend to read:

"... provide the user of the device who is successful credits that may be redeemed for a maximum [CASH PAYOUT] of \$100 per game."

#3 Page 8, lines 2-3
Wording should conform with wording throughout bill regarding premises operator. Amend to read:

"The holder of a video gaming device premises operator's license under AS 5.45.210 [A PERSON WHO MAINTAINS A VIDEO GAMING DEVICE FOR USE OR PERMITS THE USE OF A VIDEO GAMING DEVICE ON PREMISES UNDER THE PERSON'S CONTROL]...

VIDEO GAMING PENALTIES

Sen. Pourchot
March 7, 1990

SSSB 263:

Sec. 7 Machine tampering to manipulate game's outcome = class C felony

05.45.010 Can't serve on Commission if felony/gambling conviction

05.45.220 Deny license if felony or gambling conviction

05.45.400 Suspend/revoke license if convicted of offense

05.45.500 Failure to pay 15% income tax = civil fine \$1000/day
Note: All penalties of existing law would also apply

EXISTING LAW:

04.11.370(8) ABC Board revoke liquor license if illegal gambling occurs on license premise

11.66.200 Gambling 1st offense = violation; gambling 2nd offense = class B misdemeanor (90 days, \$1000)

11.66.210 Promote or profit from unlawful gambling enterprise = class C felony (5 years, \$50,000)

11.66.220 Promote or profit from unlawful gambling = class A misdemeanor (1 year, \$5000)

11.66.230 Possess gambling record used in operation of unlawful gambling enterprise = class C felony

11.66.240 Possess unlawful gambling record = class A misdemeanor

11.66.260 Manufacture, sell, transport, possess unlawful gambling device = class A misdemeanor

11.66.270 Must forfeit gambling records, devices, and money used as bet or stake

Note: See 15.55.125-.135 and 12.55.035 for fines and sentences

MONTANA:

23-5-152 Possess illegal gambling device = misdemeanor

23-5-136 Administrative remedies = order to cease and desist, suspend/revoke license, \$10,000 civil penalty for each violation, etc.

23-5-155 Counterfeit seal, license, etc. = felony (10 years, \$50,000)

23-5-156 Operate illegal gambling device = felony if revenues over \$300, misdemeanor if under \$300

23-5-622 Machine tampering to manipulate game's outcome = felony

23-5-161 All gambling offenses not otherwise mentioned are misdemeanors (1st \$500, 2nd 6 months and \$1000, 3rd 1 year and \$10,000, 4th 1 year and \$10,000 and forever barred from licensure)

illegal gambling

Sen. Pourchot
March 7, 1990

THE GAMBLING BALLOT INITIATIVE has been certified for placement on the ballot in 1990. Its primary provisions:

1. A 5-member Gambling Board in the Department of Revenue would regulate all forms of gambling except games of chance/contests of skill. Board members would be paid at Range 26C.
2. Details would be worked out in regulation (license fees, calculation of gross revenue, allowable forms of gambling, etc.).
3. Gambling could be conducted by a municipality, the state, or a liquor license holder, but couldn't be conducted in a municipality without voter approval.
4. Proceeds would be distributed as follows:
If state-run, 100% to state.
If liquor-license-holder-run, 3% to 5.75% of gross revenue to state (depending on total revenue). If located in municipality, this would be split 50% state/50% municipality. Plus, municipality may establish additional fees.
If municipality-run, the 3-5.75% of gross revenue would be split 50% state/50% municipality.
5. Broad definition of game (roulette, wheel of fortune, craps, poker, baccarat, slot machine, etc.).

NOTE: A COPY OF THE INITIATIVE IS AVAILABLE FROM COMMITTEE STAFF.

STATE OF ALASKA THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

February 26, 1990

SUBJECT: Sponsor Substitute for Senate Bill 263
(relating to video gaming) and pending
gambling initiative

TO: Senator Pat Pourchot

FROM: Jack Chenoweth
Legislative Counsel

Your office advises that you have been asked to comment as to whether enactment of the Sponsor Substitute for Senate Bill 263, regulating video gaming, would invalidate the initiative petition to authorize gambling in the state.

The following is offered to help you prepare a response.

Under section 4 of article XI of the Alaska Constitution, an initiative petition is void if "before the election [for which the initiative has been certified], substantially the same measure" has been enacted by the Alaska legislature.

I have reviewed the initiative and, in my judgment, the legislation you have offered by request is not "substantially the same measure" such that the initiative would be made void and removed from the ballot. Of course, the final determination of compliance with the test rests with the lieutenant governor, with the formal concurrence of the attorney general, AS 15.45.210, so my views on the comparison of the two are not controlling.

The standards applicable to gauge whether "substantially the same measure" has been enacted is set out in Warren v. Boucher, 543 P.2d 731 (Alaska 1975). After determining that "substantially the same measure" could only be determined "by reference to all the circumstances surrounding the context in which they are used," Warren, at 736, the court concluded:

Senator Pat Pourchot
Page 2
February 26, 1990

. . . we have concluded that the legislature's discretion in this matter [i.e. in deciding how far the legislative act should differ from the provisions of a pending initiative] is reasonably broad. If in the main the legislative act achieves the same general purpose as the initiative, if the legislative act accomplishes the purpose by means or systems which are fairly comparable, then substantial similarity exists. It is not necessary that the two measures correspond in minor particulars, or even as to all major features, if the subject matter is necessarily complex or if it requires comprehensive treatment. The broader the reach of the subject matter, the more latitude must be allowed the legislature to vary from the particular features of the initiative.

Id.

While the two measures may use similar means--a board, a licensing requirement, imposition of taxes and fees, and the definition and imposition of criminal penalties--to achieve the objective of regulation in the respective spheres each addresses, the video gaming measure and the pending initiative clearly are not intended to address the same ends or to operate with same general reach. There are at least two significant differences. The measure before the Senate addresses video gaming, only one element of the topic of gambling that is the subject matter of the broader initiative to authorize and regulate gambling; the initiative is intended to regulate gambling through use of "cards, dice, equipment, and mechanical, electromechanical, and electronic devices," a more comprehensive scope than is addressed by the bill. Moreover, insofar as the initiative authorizes the issuance of licenses to "gambling enterprises," a rather wide range of entities may qualify; your bill would authorize video gaming only in conjunction with certain establishments licensed to sell liquor. Thus, it seems to me that there is little to suggest that the measures should be understood to serve "the same general purpose," the standard of Warren v. Boucher, and the adoption of the bill ought not to prevent the initiative from remaining on the August primary ballot.

I trust this is sufficient for the purposes intended. If this memorandum prompts questions, please contact me.

JBC:lmb
L9/133

PAT -

from Jeanne

I ASKED LEGAL TO COMPARE THE POTENTIAL RELATIONSHIP BETWEEN SB 263 (VIDEO GAMING) AND THE UPCOMING INITIATIVE IF ONE OR THE OTHER OR BOTH PASS.

THE FIRST QUESTION "WOULD ADOPTION OF SB263 VOID THE INITIATIVE?" Unlikely. The approach taken in your bill is much narrower than the initiative, therefore, it is unlikely the Lt. Gov. would find them to be "substantially the same".

"WOULD THE INITIATIVE, IF APPROVED, SUPERSEDE OR AFFECT SB263 IF IT PASSES?" Probably, although not certain. To the extent the initiative substantially replicates the bill, the initiative may supersede.

However, it is uncertain whether the provision in the bill restricting placement of video gaming devices to places that sell alcoholic beverages would carry over. It may be determined that such a restriction is the responsibility of the Gambling Board.

"WOULD THE INITIATIVE, IF APPROVED, AUTHORIZE REGULATION OF VIDEO GAMING DEVICES IF THE BILL DOESN'T PASS? Yes; but not necessarily with the same restrictions contained in the bill.

- * SB 263 takes effect July 1, 1990.
Initiative will be voted on in August primary, would become effective in mid-December.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99811
907 465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 5, 1990

SUBJECT: SSSB 263 (Gaming Commission and video gaming devices) and the 1990 Initiative on gambling

TO: Senator Pat Pourchot
ATTN: M. Jeanne Larson

FROM: Jack Chenoweth
Legislative Counsel

You have asked after the relationship between SSSB 263, establishing a Gaming Commission and authorizing and regulating video gaming devices, and a 1990 Initiative establishing a Gambling Board and relating to the regulation of gambling.

Two general questions arise: (1) whether adoption of SSSB 263, as introduced, is sufficient under article XI, section 4, Alaska Constitution, to void the initiative petition, and (2) whether the initiative petition, if approved by the public, would supersede or affect SSSB 263. There also arises a question of whether the initiative petition, if approved by the voters, would authorize regulation of video gaming devices if SSSB 263 does not become law.

I

The question of whether SSSB 263 constitutes "substantially the same measure" as the 1990 Initiative so that the approval of SSSB 263 as introduced renders the initiative petition void rests with the lieutenant governor, with the formal concurrence of the attorney general. AS 15.45.210. As introduced, SSSB 263 does not address elements of gambling beyond video gaming, and the approach taken in the initiative is not nearly as comprehensive as that spelled out in the bill. Suffice to say, the initiative is far broader in its scope and approach than the bill, and there are sufficient grounds for the lieutenant governor to conclude that the two measures are not "substantially the same."

II

If the initiative is approved by the public in the forthcoming election, it is likely, albeit not altogether certain, that its provisions would supersede those set out in SSSB 263 insofar as the initiative addresses regulation of gaming devices. There are, of course, radical differences between the two approaches. For our purposes, many of them are either not relevant or cosmetic differences. Resolution of the question of the degree of similarity between the bill and the initiative probably turns in part on the definition of "video gaming device." The bill defines a "gaming device," grounding the definition on certain characteristics applicable to an electronic machine that imitates the play of draw poker, keno, and other games that may be authorized by the Gaming Commission. The counterpart definition appearing in the initiative is the definition of the word "game," which, among other elements, includes reference to an electronic device that, among others, simulates the play of "poker," "keno," "or other game or device approved by the [Gambling Board]." Clearly the definitions, and hence the scope of state regulation under the bill and the initiative, overlap. To the extent it is determined that the provisions of the initiative substantially replicate those of SSSB 263, the provisions of the initiative may be deemed to supersede those of the bill, at least as to the scope of the matter regulated by SSSB 263.

If the bill and the initiative are both approved, one significant legal question necessarily arising would be whether the restriction of licenses for placement of video gaming devices in certain establishments licensed to sell alcoholic beverages would continue in effect under the provisions of the initiative. There is no certain answer. However, if one looks upon the initiative as constituting a broader public endorsement of gambling and gaming than the provisions of SSSB 263, one might contend, perhaps successfully, that the initiative's provisions effectively supersede those set out in the bill, and that the provisions limiting issuance of video gaming premises licenses to licensed liquor establishments would have to give way to whatever regulatory scheme were eventually developed by the Gambling Board.

Assuming SSSB 263 is approved and becomes law, it would, by its terms, take effect July 1, 1990. If the initiative appears on the November general election ballot and is approved, it would not take effect until late February, or 90

days after its certification. AS 15.45.220. This delay would permit the legislature, during the first session of the 17th Legislature, opportunity to re-address the video gaming issue and provide, by law, for a better "fit" between the initiative and the bill. Among the options available would be (1) amendment of the initiative to incorporate more of the specifics of regulation under SSSB 263; (2) repealing many of the specific provisions of SSSB 263 to allow the Gambling Board to assume the duties of the Gaming Commission; or (3) repealing SSSB 263 altogether and revising the definition of "game" in the initiative to assure regulation of video gaming devices under regulatory mechanism established in the voter-approved initiative.

III

For reasons noted above, if the 1990 Initiative is approved but SSSB 263 has not, the newly-established Gambling Board would have a substantial basis to claim authority over regulation of video gaming devices. Nothing in the initiative requires the Gambling Board to limit or restrict the issuance of licenses for video gaming devices to establishments licensed to sell alcoholic beverages. By my reading of the initiative, municipalities and others may apply for game licenses, including those applicable to "games" that have an electronic base and that provide for "poker," "keno," or "other game or device identified by the [Gambling Board]," the very elements that are arguably the essence of video gaming device regulation under SSSB 263:

JBC:lmb
L9/088

This is the ballot initiative -
will be on ballot Nov. 1990

A BILL

For an Act entitled "An Act relating to regulation of gambling and
establishing the Alaska Gambling Board."

BE IT ENACTED BY THE PEOPLE OF THE STATE OF ALASKA:

* Section 1. POLICY. State regulated gambling offers an opportunity for economic development of the state and improvement of the general welfare of the people of the state. The success of gambling is dependent upon public confidence and trust that licensed gambling is conducted honestly and competitively and that gambling is free from criminal and corruptive elements. Public confidence and trust can only be maintained by strict regulation of all persons, practices, and activities related to the operation of licensed gambling enterprises and the manufacture and distribution of gambling devices and equipment. All premises where gambling is conducted and where gambling devices are operated must be licensed and controlled to protect the public health, safety, morals and general welfare of the people of the state, to foster the stability and success of gambling, and to preserve the competitive economy and policies of free competition in the state. The provisions of this bill are not exhaustive, and shall be supplemented and enhanced by the legislature, in accordance with Article XI, Section 6 of the Alaska Constitution.

* Sec. 2 AS 05 is amended by adding a new chapter to read:

CHAPTER 40. REGULATION OF GAMBLING. *not allowed in muni. unless voter referendum*
ARTICLE 1. ALASKA GAMBLING BOARD. *broad definition of "game" (see p. 11)*

gambling board - 5 members, Dept. Revenue

Paid range 26 C

regulate all gambling except games chance / contests ski

by regulation: license fees, forms of gambling permitted, calculation of gross revenue

gambling may be conducted by: muni, state, holder beverage dispensary license

proceeds: if state-run, 100% of net ^{not defined} proceeds to board
if muni, 50% of "other" to board ^{= cash received as winnings}
if other, 3% of gross revenue $\leq \$50,000/\text{mo}/4\%$ $\$70.0 - \$134.0/5\frac{1}{4}\%$ above $\$134.$
to board. If located in muni, split 50/50 between state & muni.

Sec. 05.40.010. ALASKA GAMBLING BOARD. (a) The Alaska Gambling Board is established in the Department of Revenue as a regulatory and quasi-judicial agency. The board is composed of five members appointed by the governor and confirmed by the legislature in joint session.

(b) Each member of the board shall at the time of the member's appointment be a resident of the state.

(c) A person may not serve as a member of the board if that person has been convicted of

(1) a felony; or

(2) An offense defined in AS 11.65.200 - 11.66.280 or a comparable provision of municipal, state, or federal law.

(d) The board shall elect a chairman from its membership.

Sec. 05.40.020. TERM OF OFFICE. An appointment to the board is for a term of four years. A vacancy is filled by appointment for the unexpired term. A member of the board holds office until a successor is appointed and qualifies.

Sec. 05.40.030. REMOVAL FROM OFFICE. The governor may remove a member of the board for the neglect of a duty required by law, or for other cause, after first giving the member a statement of the charges and an opportunity to be heard.

Sec. 05.40.040. COMPENSATION AND PER DIEM. Members of the board are in the exempt service and are entitled to a monthly salary equal to Step C, Range 26 of the salary schedule in AS 39.27.011(a) for Juneau, Alaska.

Sec. 05.40.050. QUORUM. Three members of the board constitute a quorum for the transaction of business.

Sec. 05.40.060. JURISDICTION. (a) The board shall regulate all forms of gambling, including gambling games, gaming devices, racing, and parimutuel wagering, except it shall not regulate games of chance and contests of skill under AS 05.15.

(b) Jurisdiction of the board extends to every person conducting, or employed in the conduct of, gambling authorized under this chapter.

Sec. 05.40.070. DUTIES AND POWERS OF THE BOARD. (a) The board shall

(1) license, regulate, and supervise all gambling enterprises;

(2) license and regulate the manufacture, sale, and distribution of gambling devices and equipment;

(3) establish standards for the reports and financial records that must be maintained by operators of licensed gambling enterprises;

(4) set all license fees;

(5) require licensees to keep detailed records of all collections and disbursements;

(6) establish procedures for resolution of disputes between a licensee and a patron of a gambling enterprise;

(7) hire staff as needed to enforce and administer this chapter;

(8) adopt regulations concerning

(A) the issuance, renewal, suspension, and revocation of licenses for gambling enterprises;

(B) the issuance, renewal, suspension and revocation of work permits for employees of a gambling enterprise;

(C) the information that applicants for a gambling enterprise license or work permit must provide to the board;

(D) fingerprinting or other identification of applicants, licensees, or permittees;

(E) fees for licenses and costs of investigation of applicants for a license or permit;

(F) the games, gaming devices, equipment, and other forms of gambling permitted;

(G) uniform rules and procedures for the operation of games, devices, equipment, and other forms of gambling permitted by the board;

(H) the manufacture, sale, and distribution of gambling devices and equipment;

(I) the size of the premises where gambling is conducted and the nature and number of facilities and furnishings provided on the premises;

(J) security services provided on the premises of a gambling enterprise;

(K) exclusion or ejection of certain persons from licensed establishments;

(L) the method of accounting for receipts and disbursements including the keeping of records and requirements for banking of receipts;

(M) calculation of gross revenue of a gambling enterprise;

(9) the procedures and requirements for a state agency or municipality to contract for the operation of a gambling enterprise under a license issued to the state agency or the municipality;

(10) pay fees and other money received into the general fund;

(11) make an annual report to the commissioner of revenue and the legislature of its administration of this chapter before February 1 of each year.

(b) The board may

(1) issue subpoenas to compel witnesses to appear before it;

(2) compel the production of documents showing the receipts and disbursements of a person licensed to conduct a gambling enterprise;

(3) appoint a hearing officer to conduct a hearing required by this chapter or by a regulation adopted under it.

Sec. 05.40.080. ENFORCEMENT OF REGULATIONS. The attorney general shall enforce the regulations adopted under this chapter. Violation of a regulation adopted under this chapter is punishable under AS 05.40.300.

Sec. 05.40.090. APPLICATION FOR LICENSE FOR A GAMBLING ENTERPRISE.

(a) Gambling may be conducted only under a license issued by the board.

(b) The application for a license for a gambling enterprise must include

(1) the name and address of the applicant;

(2) the location of the premises where gambling is to be conducted under the license;

(3) the games, gaming devices, or other gambling activity to be conducted under the license;

(4) the names of all persons directly or indirectly interested in the gambling enterprise and the nature of each person's interest;

(5) other information and details that the board requires,

(c) The applicant shall post a bond in the amount determined by the board for payment of fees, taxes, and net proceeds under this chapter.

(d) The board may not issue a license to a person who

(1) has been convicted of a crime defined in AS 05.40.010(c);

(2) failed to pay a fee, a tax, or proceeds due to the board or a municipality at the time of application;

(3) failed to disclose, misstated, or attempted to mislead the board as to a material fact in an application for a license under this chapter;

(4) has been convicted of violating a regulation of the board.

Sec. 05.40.100. ISSUANCE AND RENEWAL OF LICENSES FOR GAMBLING ENTERPRISE. (a) A license for a gambling enterprise is issued to a person for a period of one year and is not transferable to another person.

(b) A separate license for gambling enterprise is required for each premises where gambling is conducted. A license is valid only for the premises listed on the license and is not transferable to another premises. Only one license may be issued for each premises where gambling is conducted.

(c) A license issued under this chapter is renewable for successive one-year periods. The board shall renew the license for a gambling enterprise if the licensee

(1) is in good standing with the board as to all licenses currently held by the licensee; and

(2) has paid all fees, taxes, and proceeds due to the board or a municipality for all licenses held by the licensee at the time of renewal.

Sec. 05.40.110. GAMBLING ENTERPRISE LICENSE. (a) Subject to AS 05.40.090(b) - (d), the board shall issue a gambling enterprise license to a municipality, to a state agency, or to a person who holds a beverage dispensary license issued under AS 04.11.090 for the conduct of poker and other card games and the operation of slot machines as specifically listed on the license.

(b) A municipality, a state agency, or a person who holds a beverage dispensary license issued under AS 04.11.090 may apply to the board for a license authorizing the conduct of games and other gambling activities in addition to those set forth in subsection (a). The board shall issue a license to a municipality, to a state agency, or to a person who satisfies the requirements of this chapter and the regulations of the board. In issuing licenses under this subsection, the board shall promote economic development, free competition, the public health, safety and morals, and the general welfare of the state, and the stability and success of gambling.

(c) The suspension, revocation, or transfer of the beverage dispensary license for the premises subject to a license issued under this section immediately suspends the license issued under this section.

(d) A license issued under this section authorizes the licensee to conduct games and other gambling activities as specifically listed on the license.

Sec. 05.40.120. POSTING OF LICENSE. A license for a gambling enterprise shall be posted in a conspicuous location on the premises by the licensee.

Sec. 05.40.130 WORK PERMIT (a) Each person employed by a gambling enterprise shall obtain a work permit issued by the board before conducting or otherwise participating in the conduct of gambling under this chapter.

(b) Records acquired by the board relating to applications for and issuance of work permits are confidential, but may be released to a law enforcement agency.

(c) The board may not issue a work permit to a person convicted of a crime described in AS 05.40.010(c).

(d) The board shall refuse to issue or renew a work permit to an applicant who has

(1) failed to disclose, misstated, or attempted to mislead the board as to a material fact in an application for issuance or renewal of a work permit;

(2) failed to comply with the regulations of the board;

(3) committed, attempted, or conspired to commit a crime of moral turpitude, embezzlement, or larceny against an employer.

Sec. 05.40.140. RECORDS OF THE BOARD. Records of the board are public records and are subject to public inspection except as otherwise provided by this chapter or by regulations of the board.

Sec. 05.40.150. PROCEEDS. (a) If the license for a gambling enterprise is issued to a state agency, the state agency shall transmit the net proceeds of the gambling enterprise to the board.

(b) If the license for a gambling enterprise is issued to a municipality, the municipality shall transmit 50 percent of the license fees set forth in (c) of this section to the board.

(c) Except as provided in (d) and (e) of this section, if the license for a gambling enterprise is not issued to a state agency or to a municipality, the licensee shall transmit to the board a license fee based upon all the gross revenue of the licensee as follows:

Three percent of all the gross revenue of the licensee which does not exceed \$50,000 per calendar month;

Four percent of all the gross revenue of the licensee which exceeds \$50,000 per calendar month and does not exceed \$134,000 per calendar month; and

Five and three-fourths percent of all the gross revenue of the licensee which exceeds \$134,000 per calendar month.

(d) If the license for the gambling enterprise is not issued to a state agency or to a municipality and if the license is issued for a gambling enterprise that is located within a municipality, the licensee shall transmit 50 percent of the license fees set forth in (c) of this section to the board.

(e) If the license for the gambling enterprise is not issued to a state agency or to a municipality and if the license is issued for a gambling enterprise that is located within a municipality, the municipality may impose fees on the gambling enterprise equal to 50 percent of the license fees set forth in (c) of this section.

ARTICLE 2. GAMBLING WITHIN MUNICIPALITIES.

Sec. 05.40.200. GAMBLING WITHIN A MUNICIPALITY. Except as provided in AS 05.15, gambling is not allowed within a municipality if the voters of the municipality have not approved a referendum or initiative authorizing gambling within the municipality under AS 29.35.610.

ARTICLE 3. MISCELLANEOUS PROVISIONS.

Sec. 05.40.300. PROHIBITED ACTS AND PENALTIES. (a) It is a class A misdemeanor to

(1) violate or fail to comply with a provision of this chapter a regulation adopted under this chapter, if no effect on the outcome of a game or event that is the subject of a bet was intended;

(2) record, report, or register a wager or to gamble except under the provisions of this chapter;

(3) gamble or to permit a person to gamble if the person is under the age of 21.

(b) Violation of this chapter or a regulation adopted under this chapter with intent to affect the outcome of a game, a gaming device, or other gambling activity licensed under this chapter is a class C felony.

Sec. 05.40.310. ADMINISTRATIVE PROCEDURE ACT. The operations of the board are subject to AS 44.64 (Administrative Procedure Act), except as otherwise provided in this chapter.

Sec. 05.40.320. CONFLICT OF INTEREST ACT. The board is subject to AS 39.50 (conflict of interest).

ARTICLE 4. GENERAL PROVISIONS.

Sec. 05.40.900. DEFINITIONS. In this chapter

(1) "board" means the Alaska Gambling Board;

(2) "gambling" means an activity in which a person stakes or risks something of value upon the outcome of a game or a future contingent event not under the person's control or influence, upon an agreement or understanding that that person or someone else will receive something of value in the event of a certain outcome;

(3) "gambling enterprise" means a business established and licensed for the purpose of conducting gambling under this chapter;

(4) "game" means a game played with cards, dice, equipment or a mechanical, electromechanical, or electronic device for money, property, checks, credit, or a representation of value, including faro, monte, roulette, keno, fan-tan, twenty-one, blackjack, seven-and-a-half, big injun, klondike, craps, poker, chuck-a-luck, Chinese chuck-a-luck (dai-shu), wheel of fortune, chemin de fer, baccarat, pai gow, beat the banker, panguigui, slot machine, a banking or percentage game or other game or device approved by the board, but does not include games played with cards in private homes or residences where a person does not make money for operating the game, except as a player;

(5) "gaming device" means equipment or a mechanical, electromechanical or electronic contrivance, component, or machine used remotely or directly in connection with a game that affects the result of a wager by determining wins or loss;

(6) "Gross revenue" means the total of all:

(a) Cash received as winnings;

(b) Cash received in payment for credit extended by a licensee to a patron for purposes of gaming; and

(c) Compensation received for conducting any game in which the licensee is not party to a wager, less the total of all cash paid out as losses to patrons and those amounts paid to purchase annuities to fund losses paid to patrons over several years by independent financial institutions.

(7) "parimutuel" means a form of wagering on the outcome of a race in which those who wager personally purchase tickets of various denominations on a participant in the race and all wagers for each race are pooled and held by the licensee conducting the meet for distribution; when the outcome of the race has been decided, the licensee conducting the meet distributes the percentage of the total wagers determined by the board to holders of tickets on the winner.

* Sec. 3. AS 11.66.280(2) is amended to read:

(2) "garbling" means that a person stakes or risks something of value upon the outcome of a contest of chance or a future contingent event not under the person's control or influence, upon an agreement or understanding that that person or someone else will receive

something of value in the event of a certain outcome; "gambling" does not include

(A) bona fide business transactions valid under the law of contracts for the purchase or sale at a future date of securities or commodities and agreements to compensate for loss caused by the happening of chance, including contracts of indemnity or guaranty and life, health, or accident insurance; or

(B) playing an amusement device that

(i) confers only an immediate right of replay not exchangeable for something of value other than the privilege of immediate replay; and

(ii) does not contain a method or device by which the privilege of immediate replay may be cancelled or revoked;

(C) an activity authorized by the commissioner of revenue under AS 05.15. or by the Alaska Gambling Board under AS 05.40.

* Sec. 4. AS 11.66.280(4) is amended to read:

(4) "gambling enterprise" means a gambling business which

(A) includes five or more persons who conduct, finance, manage, supervise, direct, or own all or part of the business;

(B) has been or remains in substantially continuous operations for a period in excess of 30 days or has a gross income of \$2,000 or more in any single day; (AND)

(C) is not a municipality or a qualified organization under AS 05.15 [AS 05.15.210(15)], except that, for purposes of this

paragraph, no application for a permit (LICENSE) under AS 05.15 (AS 05.15.210(15)) is required to be considered a qualified organization; and

(D) is not licensed under AS 05.40;

* Sec. 5. AS 18.65.080 is amended by adding a new subsection to read:

(b) Before appointment or employment, the Department of Public Safety shall investigate and ascertain whether

(1) a person appointed by the governor to serve as a member of the Alaska Gambling Board under AS 05.40 has been convicted of a crime described in AS 05.40.010(c);

(2) a member of the staff of or person employed by the Alaska Gambling Board, an applicant for a license for a gambling enterprise, or an applicant for a work permit has been convicted of a crime under the laws of the state or another jurisdiction.

* Sec. 6. AS 29.35 is amended by adding new sections to read:

ARTICLE 9. GAMBLING WITHIN MUNICIPALITIES.

Sec. 29.35.600. GAMBLING PERMITTED. Except as authorized under AS 05.15, gambling may not be conducted within a municipality unless a majority of the voters of the municipality approve a referendum or initiative authorizing gambling.

Sec. 29.35.610 LOCAL OPTION ELECTION. (a) The following question may be placed before the voters of the municipality:

"Shall gambling be permitted in ... (name of municipality)?"

(b) The question set out in (a) of this section may be placed before the voters of the municipality by the legislative body of the municipality or by initiative petition. Notwithstanding AS 29.26.130(b)(1) and (2), an initiative petition shall be signed by a number of voters equal to five percent of the number of votes cast in the last regular election held before the petition was issued.

(c) If a majority of the voters vote "yes" on the question set out in (a) of this section, gambling may be conducted within the municipality under terms of a license issued by the Alaska Gambling Board.

Sec. 29.35.620. LOCAL OPTION ELECTIONS BY MUNICIPALITIES WITHIN BOROUGHS. 29.35.620 The rights of the voters of a municipality located within a borough to a binding election under AS 29.35.610 shall not be affected by a vote on the same subject by all the voters of the borough.

Sec. 29.35.630. FEES ON GAMBLING WITHIN MUNICIPALITIES. (a) If a license for a gambling enterprise issued under AS 05.40.110 is not issued to a state agency or to a municipality, and is located within a borough which has voted to permit gambling pursuant to AS 29.35.610, the governing body of the borough may impose by ordinance the fees set forth in AS 05.40.150(e).

(b) If a license for a gambling enterprise issued under AS 05.40.110 is not issued to a state agency or to a municipality, and is located within a borough which has not voted to permit gambling pursuant to AS 29.35.610, the governing body of the municipality within which the gambling enterprise is located may impose by ordinance the fees set forth in AS 05.40.150(e).

Sec. 29.35.640. APPLICATION. AS 29.35.600 - 29.35.650 apply to home rule and general law municipalities.

Sec. 29.35.650 DEFINITIONS. In AS 29.35.600 - 29.35.650 "gambling," "gambling enterprise," and "game" have the meanings given in AS 05.40.900.

* Sec. 26. AS 29.50.200(b) is amended by adding a new paragraph to read:

(49) Alaska Gambling Board (AS 05.40.010)

* Sec. 27. AS 44.62.330(a) is amended by adding a new paragraph to read:

(55) Alaska Gambling Board (AS 05.40.010).

* Sec. 28. INITIAL COMMISSION APPOINTMENTS. The governor shall make the initial appointment of members of the Alaska Gambling Board within 30 days after the effective date of this Act.

Sen. Pourchot
March 7, 1990

COMPARISON OF VARIOUS GAMING LAWS

	<u>FEEES</u>	<u>TAX</u>	<u>USE OF FUNDS</u>
<u>SB 263</u>	\$200/device \$100/bar owner \$1000/distributor	15% net income	device fee and net income split 2/3 state GF, 1/3 local govt; other fees all to state
<u>MONTANA VIDEO</u>	\$100/device/state \$100/device/local \$1000/distributor \$1000/manufacturer	15% net income	1/3 to state GF 2/3 to local govt
<u>NEVADA VIDEO</u>	\$250/device	If fewer than 15 machines: \$180 each for first 5, \$360 each additional If more than 15 machines: \$80 each plus 3% first \$50,000 gross revenues, 4% next \$85,000, 6% any additional	state GF
<u>ALASKA PULLTABS</u>	\$1000/distributor \$500/manufacturer	3% gross receipts less prizes	state GF
<u>ALASKA COIN-OP DEVICES</u>	\$240/device \$50/distributor	none	device fee 50% state GF, 50% local; distrib= utor fee state GF

Sponsor
Sub.

effort to be more specific about what
is & isn't allowed

& effort to be conservative about what
is allowed

For ex: max bets & winnings have been kept
low \$2/100

Ex: license
bar owner —
lose ABC license?

stiffer

penalties have been established

& other controls have been ~~to~~ applied

Ex: - machine testing - age 21
- max 20 machines/bar
- bars only

Perhaps most signif change is that
muni's have been given option of
by ordinance - prohibiting video gaming
in bandaies.

Revenue collection aspect much like before
-\$200/yr/denue
-\$15% net income
-\$1000/yr/distributor
-\$100/yr/operator

except 1/3 taxes → muni's that have gaming.

-tech. am.

Sen State Affairs

3-6-90

Panchot
Falks
Kelly
Welling

Pat extremely limited gaming
substantial benefits - private & public sector
ahead of time - don't intend to move

Coffey CHARR support
S. Dakota, MT. Pennsylv. considering.
emphasizing gross revenue (i.e. prt. sector benefit)
alcohol industry responsible
meanwhile costs up. } - changed hours
- more socially responsible
- TAM program
This = alternative source of income

Mayor Missoula - "positive impact"
support local option
voluntary tax

Jim Fisk, Kodiak - support (Member VFW.)
(Gaming Commission)
- Want bill to also regulate games of chance & skill.
- Want House & Sen members on Commission - Gov. shouldn't be able to appoint all.
- Don't let DCEO Commissioner serve if convicted felon.
- Don't let person have both distributor & operator license.
- something about max. bet ---
- something about allowing plenty of time for machines to be tested. Commission needs "control."

Dan Thompson Fbx = coin op. machine distributor
Uge 2/3 muni, 1/3 state.

Randall Burns, DCEO -- neutral
Uge think about impact on charitable gaming - pull-tabs are being sold in many bars. Video games would cut into "their deal."
fiscal note conservative.

Larry Hackemiller, CHARR - sells pulltabs in bars. Impact on pulltabs won't be from video gaming, but from DCE's position. ^{3rd party} vendors!! -> would disallow sale of pulltabs in bars
-> thinks immediate neg. impact on pulltabs until novelty of video games wears off.

Support. Support muni. option.

Pat - Don't expect passage this session - but is goal in trying to perfect.

- machines in existence now

3.7.90

SB 263

Dan Coffey:

- Supports video gaming / 4 on ferries
- Supports "local option" in this bill
- Voluntary taxation

Jim Fisk:

Amendments proposed

① Page 1, Line 23, 24

• Initial Appointment

① House minority

① " majority

① Senate minority

① " majority

② STRIKE Page 2, Line 1
except for the commissioner of
economic development

③ Anyone who is a distributor
may not hold a license.

④ Follow Nevada

⑤ Page 6, Line 17-18
set date

PAT:

Response to

① purposefully avoided

② Prior felony

Page 2

Dan Thompson - FBX

- in support - is in coin operated business

Randall Burns:

No position paper

? Impact on charitable gaming

- pull tabs a hassle, bars would probably opt for video gaming.

Larry Hackiwstark?

- Position paper on vendors from Commissioner shows more problems for charitable gaming
- In support.

Jim Fisk

- response to Burns for 3rd party vendors.

Pat,

These are "emergency" games
of chance regulations, now in
non-emergency format. Note
that comment period for the
vendor provision (which would
substantially curtail the use
of 3rd party vendors to sell pull-
tabs) won't ~~take effect~~ ^{close} until
May, thus allowing the Legisla-
ture time to act. ^{comment on} All other
provisions ~~would take effect~~
closes Jan. 8. <sup>including no statewide
sale of pull tabs, like
Bob Thomas</sup>

Public hearing in Anchorage
Dec. 14.

S.

RECEIVED NOV 24 1989

PROPOSED REGULATIONS

Authorized Games of Chance and Skill

Notice is given that the Department of Commerce and Economic Development, Division of Occupational Licensing, under authority vested by AS 05.15.060 and AS 05.15.130, proposes to adopt new regulations in Title 12 of the Alaska Administrative Code dealing with operators, pull-tab manufacturing and distribution, pull-tab sales, bingo session limits, prize award limitations, definitions, repeal of regulations in Title 15, Chapter 105, and other provisions, all of which serve to clarify and implement AS 05.15.060 and AS 05.15.130 as follows:

1. 12 AAC 34.200, OPERATOR LICENSE REQUIRED, is a new section which clarifies when an operator is required to be on contract to conduct gaming activities;
2. 12 AAC 34.210, OPERATOR REPORTING REQUIREMENTS, is a new section which clarifies operator reporting requirements;
3. 12 AAC 34.220, OPERATOR RECORD KEEPING REQUIREMENTS, is a new section which clarifies operator record keeping requirements;
4. ARTICLE 2. PULL-TAB MANUFACTURING AND DISTRIBUTION, is a new article which addresses the manufacturing and distribution of pull-tabs, including new state identification labeling requirements. This article includes the following sections:

12 AAC 34.300	STANDARDS FOR CONSTRUCTION OF PULL-TABS
12 AAC 34.310	PULL-TAB SERIES ASSEMBLY AND PACKAGING
12 AAC 34.320	MANUFACTURER DISTRIBUTION
12 AAC 34.330	STATE IDENTIFICATION LABELING
12 AAC 34.340	MANUFACTURER'S MONTHLY REPORT
12 AAC 34.350	PULL-TAB DISTRIBUTOR LICENSING APPLICATION
12 AAC 34.360	DISTRIBUTOR'S MONTHLY REPORT
12 AAC 34.370	PURCHASE OF PULL-TABS BY LICENSED DISTRIBUTORS
12 AAC 34.380	SALE OF PULL-TABS BY A LICENSED DISTRIBUTOR
12 AAC 34.390	PULL-TAB TAX

every pull-tab in a game must be sold at the same location

5. 12 AAC 34.400, LIMITATION ON PULL-TAB SALES, is a new section which defines what is considered a game or series of pull-tabs and clarifies the intent of AS 05.15.187(b);
6. 12 AAC 34.500, BINGO SESSION LIMIT, is a new section which expands the number of bingo sessions allowed per month which can be conducted by a permittee and the number of sessions allowed when conducted by an operator;
7. 12 AAC 34.900. PRIZE AWARD LIMITATIONS, is a new section which clarifies the statutory and regulatory limitations on payment of prize awards for bingo and all other authorized games;
8. 12 AAC 34.990. DEFINITIONS, is a new section established to define terms used in this chapter, including, but not limited to, the definition of a permittee, pull-tab, and pull-tab game;

9. 15 AAC 105.110(5), which set a bingo session limit of nine per month, is repealed;
10. 15 AAC 105.330, which set restriction on the distribution of pull-tabs, is repealed;
11. 15 AAC 105.350, which established an additional prize award limitation, is repealed.

Copies of the proposed regulations may be obtained by writing to the Division of Occupational Licensing address indicated below or by telephoning (907) 465-2537.

Notice is given that any person interested may make written comments relevant to these proposed regulations by writing to Kevin Henderson, Regulations Specialist, Division of Occupational Licensing, P.O. Box D-LIC, Juneau, AK 99801, so that those comments are received no later than MONDAY, JANUARY 8, 1990. 2534 Kelsey will call

Notice is also given that oral or written comments can be made during any of the hearings listed below:

TELECONFERENCE
 Legislative Information Offices
 in Bethel, Juneau, Ketchikan,
 Kodiak, Kotzebue, Mat-Su and Nome

Tuesday, December 12, 1989
 9:00 a.m. to 12:00 p.m.

KENAI/SOLDOTNA
 Kenai Peninsula Borough
 Assembly Chambers
 144 N. Binkley, Soldotna

Wednesday, December 13, 1989
 1:00 p.m. to 3:00 p.m.

ANCHORAGE
 Egan Convention Center
 Space 2, Lower Level
 555 W. 5th Avenue

Thursday, December 14, 1989
 9:00 a.m. to 12:00 p.m.

FAIRBANKS
 Noel Wein Library
 Auditorium
 1215 Cowles Street

Friday, December 15, 1989
 9:00 a.m. to 12:00 p.m.

All hearings will continue only as long as there are people to testify, and will not be extended past the ending times indicated above.

This action is not expected to require an increased appropriation.

After the deadline stated above, the Department of Commerce and Economic Development may adopt regulations within the scope of this notice, without further notice, or may decide to take no action on them.

Randall P Burns
 Randall P. Burns, Director
 Division of Occupational Licensing

DATE: 11/16/89

PROPOSED REGULATION

Authorized Games of Chance and Skill

Notice is given that the Department of Commerce and Economic Development, Division of Occupational Licensing, under authority vested by AS 05.15.060 and AS 05.15.130, proposes to adopt a new regulation in Title 12 of the Alaska Administrative Code which defines who may and may not sell pull-tabs on behalf of a permittee. This regulation serves to clarify and implement AS 05.15.060, AS 05.15.122, AS 05.15.130 and AS 05.15.160 as follows:

12 AAC 34.410, AUTHORIZATION TO SELL PULL-TABS, is proposed as a new section to identify who may and may not sell pull-tabs to the public. This section will substantially curtail the current use of third-party "vendors" to sell pull-tabs on behalf of a permittee.

The Department of Commerce and Economic Development does not anticipate adopting this regulation (or a similar one) until after the issue of vendors selling pull-tabs has been addressed by the Legislature in 1990. This proposed regulation reflects the current position of the department on this issue and, if no Legislative changes are made, may be adopted after the written comment deadline stated below.

If one is not attached to this notice, a copy of the proposed regulation may be obtained by writing to the Division of Occupational Licensing address indicated below or by telephoning (907) 465-2537.

Notice is given that any person interested may submit comments relevant to this proposed regulation by writing to ~~Kevin Henderson~~, Regulations Specialist, Division of Occupational Licensing, P.O. Box D-LIC, Juneau, AK 99801, so that those comments are received no later than MONDAY, MAY 21, 1990.

Notice is also given that oral or written comments can be made during any of the hearings listed below:

TELECONFERENCE
Legislative Information Offices
in Juneau, Ketchikan, Sitka, Bethel,
Mat-Su, Kodiak, Kotzebue, and Nome

Tuesday, December 12, 1989
9:00 a.m. to 12:00 p.m.

KENAI/SOLDOTNA
Kenai Peninsula Borough
Assembly Chambers
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Noel Wein Library
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1215 Cowles Street

Friday, December 15, 1989
9:00 a.m. to 12:00 p.m.

All hearings will continue only as long as there are people to testify, but will not be extended past the ending times indicated above.

This action is not expected to require an increased appropriation.

After the deadline stated above, the Department of Commerce and Economic Development may adopt a regulation within the scope of this notice, without further notice, or may decide to take no action on it.

Randall P. Burns

Randall P. Burns, Director
Division of Occupational Licensing

DATE: 11/16/89

PROPOSED REGULATIONS
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF OCCUPATIONAL LICENSING

12 AAC is amended by adding a new chapter to read:

12 AAC 34.410. AUTHORIZATION TO SELL PULL-TABS. (a) No person may sell pull-tabs to the public on behalf of a permittee, unless that person is

(1) an active member of the organization holding the permit on whose behalf the pull-tabs are being sold, where

(A) the member receives no compensation or consideration for selling the pull-tabs for the organization, and

(B) no expenses for allowing the pull-tab sales to be conducted are charged against the organization holding the permit;

(2) a paid employee of a permittee;

(3) a licensed operator under contract to a permittee; or

(4) a paid employee of a licensed operator.

(b) Except as described in (a)(4) of this section, a pull-tab operator may not use another person to sell pull-tabs on the operator's behalf. (Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.130
AS 05.15.187
AS 05.15.210

PROPOSED REGULATIONS
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF OCCUPATIONAL LICENSING

12 AAC is amended by adding a new chapter to read:

CHAPTER 34.
GAMES OF CHANCE AND SKILL

Article

1. Operators (12 AAC 34.200 -- 12 AAC 34.220)
2. Pull-tab manufacturing and distribution (12 AAC 34.300 -- 12 AAC 34.390)
3. Pull-tab games (12 AAC 34.400)
4. Bingo games (12 AAC 34.500)
5. General provisions (12 AAC 34.900 -- 12 AAC 34.990)

ARTICLE 1.
OPERATORS.

12 AAC 34.200. OPERATOR LICENSE REQUIRED. (a) Except as provided in (b) of this section, an operator licensed under AS 05.15.122, must be retained on contract when any one of the following is true of the gaming activity being conducted:

(1) a person manages, supervises, or in anyway is in charge of or responsible for conducting gaming activities on behalf of one or more permittees, including a person who receives compensation or other consideration for providing gaming services; or

(2) except where operators are prohibited by municipal ordinance under AS 05.15.124, or in communities that have a population of under 5,000, two or more permittees join to conduct gaming activities, including the shared use of employees or gaming equipment.

(b) Nothing in this section prohibits a permittee from conducting gaming on its own behalf without the services of an operator. (Eff. / / , Register)

Authority AS 05.15.060
AS 05.15.122
AS 05.15.130
AS 05.15.210

12 AAC 34.210. OPERATOR REPORTING REQUIREMENTS. An operator shall comply with all monthly, quarterly, and annual reporting requirements of AS 05.15 and 15 AAC 105. (Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.122
AS 05.15.130
AS 05.15.165

12 AAC 34.220. OPERATOR RECORD KEEPING REQUIREMENTS. An operator shall comply with all record keeping and accounting requirements of AS 05.15 and 15 AAC 105. (Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.122
AS 05.15.130
AS 05.15.165

ARTICLE 2.
PULL-TAB MANUFACTURING AND DISTRIBUTION.

12 AAC 34.300. STANDARDS FOR CONSTRUCTION OF PULL-TABS.
(a) A pull-tab must

(1) be constructed so that it is impossible to identify whether it is a winning or losing pull-tab, either by revealing the numbers or symbols or by the size and shape of the pull-tab, until it has been played by the purchaser;

(2) be constructed using at least a two-ply paper stock construction so that it is completely opaque;

(3) have conspicuously printed on the face or cover sheet, the series number and the name of the manufacturer;

(4) show the consumer how to open the pull-tab to determine the winning symbols or numbers.

(b) Pull-tabs within a single pull-tab series must be

(1) of the same length, width, and thickness, not varying by more than 3/64 of an inch at any dimension;

(2) color coded when individual series numbers are repeated.

(c) A manufacturer shall establish its own method of game protection which allows the manufacturer or the department to determine, after the pull-tab has been played, the difference between an authentic winning pull-tab and a nonwinning, altered or forged pull-tab. The manufacturer shall submit to the department a letter explaining the method of game protection used and shall keep the department informed of any changes.
(Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.181

12 AAC 34.310. PULL-TAB SERIES ASSEMBLY AND PACKAGING. (a) A pull-tab manufacturer shall manufacture, assemble, and package a pull-tab series so that any winning pull-tab, or the approximate location of any winning pull-tab, cannot be determined, in advance of actually opening the pull-tab.

(b) Winning pull-tabs must be evenly distributed and mixed among all other pull-tabs in the series.

(c) When a pull-tab series is packaged in more than one container, the entire series of individual pull-tabs must be thoroughly mixed and distributed evenly among the containers so that the location or approximate location of a winning pull-tab or concentration of winning pull-tabs cannot be determined.

(d) A container of pull-tabs must be clearly marked on the outside with the name of the manufacturer, the pull-tab series number, and the name of the pull-tab game enclosed.
(Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.181
AS 05.15.187

12 AAC 34.320. MANUFACTURER DISTRIBUTION. (a) A pull-tab manufacturer may only distribute those pull-tabs which itself designed, constructed, assembled and packaged. A manufacturer may not sell pull-tabs that were purchased from another pull-tab manufacturer.

(b) A pull-tab series may not be sold or distributed unless the manufacturer has meet the state identification labeling requirements of 12 AAC 34.330.

(c) A packing slip must be included with each shipment of pull-tabs, which shows the

- (1) name of the manufacturer;
(2) series number;
(3) date the series was packaged;
(4) name or identification of the person who packaged the series; and
(5) state identification number. (Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.181
AS 05.15.185

12 AAC 34.330. STATE IDENTIFICATION LABELING. (a) The department will provide all licensed pull-tab manufacturers with state identification label and accompanying records entry labels, each pre-glued and imprinted with the same unique number or combination of letters and numbers, to be used for identifying and tracking the sale and distribution of pull-tabs present in the state.

(b) A pull-tab series may not be sold or distributed unless a state identification stamp has been affixed to the flare card accompanying that series and the state identification number is recorded in accordance with this section.

(c) Before shipping a pull-tab series to a licensed distributor, the manufacturer shall

(1) adhere the state identification stamp onto the lower right hand corner of the flare card accompanying that series of pull-tabs;

(2) write, in permanent ink, the series number of the pull-tabs being shipped into the the space provided on the state identification stamp;

(3) adhere a record entry label to the monthly report required under AS 05.15.181(e) and 12 AAC 34.340; and

(4) adhere a record entry label to the invoice sent to the distributor purchasing the pull-tabs.

(d) The remaining record entry labels must be included in the pull-tab series shipment for use by the distributor, operator, or permittee in accordance with other provision of this chapter. (Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.181
AS 05.15.185

12 AAC 34.340. MANUFACTURER'S MONTHLY REPORT. (a) The monthly report required under AS 05.15.181(e), must be submitted on forms provided by the department and must identify the following information for each pull-tab series shipped since the last report filed under this section:

- (1) name of each game;
- (2) series number;
- (3) state identification number;
- (4) name of the distributor to which it was sold.

(b) The state identification number required in (a)(3) of this section, must be verified on the monthly report form by adhering a records entry label to the space provide.
(Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.181

12 AAC 34.350. PULL-TAB DISTRIBUTOR LICENSE APPLICATION REQUIREMENTS. An applicant for a pull-tab distributor license under AS 05.15.183 shall submit to the department

(1) a completed application on the form provided by the department;

(2) the fees as required by AS 05.15.183(b); and

(3) all other information or documentation requested by the department at the time of application.
(Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.183

12 AAC 34.360. DISTRIBUTOR'S MONTHLY REPORT. (a) The monthly report required under AS 05.15.183(d), must identify the following information for each pull-tab series distributed since the last report filed under this section:

- (1) name of the game;
- (2) serial number;
- (3) state identification number;
- (4) date distributed;
- (5) manufacturer;
- (6) price per ticket;
- (7) ticket count;
- (8) gross pay out;
- (9) ideal net; and,

(10) name of the permittee or operator to which the pull-tab series was sold; and

(11) any other information the department may require.

(b) The state identification number required in (a)(3) of this section, must be verified on the monthly report form by adhering a records entry label. (Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.183
AS 05.15.185

12 AAC 34.370. PURCHASE OF PULL-TABS BY LICENSED DISTRIBUTORS. A distributor shall order, purchase, or receive pull-tabs directly from a pull-tab manufacturer who adheres to the requirements of the National Association of Fundraising Ticket Manufacturers (NAFTM). A distributor may not order, purchase, or receive pull-tabs from another distributor. (Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.183

12 AAC 34.380. SALE OF PULL-TABS BY A LICENSED DISTRIBUTOR. (a) Each pull-tab series sold by a distributor must be supported by a written invoice delivered to the purchaser that identifies the

- (1) name of the game;
- (2) serial number;
- (3) state identification number;
- (4) date of the sale;
- (5) name and permit number of the permittee who purchased the pull-tabs;
- (6) name and license number of the operator, if applicable;
- (7) dollar amount charged for that series; and
- (8) amount of pull-tab tax charged to the purchaser.

(b) The state identification number required in (a)(3) of this section, shall be identified on the invoice by adhering the records entry label. The remaining record entry label must be included in the pull-tab series shipment to the operator or permittee for their use in meeting other recordkeeping requirements.

(c) A pull-tab distributor may distribute pull-tabs only to permittees or licensed operators. (Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.183

12 AAC 34.390. PULL-TAB TAX. (a) A permittee or operator conducting gaming activities on behalf of a permittee shall pay, to the distributor, a pull-tab tax of 3 percent of the ideal net of the pull-tab series. Payment of the pull-tab tax is due to the distributor at the time the pull-tab series is distributed to the permittee or operator. The tax must be paid to the department by the distributor, whether actually collected or not, at the time of filing the monthly report required under AS 05.15.183(d) and 12 AAC 34.370.

(b) In this section, "ideal net" means the total amount of receipts that would be received if every individual pull-tab ticket in the series was sold at its face value less the total predetermined prize amounts available to be paid out in the series exclusive of any additional prize for the last pull-tab sold. (Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.183
AS 05.15.184

ARTICLE 3. PULL-TABS GAMES.

12 AAC 34.400. LIMITATION ON PULL-TAB SALES. Each pull-tab or ticket in a pull-tab game must have the same serial number and, in accordance with AS 05.15.187(b), the game may not be sold at more than one location during the same day. In 12 AAC 34 and 15 AAC 105, "pull-tab game" has the same meaning as "pull-tab series." (Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.130
AS 05.15.187
AS 05.15.210

ARTICLE 4. BINGO GAMES.

12 AAC 34.500. BINGO SESSION LIMIT. A permittee which conducts bingo games on its own behalf without the services of an operator may hold up 14 bingo sessions per month. A permittee which uses an operator to conduct bingo games on its behalf is limited to 11 sessions per month. (Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.187
AS 05.15.210

ARTICLE 5.
GENERAL PROVISIONS.

12 AAC 34.900. PRIZE AWARD LIMITATIONS. (a) A permittee conducting authorized games on its own behalf is limited to the following prize award limitations per calendar year:

(1) bingo, \$840,000; and

(2) the aggregate of all other authorized games, \$1,000,000.

(b) An operator conducting authorized games on behalf of a permittee is limited to the following prize award limitations per permittee per calendar year:

(1) bingo, \$660,000; and

(2) the aggregate of all other authorized games, \$500,000. (Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.130
AS 05.15.180

12 AAC 34.990. DEFINITIONS. In this chapter

(1) "permittee" means a municipality or qualified organization who has a current and valid permit issued by the department to conduct authorized games of chance and skill provided for under AS 05.15.

(2) "pull tab" means a card or a single folded or banded ticket, the face of which is covered to conceal a number, symbol, or set of numbers and symbols. A person who has purchased a pull tab compares the numbers, symbols, or combinations of numbers and symbols revealed and compares them with the numbers, symbols, or combinations of numbers or symbols which have been designated in advance and at random as prize winners. A pull-tab is also defined as a card which confers an additional right to the purchaser to participate in a lottery for additional prizes.

(3) A "completed pull-tab game" means that all of the individual pull-tabs in a series, having the same serial number, have been purchased and played. (Eff. / / , Register)

Authority: AS 05.15.060
AS 05.15.130

TITLE 15 REPEALS

15 AAC 105.110(5) is repealed:

(5) Repealed / / . (Eff. 9/7/60, Register 2; am 11/6/76, Register 60; am 10/1/88, Register 107; am / / , Register)

Authority: AS 05.15.060

15 AAC 105.330 is repealed:

15 AAC 105.330. PULL-TAB DISTRIBUTOR'S LICENSE; DISTRIBUTION RESTRICTION. Repealed / / .

15 AAC 105.350 is repealed:

15 AAC 105.350. ADDITIONAL PRIZE LIMITATION. Repealed / / .

HOUSE LABOR AND COMMERCE COMMITTEE

ALASKA STATE LEGISLATURE

P.O. BOX Y, JUNEAU 99811

(907) 465-3892



RECEIVED OCT 19 1989

October 17, 1989

Dear Colleague:

I was recently solicited to sign a letter requesting that the Department of Commerce and Economic Development not issue its emergency regulations implementing the law governing charitable gaming operations in Alaska. The reason for this was to allow Lottery Alaska to continue to operate.

The emergency regulations were an attempt on the part of DCED to issue fair warning (key parts were not effective until January 1, 1990) to Lottery Alaska and other organizations, prior to enforcing provisions of the law that would have immediately put them out of business. Far from being onerous or unfair, the regulations would have provided a safety net for some organizations while leveling the playing field for all participants.

If the emergency regulations are not adopted, DCED must immediately enforce the law, including specific provisions that prohibit the use of vendors and statewide pulltab games.

While I have no knowledge of any intentional wrongdoing by Lottery Alaska, the fact is what they are doing violates state law and the clear intent of the Charitable Gaming Reform Act of 1988 (HB 299). If the people of Alaska want lotteries of this type then the appropriate course of action is to adopt statutory law to so provide. Existing law does not do so and was specifically intended and designed not to do so.

Absent compelling constitutional reasons, I believe requesting that an existing law not be enforced is generally not good public policy. The law is the law and due process and "equal justice under the law" require that it be enforced as written and as intended by the Legislature. There is no significant question in this case that existing practice violates existing law, only that some parties believe the existing law is wrong and should not be enforced. I believe such a request is not appropriate under the circumstance.

The House Labor and Commerce Committee will continue its work on charitable gaming legislation next session and I know by working together we can successfully deal with any remaining issues. I look forward to your assistance in fine tuning existing law to better serve Alaska's charitable gaming community.

Sincerely,

A handwritten signature in cursive script that reads "Dave Donley".

Representative Dave Donley, Chair
House Labor and Commerce Committee

cc: All Legislators

dd/gb

STATE OF ALASKA

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P. O. BOX D
JUNEAU, ALASKA 99811-0800
PHONE: (907) 465-2500

October 16, 1989

Honorable Pat Pourchot
Alaska State Senate
3111 C Street, Suite 506
Anchorage, AK 99503

RECEIVED OCT 19 1989

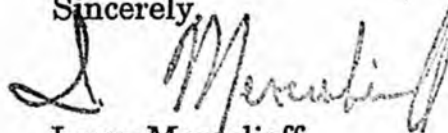
Dear Senator Pourchot:

A copy of the enclosed letter was mailed to all permittees, operators, distributors, and others involved in charitable gaming in Alaska.

I want to make sure that you are aware of the department's recent actions in its regulation of the charitable gaming program. The department remains committed to addressing the major issues outlined in our September 27, 1989 letter to charitable gaming licensees, a copy of which was sent to you late last month.

I look forward to working with you to achieve the department's goals of good fiscal accountability and consistent regulation and enforcement for all those involved in the gaming industry. Please feel free to write or call my office if you have any questions or wish to discuss these issues.

Sincerely,



Larry Mercurieff
Commissioner

LM/wfd1187W
101489a
Enclosure: 10/12 charitable gaming letter

STATE OF ALASKA

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P. O. BOX D
JUNEAU, ALASKA 99811-0800
PHONE: (907) 465-2500

October 12, 1989

Dear Gaming Participant:

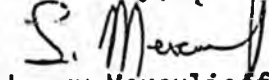
This is to advise you that the emergency gaming regulations adopted by the Department of Commerce and Economic Development, Division of Occupational Licensing, will not take effect as originally scheduled. However, our letter of September 27 remains the department's position on the issues facing the charitable gaming industry in this state.

Because of the department's concerns for the state of charitable gaming activities in Alaska and the pressing need for enforcing accountability and reporting, the division will issue public notice of the proposed regulations in early November, with public hearings to be held during the second week in December.

The changes and the clarifications included in the proposed regulations will be held in abeyance pending adoption of regulations through the usual process. For example, permittees that may have begun to hold additional bingo sessions in anticipation of adoption of the emergency regulations must now restrict themselves to the nine (9) -- not fourteen (14) -- bingo sessions allowed under current regulations.

The department is conducting a review of its enforcement options. An important asset in this review will be the Charitable Gaming Advisory Group that I will appoint to assist the department.

Sincerely,


Larry Mercurieff
Commissioner

LM/fh0253L
101189a

pull tabs

AIRRES

**ALASKA RADIO
READING SERVICE**

P.O. BOX 202545 • ANCHORAGE, ALASKA 99520-2545 • (907) 258-0000

January 31, 1990

Hon. Pat Pourchot
P.O. Box V
Juneau, AK 99811

Dear Sen. Pourchot:

We here at AIRRES, the radio reading service for the blind and print handicapped, have conducted a survey, pertaining to games of chance, among other non-profit organizations. We would like to share the results of this survey with you.

Enclosed, you will find the cover letter that we used for our survey and the results we have compiled from the survey we sent.

One of the obvious aspects, as shown by the survey, is the need for gaming laws to be similar to those of Nevada which eliminate entirely any criminal element from participating in games of chance.

Our survey was conducted statewide with replies from Anchorage, Wasilla, Palmer, Fairbanks, Ketchikan, Homer, Sitka, Juneau, Petersburg, Sand Point, Bristol Bay, Ninilchik, Cordova, Nome, North Pole, Galcha, Kodiak, St. Mary's, Soldotna, Moose Pass, Skagway, Chignik, Douglas, Craig, Nenana, Seward and Dillingham.

We hope that this will be beneficial to you in any legislation that might be forthcoming.

Donald Lutz
President

ATTENTION!

ALL NON-PROFIT CORPORATIONS:

The Alaska Information Radio Reading Education Service is a non-profit agency which uses Games of Chance and Skill to raise a portion of our funding. Recently, the Alaska Department of Commerce and Economic Development proposed sweeping changes in the charitable gaming regulations. These changes included eliminating the non-profit corporations right to sell pull tabs in multiple locations. We feel that this will severely impact the funding needed by many Alaskan non-profit corporations.

We at AIRRES are asking the Governor to stop these proposed regulations and let the Legislature decide this issue when they convene in January. If your organization is dependent on Games of Chance and Skill for funding, we urge you to join us in protecting your right to sell pull tabs through retail locations; these have been dubbed by the State as third party vendors. Please contact your legislators through Public Opinion Messages, telephone calls, and hand written letters.

AIRRES is also concerned that there is a strong possibility that the criminal element is infiltrating the operations of Games of Chance and Skill in Alaska. We recommend that you urge the State to prohibit the participation of anyone with a felony conviction in the operation or regulation of Games of Chance and Skill in Alaska.

A good model is in those laws and regulations governing gaming in the State of Nevada. In an effort to preserve our right to gain revenues from the sale of pull tabs through retail locations we are collecting statistics on the number of non-profit corporations which use Games of Chance and Skill to fund their operations. We hope to use this information to convince the legislature that all of us in non-profit corporations depend on this to fund our worthwhile causes through Games of Chance and Skill.

Please fill out the following questionnaire.

Thank you.

QUESTIONNAIRE

1. Name of non-profit organization:

2. Address:

3. Telephone Number:

TOTAL RESPONSES: 83

1. Do you hold a Games of Chance and Skill Permit? YES: 44
NO: 39

2. Are you receiving revenues from same? YES: 33
NO : 35
NO ANSWER: 15

3. Do you use an operator to place your permit? YES:11
NO:50
NO ANSWER:22

4. Do you place your own permit? YES:29
NO:27
NO ANSWER :27

5. Do you plan to apply for a Games of Chance and Skill permit in the future?
YES:48 NO ANSWER: 7
NO:22
MAYBE:6

6. Are you interested in legislation to keep the criminal element out of gaming in the state of Alaska?
YES: 72 NO ANSWER:7 Three of these who answered
NO 4 No, answered no to all questions.

7. Are you interested in legislation to protect your right to sell pull tabs in retail locations?
YES:53
NO: 21
MAYBE:2
NO ANSWER: 7

We urge you to participate in the process of forming laws and regulations governing Games of Chance and Skill in Alaska so that your programs may continue to exist and expand.

NRN

pull tabs

RECEIVED JAN - 3 1990

THE POP SHOPPE
1060 ASPEN
FAIRBANKS, ALASKA 99709
451-6865 OR 456-5688

December 21, 1989

State of Alaska
Senators and Representatives
Box V
Juneau, Alaska 99811

To All Senators and Representatives:

Subject: Charitable Gaming (My Industry):

The State has gone through astronomical growth here in excess of \$300 million in 1989. The state is five years behind the industry in this field. We have no real expertise at state regulatory level. This is a must and needed now. I support regulations and bonding. I do not support Washington rules. This is Alaska.

I also would like to see a small amount of common sense used by regulatory bodies. The reform laws written by legislators can never cover all topics involved in regulations and enforcement of any law.

You and I need to know Commissioners have the tools to enforce and regulate intent.

The State has been at least guilty of selective enforcement, selective bonding requirements, allowing Lottery Alaska to start up a illegal game then changing their mind and trying to stop it.

No consistency in reporting requirements and forms need to comply.

Changing from Department of Revenue to Department of Commerce is no excuse for the lack of enforcement or guidance by the State. Past practices and reporting methods have been totally improperly managed and supervised by State level employees.

Having State employees personal opinions on regulations or the law is in no way proper. These decisions should come from legislators intent or Attorney General opinions on legality of regulations.

I personally have been openly lied to by those in charge.

The State has cost me and others in this industry thousands by lack of control.

As I supported Reform Bill 299 in 1988 I feel the State has only made a total disaster in charitable gaming.

Legislative intent was lost. Personal opinions are in effect now.

The States 3% tax is a large amount. No one in this industry minds supporting our State in this manner, but feel our payments would only be larger if it was not necessary to educate and fight stupidity on State level.

The Department of Commerce should write regulations. They should also encourage business in Alaska, not restrict it.

I personally have been through hearings five times since reform on regulations. To date we have NONE.

How much has this cost the people of Alaska?

How much has the State cost the Non-Profits I work for? In my... company it will be over \$200,000 in 1989 alone.

The Department of Commerce needs help now, before this atrocity of justice ends up in court.

The State policies currently cost thousands of loss per day. My industry cannot wait for State employees to find a place to pass the buck again any longer.

I will support any bill that requires regulations of any law being reviewed by Senate and House before wasting time with hearings. If regulations do not follow your intent, you can kill them.

My company records and accounting practices are always open to any Senator or Representative who wishes to understand Charitable Gaming and how it really works. As a board member of Alaska Charitable Gaming Assn. we offer any assistance needed.

As you return to session shortly, please look in to industry and state needs in this matter. I will support any common sense revisions needed.

Fellow Alaskan for Alaska.

Sincerely,



Edward A. Dilley
The Pop Shoppe
E & A Services
Alotto

THE POP SHOPPE
1060 ASPEN
FAIRBANKS, ALASKA 99709
451-6865 OR 456-5688

State of Alaska
Mr. Steve Cowper, Governor
Juneau, Alaska 99811

Subject: Charitable Gaming

Dear Mr. Cowper:

It is my understanding you will introduce legislation on bonding for gaming. I would like to know the particulars on your bill before introduction. Also give you my opinions on this matter.

I am at present the largest bonded operator in the state with \$250,000 in cash posted as Certificates of Deposit. Let me assure you I find this totally ridiculous and costly. Some State licensed operators have not a dime of bonding. No parity in state enforcement has been used in the past here!

Yes bonding needs to be lowered and written so as it is at least attainable by all.

Along with lowering of cash requirements, a system of qualifications and back ground checks may be just as valuable. A long standing solid citizen is not as likely to risk their reputation in a small state. Business back ground is also an important asset, as record keeping and accountability is an important factor. No system is fool-proof.

As large operators can only run 20 to 40 permits a year, small groups need a market to raise funds also. The third party vendor issue is very important factor to these groups. I support their position in this need, with some type of affordable control and accounting to the state.

The State has been a total adversary to fund raising in past policies.

We have charitable gaming laws in Alaska set forth by our legislators. The State should regulate and supervise this set of laws, not fight the concept.

Mr. Cowper, this is gambling. Lets treat it like it is. We in the industry have made profits for our groups and the State in spite of our constant fight with The Department of Revenue and Department of Commerce.

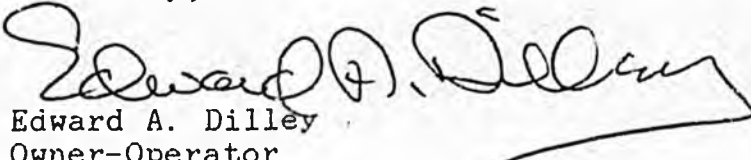
Gaming will generate 300+ million in sales this year alone. The States 3% is not a small number. This should be encouraged to

grow, not stifled in time of need.

Ask your commissioners to regulate and control, but use common sense if possible.

Thanks for your time.

Sincerely,



Edward A. Dilley
Owner-Operator
The Pop Shoppe

Proceeds Paid to Charity 1989

1st Quarter 1989

Ketchikan Youth Football	14,448.05
Douglas Lyons	43,674.18
Festival Fbks. 84	9,096.13
Fbks. Amateur Hockey	18,168.26
	<u>85,386.62</u>

2nd. Quarter

Juneau Youth Football	18,431.35
Southeast Pan Handlers	9,870.40
Ak. Native Sisterhood	9,847.02
Ktkn. Youth Services	18,877.37
North Pole Rotary	1,381.65
Fbks. Youth Soccer	26,187.72
	<u>84,595.51</u>

3rd. Quarter

Alaska Gold Kings	9,327.37
North Pole Rotary	14,919.84
Douglas Indian Assn.	2,771.71
Juneau Shotokan Karate	9,679.29
Sports Unlimited	8,471.68
American Legion #25	4,164.65
Ktkn. Senior Services	14,613.59
Ak. Native Sisterhood	3,173.92
Sons of Norway	9,067.27
Ktkn. Killer Whales	2,828.39
Ak. Native Sisterhood	447.00
	<u>79,464.71</u>

RECEIVED JAN - 3 1990

THE POP SHOPPE
1060 ASPEN
FAIRBANKS, ALASKA 99709
451-6865 OR 456-5688

December 21, 1989

State of Alaska
Senators and Representatives
Box V
Juneau, Alaska 99811

To: All Senators and Representatives:

Subject: 1990 Ballot Initiatives

Thank you for your time and service to Alaskans.

Regarding the proposed Ballot Initiatives:

Legalized Gambling:

I stand on the fence here. It would be a good revenue source for the State, but would hurt Non-Profit Gaming at present. With built in safety factors to cover non-profit and shared revenues I will support this bill. I have spent much time and money looking at Asian markets for this. It will be very good for our State. State regulation and enforcement is the key.

Marijuana:

Must be illegal in any size or form if we have any chance to protect our children.

Interstate Phone Competition:

Yes, if GCI or any other company will service all of Alaska, not just prime markets and be willing to do this from the beginning not added later down the line. Alascom has served this state and people by bringing all modern and up to date service to us. We were in the dark a few years back. Alascom made my phone work all the time. I will support them until a company wants to compete in all markets evenly.

Alaska Railroad:

The Alaska Railroad is the sole reason freight rates have come down to where Alaska business's can now compete in worldwide markets and the lower 48. I am totally against any hampering of their business procedures. Trucking Companies have had their profits too long, they must compete or leave.

Page 2

State Employees:

The State employees are totally responsible for their salary problems. Most treat fellow Alaskans like Moose Droppings. They think that they have signed up for a check and retirement program, forgetting their supposed to work for us in return.

No negotiations, no raises.

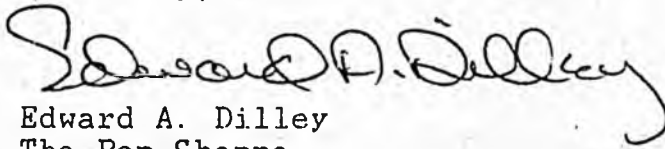
Permanent Fund:

Leave it alone. No raids for any reason. Once you start the flow it will never stop. If the State really wants money back for General fund needs, disband the fund. Put a 1/3 33% tax per person on the return. The normal person will vote for this as their take is larger than the States. Return the 33% to the General Fund or State fund and use the profits to run the State, no strings attached.

This will bust our economy wide open. Bail out Alaska Housing and all business in-general. It will also allow the State a chance to fund needed projects and prove to the people of Alaska they can do the job of management.

Do make it retroactive to 1989. List of qualified residents.

Sincerely,



Edward A. Dilley
The Pop Shoppe
E & A Services
Alotto

Superseded

Sen. Pourchot
April 13, 1989

SECTIONAL ANALYSIS
SB 263, RELATING TO VIDEO GAMING DEVICES

Sec 1-2 Exempt video gaming, as authorized in SB 263, from criminal code

THE FOLLOWING PROVISIONS ARE AMENDMENTS TO AS 43.35, "COIN OPERATED DEVICES", IN THE DEPARTMENT OF REVENUE. THEY WOULD APPLY ONLY TO VIDEO GAMING DEVICES:

Sec 3 Tax is 25% of net income, paid quarterly to Dept. Revenue
Civil penalty of \$1000/day for failure to pay
Define "net income" as money paid into device less money paid out in cash for credits

Sec 4 Current coin-operated device license doesn't apply

Sec 5 Requirement that revenues from coin-operated devices be shared with municipalities doesn't apply

Sec 6 Amends definition of "coin-operated device class 3" to include video gaming devices

Sec 7 Defines "video gaming device" as draw poker or keno
Devices can't pay money directly to the winner

Sec 8 Distributor of video device must be licensed:
Annual fee \$500, 1-year resident, no felony or gambling convictions, U.S citizen (all of these requirements except the fee apply currently to distributors of coin-operated devices)

Distributor can install machines only on certain premises licensed by the ABC Board -- bar, club, pub, common carrier

THE FOLLOWING PROVISIONS OF THE EXISTING COIN-OPERATED DEVICE LAW WOULD APPLY TO VIDEO DEVICES ALSO:

Annual fee per device \$240, to be paid by distributor
Must be age 18 to play
Department may adopt regulations

THE FOLLOWING PROVISIONS OF THE EXISTING CRIMINAL CODE WOULD APPLY TO UNLAWFUL USES OF VIDEO DEVICES:

Class C felony (maximum \$50,000 fine, 5-year sentence) for promoting gambling in the first degree or possession of gambling records in the first degree; Class A misdemeanor (maximum \$5,000 fine, 1-year sentence) for promoting in second degree, possessing records in second degree, or possessing a gambling device; Class B misdemeanor (maximum \$1,000 fine, 90-day sentence) for engaging in unlawful gambling

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800


LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 12, 1990

SUBJECT: SSSB 263, relating to video gaming devices --
sectional analysis of bill

TO: Senator Pat Pourchot

FROM: Jack Chenoweth
Legislative Counsel 

The principal provisions of the bill are set out in bill section 1 establishing the five-member Alaska Gaming Commission. The proposed gaming commission--there has been the suggestion that the group be retitled the "Alaska Video Gaming Commission" to more accurately describe its limited jurisdiction--is established, with commission responsibilities limited to regulation and oversight of video gaming devices. Provision is made for two forms of license--the distributor's license (to cover manufacturers, assemblers, producers, and distributors of video gaming devices), and the premises operator's license (essentially, persons responsible for premises licensed for alcoholic beverages sales in which devices are installed).

In summary:

AS 05.45.010 establishes the commission--four public members and the commissioner of commerce and economic development or the commissioner's designee--and sets qualifications of membership and provisions governing commission organization and quorum requirements.

AS 05.45.020 sets the term of office of the public members at three years and authorizes appointments to vacancies.

AS 05.45.030 limits removal of the public members to instances of cause, and prescribes the procedure applicable to a member's removal. In lieu of removal, the governor may suspend a member pending the member's removal.

Members are to receive, under AS 05.45.040, the usual compensation of travel and per diem payable for membership on a state board or commission.

AS 05.45.050 sets out the duties of the Alaska Gaming Commission. In addition to the licensing and supervisory functions identified in subsection (a), the commission's duties include, notably, all revenue collecting functions arising out of production of revenues from video gaming under taxes and fees levied. To fulfill its duties, the commission has the powers enumerated in AS 05.45.050(b).

The commission is given authority to employ persons (AS 05.-45.060). The attorney general is assigned responsibility to enforce regulations adopted by the commission (AS 05.45.-070). Records of the commission are made public (AS 05.-45.080). The commission's activities are made subject to the state Administrative Procedure Act, AS 44.62 (AS 05.-45.090). The state Conflict of Interest Act is made applicable to the commission and its members (AS 05.45.100).

The Gaming Commission is authorized to issue two types of licenses: a [video gaming] distributor's license (AS 05.-45.200), and a [video gaming] premises operator's license (AS 05.45.210). Both require annual renewal and payment of the amount of the fee specified. The procedures applicable to application for a new license or renewal of a license, set out in AS 05.45.220, identify the minimum standards applicable for licensure.

Under AS 05.45.230, a person holding a premises operator's license may install or allow another to use video gaming devices. That installation is limited to places in which alcoholic beverages are sold, under license of the Alcoholic Beverage Control Board, for premises carrying one of the various types of licenses identified. The section establishes a limit of 20 video gaming devices on a licensed premises.

AS 05.45.300 directs the Gaming Commission to test and approve prototypes of video gaming devices before permitting their installation. That testing may be done under contract, and the costs are to be borne by the device's distributor.

AS 05.45.310 authorizes the commission to inspect the devices, including review of the audit trail of the device to assure compliance with statutory payout requirements.

AS 05.45.320 sets regulations on who may play. Only persons who are 21 years of age or older are permitted to play video gaming devices, and persons may play only during the hours that a premises licensed to sell alcoholic beverages (in which the video gaming devices are installed) are open to do business.

The bill limits wagers--a maximum amount of \$2 per device per play (AS 05.45.330)--and prescribes payouts--over the life of the device, 80 percent payout of the value of amounts played, with a maximum actual payout of \$100 per game (AS 05.45.340).

The Gaming Commission's enforcement powers are defined by AS 05.45.400. Suspension or revocation of a license is authorized for violations of offenses identified in the section, with necessary due process rights recognized.

AS 05.45.500 levies and collects taxes and other revenues on video gaming devices. The tax is \$200 a year plus 15% of net machine income, the latter payable quarterly. A civil penalty is imposable by the commission for a person's failure to make timely filings and payments of taxes and fees when due.

AS 05.45.510 authorizes a partial payment of the proceeds to the municipality in which the machine is operated. The payment is subject to legislative appropriation.

The last section of bill section 1, AS 05.45.900, sets out necessary definitions, including the definition of the term "video gaming device." Note that definition incorporates a general description of the nature of the games allowed (draw poker, keno, and others as may be determined by the commission by regulation).

Bill sections 2 - 6 make related changes in existing laws applicable to regulation of games of chance and contests of skill. The amendment made by bill section 2 would exclude a person from a game of chance/contest of skill permit if the person has had a video gaming license revoked or suspended. The amendment made by bill section 3 imposes the same limitation on a game of chance/contest of skill operator's

license. That made by bill section 4 prohibits a game of chance/contest of skill licensee from employing a person whose video gaming license has been revoked or suspended. The amendments made in bill sections 5 and 6 impose on a permit applicant a related disclosure requirement, and limit the commissioner's authority to issue a game of chance/contest of skill activity permit.

Amendments applicable to criminal law provisions are set out in bill sections 7 - 10. The material added by bill section 7 makes tampering with the machines "criminal mischief in the second degree," a class C felony. Bill sections 8 and 9 exclude from the definitions of "gambling" and "gambling device" (for purposes of law enforcement) the playing of a regulated video gaming device and the device itself. A definition of "video gaming device" for purposes of AS 11 is incorporated by bill section 10.

The public members appointed to serve on the Gaming Commission may not have been convicted of certain crimes. See AS 05.45.010(c). The material added by bill section 11 directs the Department of Public Safety to conduct the required investigation.

In bill sections 12 - 16 are set out the powers and limitations on the powers of municipalities relating to video gaming devices:

The "home rule binder," a limitation on regulation by home rule charter municipalities, is set out in bill section 12.

Such regulation of a video gaming device as a municipality is permitted is set out in bill section 13. A municipality may prohibit their installation but, if installation is permitted, operation must conform to applicable state law. Municipal licensing and regulation is not permitted.

The substantive changes made in bill sections 14 and 15 exempt video games from taxation under a municipal sales tax.

For purposes of the Municipal Code, AS 29, bill section 16 incorporates a definition of "video gaming device."

Bill section 17 adds employees of the Gaming Commission to the state's partially exempt service.

Senator Pat Pourchot
Page 5
February 12, 1990

Bill section 18 requires the commission members to comply with the Conflict of Interest requirements of AS 39.50.

State law, generally, assigns tax administration and revenue raising responsibilities to the Department of Revenue under applicable provisions of AS 43. This measure makes the Gaming Commission responsible for administration of the revenue laws applicable to video gaming devices. To accommodate that assignment of responsibility and to avoid a double taxation of video gaming device operations, the amendments made by bill sections 19 - 22 incorporate various exceptions from state tax laws administered by the Department of Revenue.

Bill section 23 adds the Gaming Commission to the list of boards and commissions whose activities are subject to and guided by the Administrative Procedure Act.

Bill section 24 is an uncodified provision requiring the governor to make the initial Gaming Commission appointments within 120 days.

The Act is given a July 1, 1990, effective date by bill section 25.

JBC:lmb
L9/120

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

RECEIVED NOV 30 1989

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99811
907-465-3800

M E M O R A N D U M

November 27, 1989

SUBJECT: SSSB 263, relating to video gaming devices

TO: Senator Pat Pourchot
ATTN: Sandra Schubert

FROM: Jack Chenoweth
Legislative Counsel

The enclosed draft incorporates virtually all of the changes requested in your November 8 memo supplemented by your November 21 phone call.

Let me briefly note the significant features of the measure in the following discussion.

The principal regulatory provisions of the bill, appearing in bill section 1, remain in Title 5, "Amusements and Sports," albeit as a new chapter, AS 05.45. (I think there is a good argument, however, that since video gaming devices may only be placed in establishments licensed to sell certain alcoholic beverages, the material could as well be placed in Title 4.) The proposed gaming commission--there has been the suggestion that the group be retitled the "Alaska Video Gaming Commission," to more accurately describe its limited jurisdiction--is established, with commission responsibilities limited to regulation and oversight of video gaming devices. Since the commission has few, if any, policy alternatives to consider and the scope of the commission's authority is more circumscribed than the alternative suggested by Senator Zharoff's SB 311 (which you asked that I use as a model), I reduced board membership from the previous measure to three persons to try to make the board approach more workable in light of the narrower jurisdiction. (Of course, if the commission's role is ever expanded in the way suggested in SB 311 and by others, the commission's size could be expanded and the choice of placement in Title 5 would, in retrospect, appear quite sound.)

There is provision for forms of license--the distributor's license (to cover manufacturers, assemblers, producers, and

distributors of video gaming devices), and the operator's license (essentially, persons responsible for premises licensed for alcoholic beverages sales in which devices are installed).

OK
The commission's duties are substantially as in the earlier bill, with some cribbing of language from SB 311, augmented by responsibilities for inspection and testing of new devices (though I note there is no authority requested for periodic re-inspection). The statute would also limit who may play (must be 18, though, as I noted, since the legal age to drink is 21, there may be confusion as to whether 18 - 20 year olds may be on premises to play these devices despite provisions in Title 4 saying that they should not be there), when one may play (in accordance with liquor sales hours under state and municipal law), the nature of the games allowed (draw poker, keno, and others as may be determined by the commission by regulation), and the video gaming device wager limitation and payout requirements. (Look carefully at proposed AS 05.15.330 and satisfy yourself that it really says clearly what is needed to be said; I'm not sure I understand the payout--credit or cash--provisions well enough to provide sufficiently clear language. And, incidentally, why such a large payoff limitation distinction between poker and keno, and can an operator make enough from \$2.00 bets to be able to payoff on \$100 or \$800 jackpots??)

I cannot leave discussion of bill section 1 without sharing some questions.

OK
Violation of AS 05.15 (games of chance and contests of skill) is made grounds for denial, suspension, or revocation of a license under AS 05.45. Should the opposite be true: Should violation of AS 05.45 (this chapter) be grounds for disciplinary action under AS 05.15? Or are the two chapters so substantially different that there should be no relationship between the two?

delete
The mandatory one year residency requirement continues to prove troublesome. I left it in the provisions applicable to distributor's licenses (AS 05.45.200(c)) but did not include it in the provisions applicable to premises operator's licenses (AS 05.45.210) simply because there are bar owners here who, I would guess, have not been residents for a year, and the distinction it would make between qualifying and non-qualifying applicants for operator's licenses could cause equal protection problems. As it is, why is the one-

year residency requirement included at all? You may want to reconsider how it is included, at least to secure a measure of consistency.

*transfer
sell
license*

As I understand, only persons holding certain licenses issued under AS 04 may apply for and obtain premises operator licenses under AS 05.45. Assuming one holds both licenses and proposes to sell the premises license under AS 04, what do you want to do about the AS 05 license? Terminate it automatically? Allow the holder to sell it to the new holder of the premises licensed under AS 04? In other words, what is the "fit" between these two licenses?

As with the earlier bill, this draft imposes a U.S. citizenship requirement as a condition of licensing. U.S. citizenship is not a condition imposed of liquor licensees under AS 04, so there is an inconsistency. Its inclusion in AS 05.45 may raise equal protection problems.

Finally, note that nothing in this draft makes a violation of AS 05.45 a criminal offense. That oversight ought to be corrected.

The criminal provisions are set out in bill sections 2 - 4. New to this draft is the provision making tampering with the machines "criminal mischief in the second degree," a class C felony as you had indicated.

In bill sections 7 - 11 are set out the powers and limitations on the powers of municipalities relating to video gaming devices:

(1) The limitations on municipal regulation are set out in bill section 8.

(2) Where you spoke of exemption from municipal taxation, I assumed you intended exception from the petty, troublesome, penny-ante taxes on machine transactions, and so limited the exception to sales taxes. (Surely there is no reason to exempt the machines themselves from municipal property taxation: nothing else in the furnishings and fixtures of a bar or liquor store enjoys such worthy status.) This exemption is set out in bill sections 9 (borough sales tax exemption) and 10 (city sales tax exemption). Bill section 7 imposes the home rule binder, thereby making the Title 29 provisions applicable to all municipalities.

As in the bill introduced, bill sections 14 - 19, amending or adding to provisions of AS 43, contain the revenue generating aspects of the legislation:

MT - (1) As to fees, per your request, distributors pay for their licenses, operators get a free ride (which seems somewhat unfair, but understandable considering the source of the request), but persons in whose premises devices are placed pay the \$200 per device fee added by bill section 14, so maybe it equalizes itself.

(2) The revenue distribution to municipalities provisions are amended per instruction (see proposed AS 43.35.050(c)).

OK ✓ Not included in the draft is any reference to the Alcoholic Beverage Control Board having authority to revoke or suspend licenses under AS 04 for violations involving video gaming devices under AS 05. Do you really want a second board or commission to have a finger in all this? If so, since the memo does not say, what "certain violations" should be covered under that grant of authority?

I also don't know whether I've adequately addressed the question of who must bear the burden of collecting and paying the fee. Since the distributors pay a license fee (but operators do not pay a premises operators license fee), but operators cough up different payments under AS 43, it seemed to me that each should bear its own responsibility. The whole issue of fees payable seems terribly muddled in all this-- enough that I think most legislators won't understand it-- and I think it should be reconsidered for clarity and accuracy rather than for shifting the incidence of responsibility.

*

As you may know, I will be available Wednesday, December 6, at the Anchorage Legislative Information Office to take bill requests, and would make time to meet with you to review this legislation on that day (or on Thursday, December 7, if the preceding date is inconvenient for you or if my appointment schedule on the 6th becomes too crowded). Please let the LIO folks know whether you want to review the legislation at that time.

Since I haven't a clue as to what I'm dealing with, is there any chance of at least seeing one of these machines?

The administrative arm of the Nevada State Gaming Commission is the State Gaming Control Board. It has several divisions and 350 employees. My contacts:

Enforcement Division	Agent Healy	(702) 688-1115
Tax and License	Chuck Anderson	687-6570
Audit	Alison Stroh	486-6460
Electronic Services	Ed Allen	486-6646
Background Investigation		
Head Office (Administration)		687-6530

Video machines are considered slot machines under the law, and regulated likewise.

Annual tax \$250/machine.

Two types license:

Restricted = anyone with less than 15 machines. Simply pay quarterly fee of \$45/machine for the first 5 machines; \$90/machine for each additional. 1,750 restricted licenses in Nevada.

Nonrestricted = anyone with more than 15 machines. Quarterly fee of \$20/machine plus 3% of the first \$50,000 of gross revenues; 4% of the next \$85,000; 6% of anything above \$135,000 (July 1, 1989 will be 6.25%). 290 licenses.

Distributor's license: \$500/yr.

Manufacturer's license: \$1,000/yr.

Gambling license (for the individual who has the machines): no fee, but must pay for background investigation. This individual is responsible for paying the taxes.

Machines are allowed most places. Can be restricted by local ordinance. Total 125,000 machines statewide.

Gross revenues (of which state got a percentage) from slots last year \$2.8 billion. No separate records for video machines specifically.

A model of each machine must be tested before it can be used in the state -- lab has 3 engineers; \$150,000 worth of test equipment. Test about 20 new devices a year. Test randomness, ability to cheat the machine, and auditing functions -- no official written machine standards. Testing process takes about 4 weeks; device must then be field tested 60 days and approved by the Gaming Commission.

Each machine has meters that track "coins in", "coins out", and "the drop" (overflow). Licensees must maintain statistical analysis reports (most slots are computerized). Audit Division does compliance checks, based on theoretical percentages calculated by the manufacturer.

ALASKA STATE LEGISLATURE

SENATE STATE AFFAIRS,
CHAIR

ETHICS COMMITTEE,
CHAIR



ANCHORAGE
P.O. BOX 104836
ANCHORAGE, AK 99510
(W) (907) 561-7623
(H) (907) 338-2425

JUNEAU
P.O. BOX V
STATE CAPITOL
JUNEAU, AK 99811
(907) 465-3712

Senator Pat Pourchot

MEMORANDUM

TO: Tam Cooke, Director
Legal Services Division

FROM: Senator Pat Pourchot

RE: Redraft of SB 263 - Video Gaming

DATE: November 8, 1989

Jack Chenoweth

I have decided to try yet another permutation of the video gaming proposal, which I think will require a complete restructuring of SB 263. Please prepare a draft sponsor substitute incorporating the following changes. Contact Sandra Schubert of my staff (in Anchorage, 561-7623) if you have questions or need further information.

- I. Under SB 263, video gaming is regulated by the Department of Revenue as a "coin-operated device class III". Redraft to establish a Gaming Commission to regulate as a form of legalized gambling. Pattern the Gaming Commission after SB 311, with duty to license, regulate, and supervise video gaming.
- II. Redraft Sec. 3 regarding proceeds and tax to provide:
 - A. \$200/year per machine, shared equally between state and local government
 - B. 15% of net machine income, shared 2/3 to the state and 1/3 to local government
- III. Redraft Sec. 7 as follows:
 - A. page 4, line 19: After "keno" add "as defined by rules of the Gaming Commission"
 - B. page 4, line 22: Delete "deposits money to the user" and insert "dispenses coins, cash, tokens, or anything else of value"
- IV. Redraft Sec. 8 regarding licenses for distributors of video gaming devices to:
 - A. Specify that the license is required for any person to assemble, produce, manufacture, or supply machines or associated equipment
 - B. Increase the license fee to \$1000
 - C. Require that the distributor file a gaming machine application for each machine with the Gaming Commission

V. ✓ Redraft Sec. 9 to change the effective date to July 1, 1990

VI. Incorporate the following additional provisions:

- ✓ A. Specify that play is limited to persons age 18 and older
- ✓ B. Require that, prior to having video machines installed on the premises, each bar owner obtain an "operator's license" from the Gaming Commission. No fee for the license. Same requirements (no felony convictions, etc.) as outlined in Sec. 8 of SB 263
- C. Authorize local governments to prohibit video gaming by ordinance. ✓ Prohibit local government from regulating, licensing, or taxing video gaming and from restricting the number of licenses the Gaming Commission may issue
- D. Specify that no premises may contain more than 20 machines; play is not allowed between the hours of ~~2 a.m. and 8 a.m.~~ each day; *current law* ✓ maximum bet is \$2; maximum payout is \$100 for poker and \$800 for keno; the expected payback value of one credit awarded is to be at least 80% of the value of one credit played
- E. Require that the Gaming Commission inspect and test each new video gaming machine that is manufactured, sold, or distributed for use in the state before the machine is sold, played, or used. Require that the Commission adopt regulations stating the specifications for video machines to be approved. Authorize the Commission to contract with another state for the inspection and testing
- F. Provide penalties, possibly by reference to the existing criminal code. Knowingly manipulating or attempting or conspiring to manipulate the outcome or payoff of a video machine by physical tampering or other interference with the proper functioning of the machine should be a felony. The Gaming Commission should be authorized to suspend and revoke operators' and distributors' licenses and the Alcohol Beverage Control Board should be authorized to suspend or revoke liquor licenses for certain violations

require manufacturer pay distributor for exam

no

PAT -

from Jeanne

I ASKED LEGAL TO COMPARE THE POTENTIAL RELATIONSHIP BETWEEN SB 263 (VIDEO GAMING) AND THE UPCOMING INITIATIVE IF ONE OR THE OTHER OR BOTH PASS.

THE FIRST QUESTION "WOULD ADOPTION OF SB263 VOID THE INITIATIVE?" Unlikely. The approach taken in your bill is much narrower than the initiative, therefore, it is unlikely the Lt. Gov. would find them to be "substantially the same".

"WOULD THE INITIATIVE, IF APPROVED, SUPERSEDE OR AFFECT SB263 IF IT PASSES?" Probably, although not certain. To the extent the initiative substantially replicates the bill, the initiative may supersede.

However, it is uncertain whether the provision in the bill restricting placement of video gaming devices to places that sell alcoholic beverages would carry over. It may be determined that such a restriction is the responsibility of the Gambling Board.

"WOULD THE INITIATIVE, IF APPROVED, AUTHORIZE REGULATION OF VIDEO GAMING DEVICES IF THE BILL DOESN'T PASS? Yes; but not necessarily with the same restrictions contained in the bill.

* SB 263 takes effect July 1, 1990.
Initiative will be voted on in August primary, would become effective in mid-December.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y. STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-2800

LEGISLATIVE AFFAIRS AGENCY


M E M O R A N D U M

February 5, 1990

SUBJECT: SSSB 263 (Gaming Commission and video gaming devices) and the 1990 Initiative on gambling

TO: Senator Pat Pourchot
ATTN: M. Jeanne Larson

FROM: Jack Chenoweth
Legislative Counsel



You have asked after the relationship between SSSB 263, establishing a Gaming Commission and authorizing and regulating video gaming devices, and a 1990 Initiative establishing a Gambling Board and relating to the regulation of gambling.

Two general questions arise: (1) whether adoption of SSSB 263, as introduced, is sufficient under article XI, section 4, Alaska Constitution, to void the initiative petition, and (2) whether the initiative petition, if approved by the public, would supersede or affect SSSB 263. There also arises a question of whether the initiative petition, if approved by the voters, would authorize regulation of video gaming devices if SSSB 263 does not become law.

I

The question of whether SSSB 263 constitutes "substantially the same measure" as the 1990 Initiative so that the approval of SSSB 263 as introduced renders the initiative petition void rests with the lieutenant governor, with the formal concurrence of the attorney general. AS 15.45.210. As introduced, SSSB 263 does not address elements of gambling beyond video gaming, and the approach taken in the initiative is not nearly as comprehensive as that spelled out in the bill. Suffice to say, the initiative is far broader in its scope and approach than the bill, and there are sufficient grounds for the lieutenant governor to conclude that the two measures are not "substantially the same."

II

If the initiative is approved by the public in the forthcoming election, it is likely, albeit not altogether certain, that its provisions would supersede those set out in SSSB 263 insofar as the initiative addresses regulation of gaming devices. There are, of course, radical differences between the two approaches. For our purposes, many of them are either not relevant or cosmetic differences. Resolution of the question of the degree of similarity between the bill and the initiative probably turns in part on the definition of "video gaming device." The bill defines a "gaming device," grounding the definition on certain characteristics applicable to an electronic machine that imitates the play of draw poker, keno, and other games that may be authorized by the Gaming Commission. The counterpart definition appearing in the initiative is the definition of the word "game," which, among other elements, includes reference to an electronic device that, among others, simulates the play of "poker," "keno," "or other game or device approved by the [Gambling B]oard." Clearly the definitions, and hence the scope of state regulation under the bill and the initiative, overlap. To the extent it is determined that the provisions of the initiative substantially replicate those of SSSB 263, the provisions of the initiative may be deemed to supersede those of the bill, at least as to the scope of the matter regulated by SSSB 263.

If the bill and the initiative are both approved, one significant legal question necessarily arising would be whether the restriction of licenses for placement of video gaming devices in certain establishments licensed to sell alcoholic beverages would continue in effect under the provisions of the initiative. There is no certain answer. However, if one looks upon the initiative as constituting a broader public endorsement of gambling and gaming than the provisions of SSSB 263, one might contend, perhaps successfully, that the initiative's provisions effectively supersede those set out in the bill, and that the provisions limiting issuance of video gaming premises licenses to licensed liquor establishments would have to give way to whatever regulatory scheme were eventually developed by the Gambling Board.

Assuming SSSB 263 is approved and becomes law, it would, by its terms, take effect July 1, 1990. If the initiative appears on the November general election ballot and is approved, it would not take effect until late February, or 90

days after its certification. AS 15.45.220. This delay would permit the legislature, during the first session of the 17th Legislature, opportunity to re-address the video gaming issue and provide, by law, for a better "fit" between the initiative and the bill. Among the options available would be (1) amendment of the initiative to incorporate more of the specifics of regulation under SSSB 263; (2) repealing many of the specific provisions of SSSB 263 to allow the Gambling Board to assume the duties of the Gaming Commission; or (3) repealing SSSB 263 altogether and revising the definition of "game" in the initiative to assure regulation of video gaming devices under regulatory mechanism established in the voter-approved initiative.

III

For reasons noted above, if the 1990 Initiative is approved but SSSB 263 has not, the newly-established Gambling Board would have a substantial basis to claim authority over regulation of video gaming devices. Nothing in the initiative requires the Gambling Board to limit or restrict the issuance of licenses for video gaming devices to establishments licensed to sell alcoholic beverages. By my reading of the initiative, municipalities and others may apply for game licenses, including those applicable to "games" that have an electronic base and that provide for "poker," "keno," or "other game or device identified by the [Gambling Board]," the very elements that are arguably the essence of video gaming device regulation under SSSB 263.

JBC:lmb
L9/088

Sen. Pourchot
March 7, 1990

THE GAMBLING BALLOT INITIATIVE has been certified for placement on the ballot in 1990. Its primary provisions:

1. A 5-member Gambling Board in the Department of Revenue would regulate all forms of gambling except games of chance/contests of skill. Board members would be paid at Range 26C.
2. Details would be worked out in regulation (license fees, calculation of gross revenue, allowable forms of gambling, etc.).
3. Gambling could be conducted by a municipality, the state, or a liquor license holder, but couldn't be conducted in a municipality without voter approval.
4. Proceeds would be distributed as follows:
If state-run, 100% to state.
If liquor-license-holder-run, 3% to 5.75% of gross revenue to state (depending on total revenue). If located in municipality, this would be split 50% state/50% municipality. Plus, municipality may establish additional fees.
If municipality-run, the 3-5.75% of gross revenue would be split 50% state/50% municipality.
5. Broad definition of game (roulette, wheel of fortune, craps, poker, baccarat, slot machine, etc.).

NOTE: A COPY OF THE INITIATIVE IS AVAILABLE FROM COMMITTEE STAFF.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 26, 1990

SUBJECT: Sponsor Substitute for Senate Bill 263
(relating to video gaming) and pending
gambling initiative

TO: Senator Pat Pourchot

FROM: Jack Chenoweth
Legislative Counsel

Your office advises that you have been asked to comment as to whether enactment of the Sponsor Substitute for Senate Bill 263, regulating video gaming, would invalidate the initiative petition to authorize gambling in the state.

The following is offered to help you prepare a response.

Under section 4 of article XI of the Alaska Constitution, an initiative petition is void if "before the election [for which the initiative has been certified], substantially the same measure" has been enacted by the Alaska legislature.

I have reviewed the initiative and, in my judgment, the legislation you have offered by request is not "substantially the same measure" such that the initiative would be made void and removed from the ballot. Of course, the final determination of compliance with the test rests with the lieutenant governor, with the formal concurrence of the attorney general, AS 15.45.210, so my views on the comparison of the two are not controlling.

The standards applicable to gauge whether "substantially the same measure" has been enacted is set out in Warren v. Boucher, 543 P.2d 731 (Alaska 1975). After determining that "substantially the same measure" could only be determined "by reference to all the circumstances surrounding the context in which they are used," Warren, at 736, the court concluded:

. . . we have concluded that the legislature's discretion in this matter [i.e. in deciding how far the legislative act should differ from the provisions of a pending initiative] is reasonably broad. If in the main the legislative act achieves the same general purpose as the initiative, if the legislative act accomplishes the purpose by means or systems which are fairly comparable, then substantial similarity exists. It is not necessary that the two measures correspond in minor particulars, or even as to all major features, if the subject matter is necessarily complex or if it requires comprehensive treatment. The broader the reach of the subject matter, the more latitude must be allowed the legislature to vary from the particular features of the initiative.

Id.

While the two measures may use similar means--a board, a licensing requirement, imposition of taxes and fees, and the definition and imposition of criminal penalties--to achieve the objective of regulation in the respective spheres each addresses, the video gaming measure and the pending initiative clearly are not intended to address the same ends or to operate with same general reach. There are at least two significant differences. The measure before the Senate addresses video gaming, only one element of the topic of gambling that is the subject matter of the broader initiative to authorize and regulate gambling; the initiative is intended to regulate gambling through use of "cards, dice, equipment, and mechanical, electromechanical, and electronic devices," a more comprehensive scope than is addressed by the bill. Moreover, insofar as the initiative authorizes the issuance of licenses to "gambling enterprises," a rather wide range of entities may qualify; your bill would authorize video gaming only in conjunction with certain establishments licensed to sell liquor. Thus, it seems to me that there is little to suggest that the measures should be understood to serve "the same general purpose," the standard of Warren v. Boucher, and the adoption of the bill ought not to prevent the initiative from remaining on the August primary ballot.

I trust this is sufficient for the purposes intended. If this memorandum prompts questions, please contact me.

JBC:lmb
L9/133

5 members - in DCED
license / regulate games of chance
contests of skill

1 IN THE SENATE

BY ZHAROFF

2

SENATE BILL NO. 311

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act establishing the Alaska Gaming Commission;
and providing for an effective date."

7

8

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9

* Section 1. AS 05.15 is amended by adding new sections to read:

10

ARTICLE 4. ALASKA GAMING COMMISSION.

11

Sec. 05.15.300. ALASKA GAMING COMMISSION. (a) The Alaska

12

Gaming Commission is established in the Department of Commerce and

13

Economic Development. The commission is composed of five members

14

appointed by the governor, subject to confirmation by the legislature.

15

(b) Each member of the commission shall at the time of the

16

member's appointment be a resident of the state.

17

(c) A person may not serve as a member of the commission if that

18

person has been convicted of

19

(1) a felony; or

20

(2) an offense under this chapter, AS 11.66.200 -

21

11.66.280, or a comparable provision of municipal, state, or federal

22

law.

23

(d) A person may not serve as a member of the commission until

24

the investigation required under AS 18.65.080(b) is completed.

25

(e) The commission shall elect a chair from its membership.

26

(f) Three members of the commission constitute a quorum for the

27

transaction of business.

28

Sec. 05.15.310. TERM OF OFFICE. Members of the commission serve

29

staggered terms of four years. A vacancy is filled by appointment for

1 the unexpired term. A member of the commission holds office until a
2 successor is appointed and qualifies.

3 Sec. 05.15.320. REMOVAL AND SUSPENSION OF MEMBERS. (a) The
4 governor may remove a member for cause, including incompetence,
5 neglect of duty, or misconduct in office. A member being removed for
6 cause shall be given a copy of the charges and afforded an opportunity
7 to publicly present a defense in person or by counsel upon not less
8 than 10 days' notice. If a member is removed for cause, the governor
9 shall file with the lieutenant governor a complete statement of all
10 charges made against the member and the governor's findings based on
11 the charges, together with a complete record of the proceedings.

12 (b) The governor may immediately suspend a member for a viola-
13 tion of law or for misconduct in office pending removal from office
14 under (a) of this section.

15 Sec. 05.15.330. COMPENSATION AND PER DIEM. Members of the
16 commission do not receive a salary for their service on the commission
17 but are entitled to per diem and travel expenses authorized for state
18 boards and commissions under AS 39.20.180.

19 Sec. 05.15.340. DUTIES AND POWERS OF THE COMMISSION. (a) The
20 commission shall

21 (1) license, regulate, and supervise games of chance and
22 contests of skill under this chapter;

23 (2) hire staff as needed to enforce and administer this
24 chapter; and

25 (3) adopt regulations necessary to carry out the provisions
26 of this chapter.

27 (b) The commission may

28 (1) issue subpoenas to compel witnesses to appear before
29 it;

1 (2) compel the production of documents showing the receipts
2 and disbursements of a person licensed to conduct a gaming enterprise;
3 (3) appoint a hearing officer to conduct a hearing required
4 by this chapter or by a regulation adopted under it.
5 Sec. 05.15.350. EMPLOYEES OF THE COMMISSION. Employees of the
6 commission are in the partially exempt service under AS 39.25.120.
7 Sec. 05.15.360. REGULATIONS OF THE COMMISSION. The attorney
8 general shall enforce the regulations of the commission.
9 Sec. 05.15.370. RECORDS OF THE COMMISSION. All records of the
10 commission are public records and subject to public inspection.
11 Sec. 05.15.380. PROCEEDS. Fees and other money received by the
12 commission shall be paid into the general fund.
13 Sec. 05.15.390. ADMINISTRATIVE PROCEDURE ACT. The operations of
14 the commission are subject to the Administrative Procedure Act
15 (AS 44.62).
16 Sec. 05.15.400. CONFLICT OF INTEREST ACT. The commission is
17 subject to AS 39.50 (conflict of interest).
18 * Sec. 2. AS 05.15.010, as amended by Executive Order No. 74, is
19 repealed and reenacted to read:
20 Sec. 05.15.010. ALASKA GAMING COMMISSION TO ADMINISTER CHAPTER.
21 The Alaska Gaming Commission shall administer this chapter.
22 * Sec. 3. AS 05.15.210(6), as amended by Executive Order No. 74, is
23 repealed and reenacted to read:
24 (6) "commission" means the Alaska Gaming Commission;
25 * Sec. 4. AS 11.66.280(2), as amended by Executive Order No. 74, is
26 repealed and reenacted to read:
27 (2) "gambling" means that a person stakes or risks something of
28 value upon the outcome of a contest of chance or a future contingent
29 event not under the person's control or influence, upon an agreement

1 or understanding that that person or someone else will receive some-
2 thing of value in the event of a certain outcome; "gambling" does not
3 include

4 (A) bona fide business transactions valid under the
5 law of contracts for the purchase or sale at a future date of
6 securities or commodities and agreements to compensate for loss
7 caused by the happening of chance, including contracts of indem-
8 nity or guaranty and life, health, or accident insurance; or

9 (B) playing an amusement device that

10 (i) confers only an immediate right of replay not
11 exchangeable for something of value other than the privilege
12 of immediate replay; and

13 (ii) does not contain a method or device by which
14 the privilege of immediate replay may be cancelled or
15 revoked;

16 (C) an activity authorized under AS 05.15;

17 * Sec. 5. AS 18.65.080 is amended by adding a new subsection to read:

18 (b) The Department of Public Safety shall investigate and ascer-
19 tain whether a person appointed by the governor to serve as a member
20 of the Alaska Gaming Commission has been convicted of a crime set out
21 in AS 05.15.300(c).

22 — * Sec. 6. AS 39.25.120(c) is amended by adding a new paragraph to read:

23 (21) employees of the Alaska Gaming Commission. *partially exempt service*

24 — * Sec. 7. AS 39.50.200(b) is amended by adding a new paragraph to read:

25 (50) Alaska Gaming Commission (AS 05.15.300). *public employees*

26 — * Sec. 8. AS 44.62.330(a) is amended by adding a new paragraph to read:

27 (55) Alaska Gaming Commission (AS 05.15.300). *admin. adjudication*

28 — * Sec. 9. AS 05.15.210(8) and AS 44.33.020(31) are repealed. *dept = DDE (pull tab etc) doesn't exist??*

29 * Sec. 10. INITIAL COMMISSION APPOINTMENTS. The governor shall make

1 the initial appointment of members of the Alaska Gaming Commission within
2 120 days after the effective date of this Act. The governor shall set the
3 terms of initial members so that two members serve terms of four years, one
4 member serves a term of three years, one member serves a term of two years,
5 and one member serves a term of one year.

6 * Sec. 11. TRANSITION. (a) Regulations relating to games of chance
7 and contests of skill, adopted by the Department of Revenue under authority
8 of AS 05.15 before July 1, 1989, remain in effect until regulations relat-
9 ing to that function that are adopted by the Alaska Gaming Commission under
10 AS 05.15 as amended by this Act, take effect. The Alaska Gaming Commission
11 shall administer the Department of Revenue regulations until its own take
12 effect.

13 (b) Until the Alaska Gaming Commission is appointed, the Department
14 of Commerce and Economic Development shall administer games of chance and
15 contests of skill under AS 05.15 and under the regulations referred to in
16 (a) of this section.

17 * Sec. 12. IMPLEMENTATION OF LEGISLATION. To be consistent with the
18 changes made by this legislation, wherever in AS 05.15 and in regulations
19 adopted under those statutes "Department of Revenue," "department," or
20 "commissioner" is used, they shall be read as referring to the Alaska
21 Gaming Commission or commission when to do so would implement the purposes
22 of this Act. Under AS 01.05.031, the revisor of statutes shall implement
23 this section in the statutes, and, under AS 44.62.125(b)(6), the regula-
24 tions attorney shall implement this section in the administrative regula-
25 tions.

26 * Sec. 13. This Act takes effect July 1, 1989.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

2 copies

MEMORANDUM

December 27, 1989

SUBJECT: SSSB 263, relating to video gaming
TO: Senator Pat Pourchot
FROM: Jack Chenoweth
Legislative Counsel

All of the changes requested in your December 22 memo are incorporated in this draft except the second: Because the new chapter (AS 05.45) does not define any criminal offense, inclusion of a reference to "this chapter" in proposed AS 05.45.010(c)(2) is superfluous.

JBC:mi
wkmi5/077

OK
the Class C felony
is picked up
under "felony"

Alaska State Legislature

Changes made

Sen. Pat Pourchot, Chairman

Sen. Jan Faiks, Vice Chairman
Sen. Al Adams
Sen. Tim Kelly
Sen. Rick Uehling



P.O. Box V
State Capitol
Juneau, Alaska 99811

907-465-3712

Senate State Affairs Committee

MEMORANDUM

TO: Legal Division
Attention: Jack Chenoweth

FROM: Senator Pat Pourchot

RE: Re-draft of Sponsor *Video Gaming* Substitute for SB 263 (6-0940J)

DATE: December 22, 1989

Please prepare a new draft of the above referenced bill:

- page 1, line 23 ✓ Increase Commission membership from 3 to 5. Provide for 1 member to be the Commissioner of the Department of Commerce and Economic Development or his designee.
- page 2, line 1 *not needed* After "under", add this chapter. *(no license if violations under this chapter)*
- page 2, line 6 ✓ Increase quorum requirement from 2 to 3.
- page 2, line 28 ✓ Amend AS 05.45.050 to authorize the Commission to do those things currently listed in Sections 19-24 as duties of the Department of Revenue (collect annual device fee and tax, etc.) -- the intent is to make the Commission solely responsible for the administration of video gaming.
- page 4, line 14 ✓ Establish a \$100 annual fee for an operator's license.
- page 5, line 17 ✓ Delete limitation of 10 poker machines per premises.
- page 5, line 22 ✓ After "test", add and approve *(machines)*
- page 6, line 4 ✓ Clarify that the Commission has the power to enforce the collection of taxes through device inspections (i.e. checking the device's audit trail to ensure the proper amount is being paid). Authorize the Commission to "contract with" the ABC Board's current enforcement officers for this purpose.
- page 6, lines 13-22 ✓ Redraft 05.45.330-.340 to clarify that the wager and payout limitations are limitations of the gaming devices themselves.
- page 16, line 9 ✓ Provide for 1/3 of the proceeds, rather than 1/2, to go to municipalities.

Please call me in Anchorage (561-7623) if you have questions or concerns.

need changes:

p. 2, l. 1
p. 5 l. 22
p. 6, l. 13-22

these are changes I called in to legal

6-0940J ✓
Chenoweth
12/14/89

BY SEN. POURCHOT BY REQUEST

DRAFT

1 IN THE SENATE

2 SPONSOR SUBSTITUTE FOR SENATE BILL NO. 263

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska Gaming Commission,
7 authorizing the commission to regulate video gaming
8 devices and persons who manufacture, assemble, pro-
9 duce, distribute, and operate them, [classifying video
10 gaming devices as coin-operated devices for purposes
11 of regulation and taxation,] and exempting them from
12 the definition of gambling devices; relating to
13 municipal regulation and taxation of video gaming
14 devices; relating to taxes imposed on and regulation
15 of coin-operated devices; and providing for an effec-
16 tive date."

17 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

18 * Section 1. AS 05 is amended by adding a new chapter to read:

19 CHAPTER 45. ALASKA GAMING COMMISSION.

20 ARTICLE 1. ESTABLISHMENT AND OPERATION OF COMMISSION.

21 Sec. 05.45.010. ALASKA GAMING COMMISSION. (a) The Alaska
22 Gaming Commission is established in the Department of Commerce and
23 Economic Development. The commission is composed of three members
24 appointed by the governor, subject to confirmation by the legislature.

25 (b) Each member of the commission shall at the time of the
26 member's appointment be a resident of the state.

27 (c) A person may not serve as a member of the commission if that
28 person has been convicted of

29 (1) a felony; or

THIS CHAPTER

games of chance

gambling

(2) an offense under AS 05.15, AS 11.66.200 - 11.66.280, or a comparable provision of municipal, state, or federal law.

(d) A person may not serve as a member of the commission until the investigation required under AS 18.65.080(b) is completed.

criminal record check - p. 9, l. 26

(e) The commission shall elect a chair from its membership.

(f) Two members of the commission constitute a quorum for the transaction of business.

Sec. 05.45.020. TERM OF OFFICE. Members of the commission serve staggered terms of three years. A vacancy is filled by appointment for the unexpired term. A member of the commission holds office until a successor is appointed and qualifies.

Sec. 05.45.030. REMOVAL AND SUSPENSION OF MEMBERS. (a) The governor may remove a member for cause, including incompetence, neglect of duty, or misconduct in office. A member being removed for cause shall be given a copy of the charges and afforded an opportunity to publicly present a defense in person or by counsel upon not less than 10 days' notice. If a member is removed for cause, the governor shall file with the lieutenant governor a complete statement of all charges made against the member and the governor's findings based on the charges, together with a complete record of the proceedings.

(b) The governor may immediately suspend a member for a violation of law or for misconduct in office pending removal from office under (a) of this section.

Sec. 05.45.040. COMPENSATION AND PER DIEM. Members of the commission do not receive a salary for their service on the commission but are entitled to per diem and travel expenses authorized for state boards and commissions under AS 39.20.180.

Sec. 05.45.050. DUTIES AND POWERS OF THE COMMISSION. (a) The commission shall

1 (1) license, regulate, and supervise video gaming under
2 this chapter;

3 (2) adopt regulations establishing the minimum machine
4 specifications for video gaming devices that may be used in the state;

5 (3) hire staff as needed to enforce and administer this
6 chapter; and

7 (4) adopt regulations necessary to carry out the provisions
8 of this chapter.

9 (b) The commission may

10 (1) issue subpoenas to compel witnesses to appear before
11 it;

12 (2) compel the production of documents showing the receipts
13 and disbursements of a person licensed under AS 05.45.200 or 05.-
14 45.210;

15 (3) appoint a hearing officer to conduct a hearing required
16 by this chapter or by a regulation adopted under it.

17 Sec. 05.45.060. EMPLOYEES OF THE COMMISSION. Employees of the
18 commission are in the partially exempt service under AS 39.25.120.

19 Sec. 05.45.070. ENFORCEMENT OF REGULATIONS. The attorney
20 general shall enforce the regulations of the commission.

21 Sec. 05.45.080. RECORDS OF THE COMMISSION. All records of the
22 commission are public records and subject to public inspection.

23 Sec. 05.45.090. ADMINISTRATIVE PROCEDURE ACT. The operations of
24 the commission are subject to the Administrative Procedure Act
25 (AS 44.62).

26 Sec. 05.45.100. CONFLICT OF INTEREST ACT. The commission is
27 subject to AS 39.50 (conflict of interest).

28 ARTICLE 2. REGULATION OF PERSONS ENGAGED IN VIDEO GAMING.

29 Sec. 05.45.200. DISTRIBUTOR'S LICENSE. (a) A person may not

1 manufacture, assemble, produce, or distribute a video gaming device in
2 this state without a valid video gaming distributor's license issued
3 by the commission. To remain valid, a distributor's license must be
4 renewed annually on or before a date set by the commission.

5 (b) An applicant for a license or renewal of a license under (a)
6 of this section shall pay an annual fee of \$1,000.

7 Sec. 05.45.210. PREMISES OPERATOR'S LICENSE. (a) A person may
8 not install or allow another to use a video gaming device without a
9 valid video gaming premises operator's license issued by the commis-
10 sion. The commission shall refuse to issue a gaming premises opera-
11 tor's license to a person unless the person holds a license described
12 *(certain alcohol licenses)* in AS 05.45.230. To remain valid, a premises operator's license must
13 be renewed annually on or before a date set by the commission.

14 (b) The commission may not charge a fee for a license or renewal
15 of a license issued under (a) of this section.

16 Sec. 05.45.220. LICENSING PROCEDURE. (a) The commission

17 (1) shall refuse to issue a license to a person under
18 AS 05.45.200 or 05.45.210 if the person has been convicted of

19 (A) a felony; or

20 (B) an offense under AS 05.15, AS 11.66.200 - 11.-
21 66.280, or a comparable provision of municipal, state, or federal
22 law;

23 (2) may refuse to issue a license to a person under AS 05.-
24 45.200 or 05.45.210, if the person fails to comply with a provision of
25 this chapter or of a regulation adopted under it;

26 (3) may require an applicant for a license or renewal of a
27 license issued under AS 05.45.200 or 05.45.210 and, if the applicant
28 is a corporation, each shareholder and employee of the corporation, to
29 file an affidavit that the applicant has never been convicted of a

1 crime identified in (1) of this subsection.

2 (b) A person who is denied a license under (a) of this section
3 has the right to a hearing on the commission's decision and may appeal
4 the denial, suspension, or revocation to the superior court.

5 Sec. 05.45.230. INSTALLATION OF VIDEO GAMING DEVICES. (a) A
6 person licensed under AS 05.45.210 may install or allow another to use
7 video gaming devices only in premises that sell alcoholic beverages
8 and for which has been issued

9 (1) a beverage dispensary license under AS 04.11.090;

10 (2) a duplicate beverage dispensary license for additional
11 rooms under AS 04.11.090(e);

12 (3) a club license under AS 04.11.110;

13 (4) a common carrier dispensary license under AS 04.11.180;

14 or

15 (5) a pub license under AS 04.11.220.

16 (b) A person may not install more than 20 video gaming devices
17 or more than 10 video gaming devices that are draw poker machines on
18 any licensed premises.

19 ARTICLE 3. REGULATION OF VIDEO GAMING.

20 Sec. 05.45.300. TESTING OF PROTOTYPE VIDEO GAMING DEVICES. (a)
21 Before a video gaming device is sold or distributed for use in the
22 state, the commission shall test ^{and approve} a prototype of the device to ascer-
23 tain whether a device manufactured to the specifications of the proto-
24 type meets minimum machine specification standards.

25 (b) The commission may contract with another state to fulfill
26 the requirements of (a) of this section.

27 (c) The commission shall require the distributor seeking the
28 examination and approval of a new video gaming device to pay the
29 anticipated actual costs of the examination in advance and, after the

1 completion of the examination, shall refund overpayments or charge and
2 collect amounts sufficient to reimburse the commission for under-
3 payments of actual costs.

4 Sec. 05.45.310. INSPECTION. The commission may provide for
5 regular inspection of video gaming devices that are approved for
6 installation and use under this chapter.

7 Sec. 05.45.320. REGULATION OF PLAY. (a) A person who has not
8 reached the age of 21 years may not use a video gaming device.

9 (b) The operator of premises in which video gaming devices have
10 been installed may allow use of the video gaming devices only during
11 hours when a person may sell alcoholic beverages on the premises under
12 AS 04.16.010 and AS 04.21.010.

13 Sec. 05.45.330. LIMITATION OF WAGER. The maximum amount that
14 may be wagered on a game that is played or simulated by a video gaming
15 device is \$2.00.

16 Sec. 05.45.340. PAYOUT REQUIREMENTS. (a) Each video gaming
17 device shall pay out not less than 80 percent of the value of the
18 amount played during the useful life of the device. Each device must
19 have an electronic accounting device that the commission may use to
20 verify the payout percentage.

21 (b) An operator shall provide a user of the device who is suc-
22 cessful a maximum cash payout of \$100 per game.

REWORK TO CLARIFY THESE ARE MACHINE LIMITATIONS

23 ARTICLE 4. ENFORCEMENT.

24 Sec. 05.45.400. LICENSE TERMINATION. (a) The commission shall
25 suspend or revoke a license issued under AS 05.45.200 or ^{distributor} 05.45.210 ^{premises operator} if
26 the person holding the license has been convicted of

27 (1) a felony; or

28 (2) an offense under AS 05.15, AS 11.66.200 - 11.66.280, or
29 a comparable provision of municipal, state, or federal law.

1 (b) The commission may suspend or revoke a license issued under
 2 AS 05.45.200 or 05.45.210 if the person holding the license fails to
 3 comply with a provision of this chapter or of a regulation adopted
 4 under it.

5 (c) A person whose license is suspended or revoked under this
 6 section has the right to notice of and a hearing on the commission's
 7 decision and may appeal the suspension or revocation to the superior
 8 court.

9 ARTICLE 5. GENERAL PROVISIONS.

10 Sec. 05.45.900. DEFINITIONS. In this chapter,

11 (1) "commission" means the Alaska Gaming Commission;

12 (2) "video gaming device"

13 (A) means an electronic machine that uses a video
 14 screen or display and microprocessors to play or simulate the
 15 play of the game of draw poker or the game of keno, as defined by
 16 regulation of the commission, or of another game authorized by
 17 the commission, and that upon insertion of money allows a user by
 18 skill or chance to receive

19 (i) free games; or

20 (ii) credits that may be redeemed for cash;

21 (B) does not include a machine that directly dispenses
 22 coins, cash, tokens, or anything else of value.

23 * Sec. 2. AS 05.15.060 is amended to read:

24 Sec. ^{games of chance & skill} 05.15.060. REGULATIONS. The department shall adopt regu-
 25 lations under the Administrative Procedure Act (AS 44.62) necessary to
 26 carry out this chapter covering, but not limited to,

27 (1) the issuance, renewal, and revocation of permits and
 28 licenses;

29 (2) a method of ascertaining net proceeds, the

1 determination of items of expense that may be incurred or paid, and
2 the limitation of the amount of the items of expense to prevent the
3 proceeds from the activity permitted from being diverted to non-
4 charitable, noneducational, nonreligious, or profit-making organiza-
5 tions, individuals, or groups;

6 (3) the immediate revocation of permits and licenses au-
7 thorized under this chapter if this chapter or regulations adopted
8 under it are violated;

9 (4) the requiring of detailed, sworn, financial reports of
10 operations from permittees and licensees including detailed statements
11 of receipts and payments;

12 (5) the investigation of permittees, licensees, and their
13 employees, including the fingerprinting of those permittees, licens-
14 ees, and employees whom the commissioner considers it advisable to
15 fingerprint;

16 (6) exclusion from participation as a permittee, licensee,
17 or employee of a permittee or licensee, of a person

18 (A) convicted of, in prison for, or on parole for a
19 felony within the preceding five years, or convicted of a crime
20 involving theft or dishonesty or of a violation of a municipal,
21 state, or federal gambling law; or

22 (B) whose video gaming license has been suspended or
23 revoked under AS 05.45;

24 (7) the method and manner of conducting authorized activ-
25 ities and awarding of prizes or awards, and the equipment that may be
26 used;

27 (8) the number of activities that may be held, operated, or
28 conducted under a permit during a specified period; however, the
29 department may not allow more than 14 bingo sessions a month and 35

1 bingo games a session to be conducted under a permit;

2 (9) a method of accounting for receipts and disbursements
3 by operators, including the keeping of records and requirements for
4 the deposit of all receipts in a bank;

5 (10) the disposition of funds in possession of a permittee
6 or a person, municipality, or qualified organization that possesses an
7 operator's license at the time a permit or a license is surrendered,
8 revoked, or invalidated;

9 (11) restrictions on the participation by employees of the
10 Department of Fish and Game in salmon classics;

11 (12) other matters the commissioner considers necessary to
12 carry out this chapter or protect the best interest of the public.

13 * Sec. 3. AS 05.15.122(c) is amended to read:

14 (c) The department may not issue an operator's license to an
15 applicant if the applicant or a person employed by the applicant in a
16 managerial or supervisory capacity

17 (1) [,] has been convicted of, in prison for, or on parole
18 for a felony within the preceding five years, or has been convicted of
19 a crime involving theft or dishonesty or of a violation of a municipi-
20 pal, state, or federal gambling law; or

21 (2) has had a video gaming license suspended or revoked
22 under AS 05.45.

23 * Sec. 4. AS 05.15.122(d) is amended to read:

24 (d) A licensee may not employ a person in a managerial or super-
25 visory capacity if the person

26 (1) has been convicted of, in prison for, or on parole for
27 a felony within the preceding five years, or has been convicted of a
28 crime involving theft or dishonesty or of a violation of a municipal,
29 state, or federal gambling law; or

1 (2) has had a video gaming license suspended or revoked
2 under AS 05.45.

3 * Sec. 5. AS ^{games chance} 05.15.140(b) is amended to read:

4 (b) In an application for a permit, a municipality or qualified
5 organization shall disclose the name and address of each person re-
6 sponsible for the operation of the activity and whether any person
7 named

8 (1) has been convicted of, in prison for, or on parole for
9 a felony within the preceding five years, or convicted of a crime
10 involving theft or dishonesty or of a violation of a municipal, state,
11 or federal gambling law; [OR]

12 (2) has a prohibited financial interest, as defined in
13 regulations adopted by the commissioner, in the operation of the
14 activity; or

15 (3) has had a video gaming license suspended or revoked
16 under AS 05.45.

17 * Sec. 6. AS ^{games chance} 05.15.140(c) is amended to read:

18 (c) The commissioner may not issue a permit for an activity
19 operated by a person who

20 (1) has been convicted of, in prison for, or on parole for
21 a felony within the preceding five years, or has been convicted of a
22 crime involving theft or dishonesty or of a violation of a municipal,
23 state, or federal gambling law; or

24 (2) has had a video gaming license suspended or revoked
25 under AS 05.45.

26 * Sec. 7. AS 11.46.482(a) is amended to read:

27 (a) A person commits the crime of criminal mischief in the
28 second degree if, having no right to do so or any reasonable ground to
29 believe the person has such a right,

*Class C felony - max \$50,000
5 yrs*

1 (1) with intent to damage property of another, the person
2 damages property of another in an amount of \$500 or more;

3 (2) the person tampers with an oil or gas pipeline or
4 supporting facility or an airplane or helicopter with reckless disre-
5 gard for the risk of harm to or loss of the property;

6 (3) the person recklessly creates a risk of damage in an
7 amount exceeding \$100,000 to property of another by the use of widely
8 dangerous means; [OR]

9 (4) the person drives, tows away, or takes the propelled
10 vehicle of another and the vehicle or any other property of another is
11 damaged or the owner incurs reasonable expenses as a result of the
12 loss of use of the vehicle in a total amount of \$500 or more; or

13 (5) the person physically manipulates or interferes with a
14 video gaming device regulated under AS 05.45 to alter the outcome of
15 or payoff from a game played or whose play is simulated on the device.

16 * Sec. 8. AS 11.66.280(2) is amended to read:

17 (2) "gambling" means that a person stakes or risks some-
18 thing of value upon the outcome of a contest of chance or a future
19 contingent event not under the person's control or influence, upon an
20 agreement or understanding that that person or someone else will
21 receive something of value in the event of a certain outcome; "gam-
22 bling" does not include

23 (A) bona fide business transactions valid under the
24 law of contracts for the purchase or sale at a future date of
25 securities or commodities and agreements to compensate for loss
26 caused by the happening of chance, including contracts of indem-
27 nity or guaranty and life, health, or accident insurance; [OR]

28 (B) playing an amusement device that

29 (i) confers only an immediate right of replay not

1 exchangeable for something of value other than the privilege
2 of immediate replay; and

3 (ii) does not contain a method or device by which
4 the privilege of immediate replay may be cancelled or re-
5 voked;

6 (C) an activity authorized by the commissioner of
7 commerce and economic development under AS 05.15; or

8 (D) using a video gaming device regulated under
9 AS 05.45;

10 * Sec. 9. AS 11.66.280(3) is amended to read:

11 (3) "gambling device" means any device, machine, parapher-
12 nalia, or equipment that is used or usable in the playing phases of
13 unlawful gambling, whether it consists of gambling between persons or
14 gambling by a person involving the playing of a machine; "gambling
15 device" does not include

16 (A) lottery tickets, policy slips, or other items used
17 in the playing phases of lottery or policy schemes; [OR]

18 (B) an amusement device as described in (2)(B) of this
19 section; or

20 (C) a video gaming device regulated under AS 05.45;

21 * Sec. 10. AS 11.81.900(b) is amended by adding a new paragraph to
22 read:

23 (58) "video gaming device" has the meaning given in AS 05.-
24 45.900.

25 * Sec. 11. AS 18.65.080 is amended by adding a new subsection to read:

26 (b) The Department of Public Safety shall investigate and ascer-
27 tain whether a person appointed by the governor to serve as a member
28 of the Alaska Gaming Commission has been convicted of a crime set out
29 in AS 05.45.010(c).

home rule limitations

* Sec. 12. AS 29.10.200 is amended by adding a new paragraph to read:

(51) AS 29.35.085 (video gaming devices)

* Sec. 13. AS 29.35 is amended by adding a new section to read:

Sec. 29.35.085. VIDEO GAMING DEVICES. (a) A municipality may prohibit the installation and operation of video gaming devices within the municipality by ordinance.

(b) Except as provided by (a) of this section, a municipality may not license or regulate video gaming devices.

(c) This section applies to home rule and general law municipalities.

* Sec. 14. AS 29.45.650^{*sales tax*}(f) is amended to read:

(f) This subsection applies to home rule and general law municipalities. A borough may not levy and collect a sales tax on

(1) a purchase made with

(A) [(1)] food coupons, food stamps, or other type of certificate issued under 7 U.S.C. 2011 - 2025 (Food Stamp Act);

(B) [OR (2)] food instruments, food vouchers, or other type of certificate issued under 42 U.S.C. 1786 (Special Supplemental Food Program for Women, Infants, and Children); or

(2) transactions involving video gaming devices. [THIS

SUBSECTION APPLIES TO HOME RULE AND GENERAL LAW MUNICIPALITIES.]

* Sec. 15. AS 29.45.700^{*sales tax*}(d) is amended to read:

(d) This subsection applies to home rule and general law municipalities. A city that levies and collects sales and use taxes under

(a) of this section may not levy and collect a sales tax on

(1) a purchase made with

(A) [(1)] food coupons, food stamps, or other types of certificates issued under 7 U.S.C. 2011 - 2025 (Food Stamp Act);

(B) [OR (2)] food instruments, food vouchers, or other

1 type of certificate issued under 42 U.S.C. 1786 (Special Supple-
2 mental Food Program for Women, Infants, and Children); or

3 (2) transactions involving video gaming devices. [THIS

4 SUBSECTION APPLIES TO HOME RULE AND GENERAL LAW MUNICIPALITIES.]

5 * Sec. 16. AS ^{muni. gov't.} 29.71.800 is amended by adding a new paragraph to read:

6 (2c) "video gaming device" has the meaning given in AS 05.-
7 45.900.

8 * Sec. 17. AS ^{partially exempt service} 39.25.120(c) is amended by adding a new paragraph to
9 read:

10 (21) employees of the Alaska Gaming Commission.

11 * Sec. 18. AS ^{conflict of interest} 39.50.200(b) is amended by adding a new paragraph to
12 read:

13 (50) Alaska Gaming Commission (AS 05.45.010).

14 * Sec. 19. AS 43.35.010(a) is amended to read:

15 (a) A person who maintains for use or permits the use on premi-
16 ses under the person's control of a coin-operated device class 1,
17 class 2, or class 3 shall first pay a tax as follows:

18 (1) \$48 a year for each coin-operated device class 1;

19 (2) \$120 a year for each coin-operated device class 2;

20 (3) \$240 a year for each coin-operated device class 3,

21 other than a video gaming device;

22 (4) \$200 a year for each video gaming device.

23 * Sec. 20. AS 43.35 is amended by adding a new section to read:

24 Sec. 43.35.015. TAX ON VIDEO GAMING DEVICE. (a) In addition to
25 the tax payable under AS 43.35.010, the holder of a video gaming
26 device premises operator's license under AS 05.45.210 shall, not later
27 than 15 days after the end of the calendar quarter,

28 (1) pay to the department 15 percent of the net machine
29 income earned in the previous calendar quarter from a video gaming

1 device; and

2 (2) file a statement with the department showing the total
3 net machine income earned in the previous calendar quarter from the
4 licensee's video gaming devices and the amount due the department
5 based on the net machine income.

6 (b) A person who fails to pay fees or file a statement as re-
7 quired under (a) of this section is subject to a civil penalty of not
8 more than \$1,000 for each violation. Each day a person fails to
9 comply constitutes a separate violation. The civil penalty may be
10 imposed by the department in an administrative proceeding or by a
11 court.

12 (c) In this section "net machine income" means money received
13 from a video gaming device less money paid out in cash for credits
14 earned from the video gaming device.

15 * Sec. 21. AS 43.35.030 is amended by adding a new subsection to read:

16 (b) The provisions of (a) of this section do not apply to a
17 person who is licensed as a distributor of video games under AS 43.-
18 35.200.

19 * Sec. 22. AS 43.35.050 is repealed and reenacted to read:

20 Sec. 43.35.050. DISTRIBUTION OF TAX REVENUE. (a) Except as
21 provided in (b) and (c) of this section, subject to an appropriation
22 made for the purpose, the department shall pay one-half of the pro-
23 ceeds of the gross revenues from the tax provided by this chapter to
24 municipalities in the proportion that the revenue was earned within
25 them. The balance shall be retained by the state and deposited in the
26 general fund.

27 (b) The amount of gross revenue shared with municipalities under
28 (a) of this section does not include

29 (1) revenue from fees paid for distributor's licenses and

1 permits;

2 (2) revenue from penalties;

3 (3) revenue attributable by the department to expenses
4 incurred in the collection of the tax; and

5 (4) revenue from the tax on video gaming devices under
6 AS 43.35.015(a).

7 (c) Subject to an appropriation made for the purpose, the de-
8 partment shall pay

9 (1) one-half of the proceeds of the tax collected under
10 AS 43.35.010(a)(4) to municipalities in the proportion that the reve-
11 nue was earned within them; and

12 (2) one-third of the proceeds of the tax collected under
13 AS 43.35.015(a) to municipalities in the proportion that the revenue
14 was earned within them.

15 * Sec. 23. AS 43.35.090(3) is amended to read

16 (3) "coin-operated device class 2" means

17 (A) a slot machine or other apparatus or device that
18 [WHICH] operates by means of insertion of a coin, token, or
19 similar object and that [WHICH], by strict dependence upon the
20 element of chance, may deliver or may entitle the person playing
21 or operating the machine to receive cash, premiums, merchandise,
22 or tokens; the term includes a device or apparatus that is other-
23 wise a coin-operated device class 2 [A DEVICE OR APPARATUS OTHER-
24 WISE FALLING WITHIN THE CLASSIFICATION OF (2) OF THIS SECTION,
25 THOUGH NOT STRICTLY DEPENDENT UPON THE ELEMENT OF CHANCE, IS
26 TAXED ACCORDING TO THE RATE APPLICABLE TO SLOT MACHINES] if the
27 device or apparatus itself delivers cash directly to the person
28 playing or operating it; and

29 (B) a video gaming device;

1 * Sec. 24. AS 43.35.090 is amended by adding a new paragraph to read:

2 (5) "video gaming device" has the meaning given in AS 05.-
3 45.900.

4 * Sec. 25. AS 44.62.330(a) ^{administrative adjudication} is amended by adding a new paragraph to
5 read:

6 (55) Alaska Gaming Commission (AS 05.45.010).

7 * Sec. 26. INITIAL COMMISSION APPOINTMENTS. The governor shall make
8 the initial appointment of members of the Alaska Gaming Commission within
9 120 days after the effective date of this Act.

10 * Sec. 27. This Act takes effect July 1, 1990.

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This is the ballot initiative -
will be on ballot Nov. 1990

A BILL

For an Act entitled "An Act relating to regulation of gambling and
establishing the Alaska Gambling Board."

BE IT ENACTED BY THE PEOPLE OF THE STATE OF ALASKA:

* Section 1. POLICY. State regulated gambling offers an opportunity for economic development of the state and improvement of the general welfare of the people of the state. The success of gambling is dependent upon public confidence and trust that licensed gambling is conducted honestly and competitively and that gambling is free from criminal and corruptive elements. Public confidence and trust can only be maintained by strict regulation of all persons, practices, and activities related to the operation of licensed gambling enterprises and the manufacture and distribution of gambling devices and equipment. All premises where gambling is conducted and where gambling devices are operated must be licensed and controlled to protect the public health, safety, morals and general welfare of the people of the state, to foster the stability and success of gambling, and to preserve the competitive economy and policies of free competition in the state. The provisions of this bill are not exhaustive, and shall be supplemented and enhanced by the legislature, in accordance with Article XI, Section 6 of the Alaska Constitution.

* Sec. 2 AS 05 is amended by adding a new chapter to read:

CHAPTER 40. REGULATION OF GAMBLING.

ARTICLE 1. ALASKA GAMBLING BOARD.

not allowed in muni.
unless voter referendum
broad definition of
"game" (see p. 11)

gambling board - 5 members, Dept. Revenue

Paid range 26 C
regulate all gambling except games chance (contests skill)

by regulation: license fees, forms of gambling permitted, calculation of gross revenue

gambling may be conducted by: muni, state, holder beverage dispensary license

proceeds: if state-run, 100% of net ^{not defined} proceeds to board

if muni, 50% of "other" to board _{→ cash received as winnings}

if other, 39% of gross revenue (<\$50,000/mo/4% \$50.0 - \$134.0/5 1/4% above \$134.0 to board. If located in muni, split 50/50 between state & muni.
6 Plus muni may estab. own fees equal to this 50%.

Sec. 05.40.010. ALASKA GAMBLING BOARD. (a) The Alaska Gambling Board is established in the Department of Revenue as a regulatory and quasi-judicial agency. The board is composed of five members appointed by the governor and confirmed by the legislature in joint session.

(b) Each member of the board shall at the time of the member's appointment be a resident of the state.

(c) A person may not serve as a member of the board if that person has been convicted of

(1) a felony; or

(2) An offense defined in AS 11.66.200 - 11.66.280 or a comparable provision of municipal, state, or federal law.

(d) The board shall elect a chairman from its membership.

Sec. 05.40.020. TERM OF OFFICE. An appointment to the board is for a term of four years. A vacancy is filled by appointment for the unexpired term. A member of the board holds office until a successor is appointed and qualifies.

Sec. 05.40.030. REMOVAL FROM OFFICE. The governor may remove a member of the board for the neglect of a duty required by law, or for other cause, after first giving the member a statement of the charges and an opportunity to be heard.

Sec. 05.40.040. COMPENSATION AND PER DIEM. Members of the board are in the exempt service and are entitled to a monthly salary equal to Step C, Range 26 of the salary schedule in AS 39.27.011(a) for Juneau, Alaska.

Sec. 05.40.050. QUORUM. Three members of the board constitute a quorum for the transaction of business.

Sec. 05.40.060. JURISDICTION. (a) The board shall regulate all forms of gambling, including gambling games, gaming devices, racing, and parimutuel wagering, except it shall not regulate games of chance and contests of skill under AS 05.15.

(b) Jurisdiction of the board extends to every person conducting, or employed in the conduct of, gambling authorized under this chapter.

Sec. 05.40.070. DUTIES AND POWERS OF THE BOARD. (a) The board shall

(1) license, regulate, and supervise all gambling enterprises;

(2) license and regulate the manufacture, sale, and distribution of gambling devices and equipment;

(3) establish standards for the reports and financial records that must be maintained by operators of licensed gambling enterprises;

(4) set all license fees;

(5) require licensees to keep detailed records of all collections and disbursements;

(6) establish procedures for resolution of disputes between a licensee and a patron of a gambling enterprise;

(7) hire staff as needed to enforce and administer this chapter;

(8) adopt regulations concerning

(A) the issuance, renewal, suspension, and revocation of licenses for gambling enterprises;

(B) the issuance, renewal, suspension and revocation of work permits for employees of a gambling enterprise;

(C) the information that applicants for a gambling enterprise license or work permit must provide to the board;

(D) fingerprinting or other identification of applicants, licensees, or permittees;

(E) fees for licenses and costs of investigation of applicants for a license of permit;

(F) the games, gaming devices, equipment, and other forms of gambling permitted;

(G) uniform rules and procedures for the operation of games, devices, equipment, and other forms of gambling permitted by the board;

(H) the manufacture, sale, and distribution of gambling devices and equipment;

(I) the size of the premises where gambling is conducted and the nature and number of facilities and furnishings provided on the premises;

(J) security services provided on the premises of a gambling enterprise;

(K) exclusion or ejection of certain persons from licensed establishments;

(L) the method of accounting for receipts and disbursements including the keeping of records and requirements for banking of receipts;

(M) calculation of gross revenue of a gambling enterprise;

(N) the procedures and requirements for a state agency or municipality to contract for the operation of a gambling enterprise under a license issued to the state agency or the municipality;

(10) pay fees and other money received into the general fund;

(11) make an annual report to the commissioner of revenue and the legislature of its administration of this chapter before February 1 of each year.

(b) The board may

(1) issue subpoenas to compel witnesses to appear before it;

(2) compel the production of documents showing the receipts and disbursements of a person licensed to conduct a gambling enterprise;

(3) appoint a hearing officer to conduct a hearing required by this chapter or by a regulation adopted under it.

Sec. 05.40.080. ENFORCEMENT OF REGULATIONS. The attorney general shall enforce the regulations adopted under this chapter. Violation of a regulation adopted under this chapter is punishable under AS 05.40.300.

Sec. 05.40.090. APPLICATION FOR LICENSE FOR A GAMBLING ENTERPRISE.

(a) Gambling may be conducted only under a license issued by the board.

(b) The application for a license for a gambling enterprise must include

(1) the name and address of the applicant;

(2) the location of the premises where gambling is to be conducted under the license;

(3) the games, gaming devices, or other gambling activity to be conducted under the license;

(4) the names of all persons directly or indirectly interested in the gambling enterprise and the nature of each person's interest;

(5) other information and details that the board requires,

(c) The applicant shall post a bond in the amount determined by the board for payment of fees, taxes, and net proceeds under this chapter.

(d) The board may not issue a license to a person who

(1) has been convicted of a crime defined in AS 05.40.010(c);

(2) failed to pay a fee, a tax, or proceeds due to the board or a municipality at the time of application;

(3) failed to disclose, misstated, or attempted to mislead the board as to a material fact in an application for a license under this chapter;

(4) has been convicted of violating a regulation of the board.

Sec. 05.40.100. ISSUANCE AND RENEWAL OF LICENSES FOR GAMBLING ENTERPRISE. (a) A license for a gambling enterprise is issued to a person for a period of one year and is not transferable to another person.

(b) A separate license for gambling enterprise is required for each premises where gambling is conducted. A license is valid only for the premises listed on the license and is not transferable to another premises. Only one license may be issued for each premises where gambling is conducted.

(c) A license issued under this chapter is renewable for successive one-year periods. The board shall renew the license for a gambling enterprise if the licensee

(1) is in good standing with the board as to all licenses currently held by the licensee; and

(2) has paid all fees, taxes, and proceeds due to the board or a municipality for all licenses held by the licensee at the time of renewal.

Sec. 05.40.110. GAMBLING ENTERPRISE LICENSE. (a) Subject to AS 05.40.090(b) - (d), the board shall issue a gambling enterprise license to a municipality, to a state agency, or to a person who holds a beverage dispensary license issued under AS 04.11.090 for the conduct of poker and other card games and the operation of slot machines as specifically listed on the license.

(b) A municipality, a state agency, or a person who holds a beverage dispensary license issued under AS 04.11.090 may apply to the board for a license authorizing the conduct of games and other gambling activities in addition to those set forth in subsection (a). The board shall issue a license to a municipality, to a state agency, or to a person who satisfies the requirements of this chapter and the regulations of the board. In issuing licenses under this subsection, the board shall promote economic development, free competition, the public health, safety and morals, and the general welfare of the state, and the stability and success of gambling.

(c) The suspension, revocation, or transfer of the beverage dispensary license for the premises subject to a license issued under this section immediately suspends the license issued under this section.

d) A license issued under this section authorizes the licensee to conduct games and other gambling activities as specifically listed on the license.

Sec. 05.40.120. POSTING OF LICENSE. A license for a gambling enterprise shall be posted in a conspicuous location on the premises by the licensee.

Sec. 05.40.130 WORK PERMIT (a) Each person employed by a gambling enterprise shall obtain a work permit issued by the board before conducting or otherwise participating in the conduct of gambling under this chapter.

(b) Records acquired by the board relating to applications for and issuance of work permits are confidential, but may be released to a law enforcement agency.

(c) The board may not issue a work permit to a person convicted of a crime described in AS 05.40.010(c).

(d) The board may refuse to issue or renew a work permit to an applicant if the applicant has

(1) failed to disclose, misstated, or attempted to mislead the board as to a material fact in an application for issuance or renewal of a work permit;

(2) failed to comply with the regulations of the board;

(3) committed, attempted, or conspired to commit a crime of moral turpitude, embezzlement, or larceny against an employer.

Sec. 05.40.140. RECORDS OF THE BOARD. Records of the board are public records and are subject to public inspection except as otherwise provided by this chapter or by regulations of the board.

Sec. 05.40.150. PROCEEDS. (a) If the license for a gambling enterprise is issued to a state agency, the state agency shall transmit the net proceeds of the gambling enterprise to the board.

(b) If the license for a gambling enterprise is issued to a municipality, the municipality shall transmit 50 percent of the license fees set forth in (c) of this section to the board.

(c) Except as provided in (d) and (e) of this section, if the license for a gambling enterprise is not issued to a state agency or to a municipality, the licensee shall transmit to the board a license fee based upon all the gross revenue of the licensee as follows:

Three percent of all the gross revenue of the licensee which does not exceed \$50,000 per calendar month:

Four percent of all the gross revenue of the licensee which exceeds \$50,000 per calendar month and does not exceed \$134,000 per calendar month; and

Five and three-fourths percent of all the gross revenue of the licensee which exceeds \$134,000 per calendar month.

(d) If the license for the gambling enterprise is not issued to a state agency or to a municipality and if the license is issued for a gambling enterprise that is located within a municipality, the licensee shall transmit 50 percent of the license fees set forth in (c) of this section to the board.

(e) If the license for the gambling enterprise is not issued to a state agency or to a municipality and if the license is issued for a gambling enterprise that is located within a municipality, the municipality may impose fees on the gambling enterprise equal to 50 percent of the license fees set forth in (c) of this section.

ARTICLE 2. GAMBLING WITHIN MUNICIPALITIES.

Sec. 05.40.200. GAMBLING WITHIN A MUNICIPALITY. Except as provided in AS 05.15, gambling is not allowed within a municipality if the voters of the municipality have not approved a referendum or initiative authorizing gambling within the municipality under AS 29.35.610.

ARTICLE 3. MISCELLANEOUS PROVISIONS.

Sec. 05.40.300. PROHIBITED ACTS AND PENALTIES. (a) It is a class A misdemeanor to

(1) violate or fail to comply with a provision of this chapter a regulation adopted under this chapter, if no effect on the outcome of a game or event that is the subject of a bet was intended;

(2) record, report, or register a wager or to gamble except under the provisions of this chapter;

(3) gamble or to permit a person to gamble if the person is under the age of 21.

(b) Violation of this chapter or a regulation adopted under this chapter with intent to affect the outcome of a game, a gaming device, or other gambling activity licensed under this chapter is a class C felony.

Sec. 05.40.310. ADMINISTRATIVE PROCEDURE ACT. The operations of the board are subject to AS 44.64 (Administrative Procedure Act), except as otherwise provided in this chapter.

Sec. 05.40.320. CONFLICT OF INTEREST ACT. The board is subject to AS 39.50 (conflict of interest).

ARTICLE 4. GENERAL PROVISIONS.

Sec. 05.40.900. DEFINITIONS. In this chapter

- (1) "board" means the Alaska Gambling Board;
- (2) "gambling" means an activity in which a person stakes or risks something of value upon the outcome of a game or a future contingent event not under the person's control or influence, upon an agreement or understanding that that person or someone else will receive something of value in the event of a certain outcome;
- (3) "gambling enterprise" means a business established and licensed for the purpose of conducting gambling under this chapter;
- (4) "game" means a game played with cards, dice, equipment or a mechanical, electromechanical, or electronic device for money, property, checks, credit, or a representation of value, including faro, monte, roulette, keno, fan-tan, twenty-one, blackjack, seven-and-a-half, big injun, klondike, craps, poker, chuck-a-luck, Chinese chuck-a-luck (dai-shu), wheel of fortune, chemin de fer, baccarat, pai gow, beat the banker, panguiqui, slot machine, a banking or percentage game or other game or device approved by the board, but does not include games played with cards in private homes or residences where a person does not make money for operating the game, except as a player;

(5) "gaming device" means equipment or a mechanical, electromechanical or electronic contrivance, component, or machine used remotely or directly in connection with a game that affects the result of a wager by determining wins or loss;

(6) "Gross revenue" means the total of all:

(a) Cash received as winnings;

(b) Cash received in payment for credit extended by a licensee to a patron for purposes of gaming; and

(c) Compensation received for conducting any game in which the licensee is not party to a wager, less the total of all cash paid out as losses to patrons and those amounts paid to purchase annuities to fund losses paid to patrons over several years by independent financial institutions.

(7) "parimutuel" means a form of wagering on the outcome of a race in which those who wager personally purchase tickets of various denominations on a participant in the race and all wagers for each race are pooled and held by the licensee conducting the meet for distribution; when the outcome of the race has been decided, the licensee conducting the meet distributes the percentage of the total wagers determined by the board to holders of tickets on the winner.

* Sec. 3. AS 11.66.280(2) is amended to read:

(2) "gambling" means that a person stakes or risks something of value upon the outcome of a contest of chance or a future contingent event not under the person's control or influence, upon an agreement or understanding that that person or someone else will receive

something of value in the event of a certain outcome; "gambling" does not include

(A) bona fide business transactions valid under the law of contracts for the purchase or sale at a future date of securities or commodities and agreements to compensate for loss caused by the happening of chance, including contracts of indemnity or guaranty and life, health, or accident insurance; or

(B) playing an amusement device that

(i) confers only an immediate right of replay not exchangeable for something of value other than the privilege of immediate replay; and

(ii) does not contain a method or device by which the privilege of immediate replay may be cancelled or revoked;

(C) an activity authorized by the commissioner of revenue under AS 05.15. or by the Alaska Gambling Board under AS 05.40.

* Sec. 4. AS 11.66.280(4) is amended to read:

(4) "gambling enterprise" means a gambling business which

(A) includes five or more persons who conduct, finance, manage, supervise, direct, or own all or part of the business;

(B) has been or remains in substantially continuous operations for a period in excess of 30 days or has a gross income of \$2,000 or more in any single day; [AND]

(C) is not a municipality or a qualified organization under AS 05.15 [AS 05.15.210(15)], except that, for purposes of this

paragraph, no application for a permit [LICENSE] under AS 05.15
[AS 05.15.210(15)] is required to be considered a qualified
organization; and

(D) is not licensed under AS 05.40;

* Sec. 5. AS 18.65.080 is amended by adding a new subsection to read:

(b) Before appointment or employment, the Department of Public
Safety shall investigate and ascertain whether

(1) a person appointed by the governor to serve as a member
of the Alaska Gambling Board under AS 05.40 has been convicted of a
crime described in AS 05.40.010(c);

(2) a member of the staff of or person employed by the Alaska
Gambling Board, an applicant for a license for a gambling enterprise, or
an applicant for a work permit has been convicted of a crime under the
laws of the state or another jurisdiction.

* Sec. 6. AS 29.35 is amended by adding new sections to read:

ARTICLE 9. GAMBLING WITHIN MUNICIPALITIES.

Sec. 29.35.600. GAMBLING PERMITTED. Except as authorized under AS
05.15, gambling may not be conducted within a municipality unless a
majority of the voters of the municipality approve a referendum or
initiative authorizing gambling.

Sec. 29.35.610 LOCAL OPTION ELECTION. (a) The following question
may be placed before the voters of the municipality:

"Shall gambling be permitted in ... (name
of municipality)?"

(b) The question set out in (a) of this section may be placed before the voters of the municipality by the legislative body of the municipality or by initiative petition. Notwithstanding AS 29.26.130(b)(1) and (2), an initiative petition shall be signed by a number of voters equal to five percent of the number of votes cast in the last regular election held before the petition was issued.

(c) If a majority of the voters vote "yes" on the question set out in (a) of this section, gambling may be conducted within the municipality under terms of a license issued by the Alaska Gambling Board.

Sec. 29.35.620. LOCAL OPTION ELECTIONS BY MUNICIPALITIES WITHIN BOROUGHES. 29.35.620 The rights of the voters of a municipality located within a borough to a binding election under AS 29.35.610 shall not be affected by a vote on the same subject by all the voters of the borough.

Sec. 29.35.630. FEES ON GAMBLING WITHIN MUNICIPALITIES. (a) If a license for a gambling enterprise issued under AS 05.40.110 is not issued to a state agency or to a municipality, and is located within a borough which has voted to permit gambling pursuant to AS 29.35.610, the governing body of the borough may impose by ordinance the fees set forth in AS 05.40.150(e).

(b) If a license for a gambling enterprise issued under AS 05.40.110 is not issued to a state agency or to a municipality, and is located within a borough which has not voted to permit gambling pursuant to AS 29.35.610, the governing body of the municipality within which the gambling enterprise is located may impose by ordinance the fees set forth in AS 05.40.150(e).

Sec. 29.35.640. APPLICATION. AS 29.35.600 - 29.35.650 apply to home rule and general law municipalities.

Sec. 29.35.650 DEFINITIONS. In AS 29.35.600 - 29.35.650 "gambling," "gambling enterprise," and "game" have the meanings given in AS 05.40.900.

* Sec. 26. AS 39.50.200(b) is amended by adding a new paragraph to read:

(49) Alaska Gambling Board (AS 05.40.010)

* Sec. 27. AS 44.62.330(a) is amended by adding a new paragraph to read:

(55) Alaska Gambling Board (AS 05.40.010).

* Sec. 28. INITIAL COMMISSION APPOINTMENTS. The governor shall make the initial appointment of members of the Alaska Gambling Board within 30 days after the effective date of this Act.

existing law establishes annual license
fee per machine of \$240 (Montana \$100)

1 IN THE SENATE

BY POURCHOT BY REQUEST

2

SENATE BILL NO. 263

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to video gaming devices and their
7 distributors, classifying video gaming devices as
8 coin-operated devices for purposes of regulation and
9 taxation, and exempting them from the definition of
10 gambling devices; to taxes imposed on and regulation
11 of coin-operated devices; and providing for an effec-
12 tive date."

13

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

14

* Section 1. AS 11.66.280(2) is amended to read:

15

(2) "gambling" means that a person stakes or risks some-
16 thing of value upon the outcome of a contest of chance or a future
17 contingent event not under the person's control or influence, upon an
18 agreement or understanding that that person or someone else will
19 receive something of value in the event of a certain outcome; "gam-
20 bling" does not include

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(A) bona fide business transactions valid under the
law of contracts for the purchase or sale at a future date of
securities or commodities and agreements to compensate for loss
caused by the happening of chance, including contracts of indem-
nity or guaranty and life, health, or accident insurance; [OR]

(B) playing an amusement device that

(i) confers only an immediate right of replay not
exchangeable for something of value other than the privilege
of immediate replay; and

*exempt from
criminal
code,
although
operated devices
class III are defined
in current statute,
they're illegal.*

Exempt from
Criminal Code

(ii) does not contain a method or device by which the privilege of immediate replay may be cancelled or revoked;

(C) an activity authorized by the commissioner of revenue under AS 05.15; or

(D) a video gaming device authorized under AS 43.35;

* Sec. 2. AS 11.66.280(3) is amended to read:

(3) "gambling device" means any device, machine, paraphernalia, or equipment that is used or usable in the playing phases of unlawful gambling, whether it consists of gambling between persons or gambling by a person involving the playing of a machine; "gambling device" does not include

(A) lottery tickets, policy slips, or other items used in the playing phases of lottery or policy schemes; [OR]

(B) an amusement device as described in (2)(B) of this section; or

(C) a video gaming device authorized under AS 43.35;

* Sec. 3. AS 43.35 *Com operated devices* is amended by adding a new section to read:

Sec. 43.35.015. TAX ON VIDEO GAMING DEVICE. (a) In addition to the tax payable under AS 43.35.010 *\$240/yr/device*, the holder of a video gaming device license shall, not later than 15 days after the end of the calendar quarter,

(1) pay to the department *Montana 15%* 25 percent of the net machine income earned in the previous calendar quarter from a video gaming device; and

(2) file a statement with the department showing the total net income earned in the previous calendar quarter from video gaming devices authorized under this section, and the amount due the department based on net income.

Montana - by regulation, penalty =
if 0-30 days late = 10% of tax due
31-60 days = 25%
61-90 da = 50%
91+ days = 100%

(b) A person who fails to pay fees or file a statement as required under (a) of this section is subject to a civil penalty of not more than \$1,000 for each violation. Each day a person fails to comply constitutes a separate violation. The civil penalty may be imposed by the department in an administrative proceeding or by a court.

(c) In this section "net machine income" means money received from a video gaming device less money paid out in cash for credits earned from the video gaming device. *same as Montana*

* Sec. 4. AS 43.35.030 is amended by adding a new subsection to read:

(b) The provisions of (a) of this section do not apply to a person who is licensed as a distributor of video games under AS 43.35.200. *annual permit fee \$50; state resident; no felonies (WE COVER ELSEWHERE)*

* Sec. 5. AS 43.35.050 is repealed and reenacted to read:

Sec. 43.35.050. DISTRIBUTION OF TAX. (a) Except as provided in (b) of this section, subject to an appropriation made for the purpose, the department shall pay one-half of the proceeds of the gross revenues from the tax provided by this chapter to municipalities in the proportion that the revenue was earned within them. The balance shall be retained by the state and deposited in the general fund.

(b) The amount of gross revenue shared with municipalities under (a) of this section does not include

- (1) revenue from fees paid for distributor's licenses and permits;
- (2) revenue from penalties;
- (3) revenue attributable by the department to expenses incurred in the collection of the tax; and
- (4) revenue from the tax on video gaming devices under AS 43.35.015(a).

Excludes video gaming tax from the "municipal share" provisions that apply to other coin-operated devices. *Montana share: 2/3 to municipalities, 1/3 to state*

1 * Sec. 6. AS 43.35.090(3) is amended to read:

2 (3) "coin-operated device class 3" means

3 (A) a slot machine or other apparatus or device that
4 [WHICH] operates by means of insertion of a coin, token, or
5 similar object and that [WHICH], by strict dependence upon the
6 element of chance, may deliver or may entitle the person playing
7 or operating the machine to receive cash, premiums, merchandise,
8 or tokens; the term includes a device or apparatus that is other-
9 wise a coin-operated device class 2 [A DEVICE OR APPARATUS OTHER-
10 WISE FALLING WITHIN THE CLASSIFICATION OF (2) OF THIS SECTION,
11 THOUGH NOT STRICTLY DEPENDENT UPON THE ELEMENT OF CHANCE, IS
12 TAXED ACCORDING TO THE RATE APPLICABLE TO SLOT MACHINES] if the
13 device or apparatus itself delivers cash directly to the person
14 playing or operating it; and

15 (B) a video gaming device;

16 * Sec. 7. AS 43.35.090 is amended by adding a new paragraph to read:

17 (5) "video gaming device" means an electronic machine that
18 uses a video screen or display and microprocessors to play or simulate
19 the play of the game of draw poker or of the game of keno, and that *Montana also allows bingo*
20 upon insertion of money allows a user by skill or chance to receive
21 free games or credits that may be redeemed for cash, but does not
22 include a machine that directly deposits money to the user. *Montana specifies no coins, cash, or tokens.*

23 * Sec. 8. AS 43.35 is amended by adding new sections to read:

24 ARTICLE 3. VIDEO GAMING DEVICES.

25 Sec. 43.35.200. DISTRIBUTOR OF VIDEO GAMING DEVICES TO BE LI-
26 CENSED. (a) A person who distributes video gaming devices may not
27 distribute a video gaming device in this state without a valid video
28 gaming distributor's license issued by the department. To remain
29 valid, a license must be renewed annually on or before a date set by

These same
requirements
currently apply
to other courts
device distributors
AS 43.35.030

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the department.

(b) An applicant for a license or renewal of a license shall pay an annual fee of \$500. *Montana \$1000*

(c) The department shall refuse to issue a license to a person who distributes video gaming devices if the person has not been a resident of the state for one year immediately preceding the person's application or reapplication for a license.

(d) The department

(1) shall refuse to issue a license to a person who distributes video gaming devices, or shall suspend or revoke a license, if the person

(A) has been convicted of a felony;

(B) has been convicted of a violation of *state gambling laws* AS 11.66.-

200 - 11.66.280 or another law or ordinance with substantially similar elements;

(2) may refuse to issue a license to a person who distributes video gaming devices, or may suspend or revoke a license if the person fails to comply with a provision of this chapter or of a regulation adopted under it;

(3) may require an applicant for a license or renewal of a license and, if the applicant is a corporation, each shareholder and employee of the corporation, to file an affidavit that the distributor

(A) is a citizen of the United States;

(B) has been a bona fide resident of the state for at least one year; and

(C) has never been convicted of a crime identified in

(1) of this subsection.

(e) A person who is denied a license under (d) of this section, or whose license is suspended or revoked under (d) of this section,

1 has the right to a hearing on the department's decision and may appeal
2 the denial, suspension, or revocation to the superior court.

3 (f) In this section "license" means a video gaming distributor's
4 license.

5 Sec. 43.35.210. INSTALLATION OF VIDEO GAMING DEVICES. A person
6 licensed under AS 43.35.200 may install video gaming devices only in
7 premises that sell alcoholic beverages and that hold under AS 04.11:

8 (1) a beverage dispensary license under AS 04.11.090;

9 (2) a duplicate beverage dispensary license for additional
10 rooms under AS 04.11.090(e);

11 (3) a club license under AS 04.11.110;

12 (4) a common carrier dispensary license under AS 04.11.180;

13 or

14 (5) a pub license under AS 04.11.220.

include ferries

only one is at UAF

15 * Sec. 9. This Act takes effect July 1, 1989.

**STATE OF ALASKA
1989 LEGISLATIVE SESSION**

BILL VERSION: SB 146

PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____
 Title: allowing gaming devices
 on ferries"
 Sponsor: Szymanski, Faiks & Pearce
 Requestor: Szymanski, Faiks & Pearce

Agency Affected: DOT&PF - AMHS
 BRU: Marine Operations
 Components: SE Vessel Operations and
 Overhaul

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES		35.0	37.0	38.0	39.0	40.0
TRAVEL						
CONTRACTUAL		30.0	-	-	-	-
SUPPLIES		10.0	-	-	-	-
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		75.0	37.0	38.0	39.0	40.0
CAPITAL		0	0	0	0	0
REVENUE		150.0	155.0	160.0	165.0	170.0

FUNDING: (Thousands of Dollars)

GENERAL FUND		75.0	37.0	38.0	39.0	40.0
FEDERAL FUNDS						
OTHER						
TOTAL		75.0	37.0	38.0	39.0	40.0

POSITIONS:

FULL-TIME		0	0	0	0	0
PART-TIME		0	0	0	0	0
TEMPORARY		0	0	0	0	0

ANALYSIS : (Attach a separate page if necessary)

See attachment

Prepared by: Tom Shanley Phone: 465-3955
 Division: Alaska Marine Highway System Date: 3/29/89
 Approved by Commissioner: [Signature] Date: 3/29/89
 Agency: Department of Transportation and Public Facilities

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Fiscal note + analysis

DOT&PF FISCAL ANALYSIS FOR

SENATE BILL NO. 146

EXPENDITURES

Personnel Services - added cost would be overtime needed to supervise the gaming devices on the three vessels. Estimate \$12.0 per ship - no added position would be created.

Contractual - there will be approximately \$10.0 cost to upgrade electrical service to handle the 12 machines on each vessel.

Supplies - miscellaneous supplies such as mounting devices to make the games sea worthy.

Revenue - there is no sure way to predict the revenue. We doubled the revenue we are currently making on the 25 video games that are installed at this time. \$150.0 should be a conservative figure.

FISCAL NOTE

REQUEST: _____

Revision Date: _____
Title: An act relating to video gaming devices
Sponsor: By Pourchot by request
Requestor: _____

Agency Affected: Revenue
BRU: Income & Excise Audit Division
Components: Operating and Revenue

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 90	FY 91	FY 92	FY 93	FY 94	FY 95
OPERATING						
PERSONAL SERVICES	310.4	310.4	310.4	310.4	310.4	310.4
TRAVEL	9.0	9.0	9.0	9.0	9.0	9.0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	5.0	5.0	5.0	5.0	5.0	5.0
EQUIPMENT	56.0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	8.0	0	0	0	0	0
TOTAL OPERATING	388.4	324.4	324.4	324.4	324.4	324.4
CAPITAL	0	0	0	0	0	0
REVENUE	12000.	15000.	15000.	15000.	15000.	15000.

FUNDING: (Thousands of Dollars)

GENERAL FUND	388.4	324.4	324.4	324.4	324.4	324.4
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	388.4	324.4	324.4	324.4	324.4	324.4

POSITIONS:

FULL-TIME	7	7	7	7	7	7
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Prepared By: Steven E. Kettel Phone: (907) 465-2320
Division: Income and Excise Audit Date: April 13, 1989

Approved by Commissioner: Hugh Malone Date: 4/17/89
Agency: Department of Revenue

Distribution (by preparer):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

OPERATING

Personal Service Costs

<u>Location</u>	<u>Position</u>	<u>Range/Step</u>	<u>Annual Salary and Benefits</u>
Juneau	Revenue Audit Supvr I	22A	\$65.3
Juneau	Revenue Auditor II	14A	\$39.8
Juneau	Tax Examiner II	12A	\$35.7
Juneau	Investigator I	14A	\$39.8
Juneau	Clerk Typist II	7A	\$28.0
Anchorage	Revenue Auditor III	18A	\$50.9
Anchorage	Investigator III	18A	\$50.9
TOTAL PERSONAL SERVICE			\$310.4

Travel Costs

Perform inspections, audits, investigations, regulation hearings \$9.0

Supplies

Miscellaneous office supplies-forms, returns, applications and information packets \$1.0
 +\$4.0

TOTAL SUPPLIES \$5.0

FY '90*

Equipment

7 each Office furnishings and files (chair, module, S drawer file) \$3.5 X 7 \$24.5
 7 each Wang P/C system \$3.5 X 7 \$24.5
 1 each Wang printer \$7.0 X 1 +\$7.0

TOTAL EQUIPMENT \$56.0

Training

Audit Supervisor, Investigator III, Auditor III travel and training +\$8.0

TOTAL OPERATING

\$388.4

*This represents a one-time expenditure

REVENUE PROJECTION

This projection is based on the assumption that only 5 video gaming devices would be licensed in each premise. Under AS 43.35.210, 935 premises could be licensed. The State of Montana implemented "Video Draw Police Machine Law of 1985", "23-5-601", which was enacted in 1987. This revenue projection is based on an assumed annual gross profit per device of \$9300, which is Montana's gross profit per device. Montana currently has 7500 devices licensed and collected tax of \$10,500,000 in their first year of the law's enactment. Montana's tax rate is 15%; this bill provides for a tax rate of 25%.

Tax Revenue

Licensed premises (each)	935	
Total devices per premise	x5	
Total gaming devices (each)	<u>4,675</u>	
Projected gross profits per machine	x\$9,300	
Total gross profits (tax base)		\$43,477,500
Tax rate		<u>x25%</u>
TAX REVENUE		\$10,869,375

Licensing Revenue

12 month premises (each)	847	
Devices per premise	x5	
Full year devices	<u>4,235</u>	
License rate	x\$240	
12 MONTH LICENSING REVENUE		\$ 1,016,400
6 month premise (each)	88	
Device per premise	x5	
1/2 year devices	<u>440</u>	
License rate	x\$120	
6 MONTH LICENSING REVENUE		\$ 52,800

Distributor Licenses

Projected distributors (each)	15	
License fee	x500	
Distributor license revenue		+ \$7,500
TOTAL LICENSING REVENUE		<u>+\$1,076,700</u>

TOTAL REVENUE		<u>\$12,000,000</u>
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SECTIONAL ANALYSIS

This bill would classify video gaming devices as coin-operated devices and exempt them from being considered gambling devices. It provides for regulation and taxation of these devices, as well as licensing of the devices and distributors. Administration would be under the Income and Excise Audit Division of the Department of Revenue.

Section #1

Amends AS 11.66.280(2) to exempt gambling authorized under this bill (AS 43.35).

Section #3

Provides for a tax of 25% of the "net machine income" to be paid on a quarterly basis to the state.

This section also defines "net machine income" as money received by the devices less money paid out, and provides for a \$1,000.00 a day penalty for a person who fails to pay fees or file a quarterly return.

Section #4

Amends AS 43.35.030 by adding a section to license a distributor of video games.

Section #5

Repeals AS 43.35.050 and reenacts the distribution of the taxes collected. One-half of the proceeds of the licensing fees shall be paid (by an appropriation) to the municipalities that the fees were earned within. The balance of fees and all taxes shall be retained by the state and deposited into the general fund.

Section #6

Amends AS 43.35.090(3) to provide for video gaming devices to be licensed as a class 3 coin operated device.

Section #7

Amends AS 43.35.090 to define a "video-gaming device".

Section #8

Amends by adding a new section to AS 43.35 to provide for the annual licensing for a video gaming distributor. The annual fee will be \$500.00. This section also provides language for issuance and denials of video gaming license based on specific qualifications of the applicant.

This section also provides for the installation of video gaming devices under AS 43.35.200 only in premises licensed under AS 04.11:

1. a beverage dispensary license under AS 04.11.090;
2. a duplicate beverage dispensary license for additional rooms under AS 04.11.090(e);
3. a club license under AS 04.11.110;
4. a common carrier dispensary license under AS 04.11.180; or
5. a pub license under AS 04.11.220.

Section #9

Provides for the bill to be effective July 1, 1989.

DEPARTMENT'S POSITION

The department has no position regarding the issue of allowing video gaming devices to be legalized in the state, however, the department would have several recommendations regarding administration language that could be added to the bill.

TO: Pat
FROM: Sandra
RE: Video Gaming -- SB 263
DATE: 11/8/89

Vid. pat. txt

+ do sectional

Legal Division is preparing a draft Sponsor Substitute for SB 263. Major changes:

	<u>ORIGINAL</u>	<u>SUBSTITUTE</u>
REGULATION	By Dept. Revenue	By Gaming Commission
LICENSES/ FEES	Distributor - \$500, all to state	Distributor - \$1000, all to state
TAX	25% net income, paid by distributor, all to state	15% net income, paid by distributor, shared 2/3 to state, 1/3 to local govt.
LOCAL GOVT.	--	Can prohibit video gaming by ordinance
SPECIFICS	--	Maximum 20 machines per bar No play 2 a.m. - 8 a.m. Maximum bet \$2 Maximum payout \$100 for poker, \$800 for keno Expected payback 80%
MACHINE TEST	--	Required before machine is sold, played, or used. Gaming Commission may contract with another state for this service. Machine specifications to be set in regulation

no gambling-related
offenses. Criminal record
check required.
3 members - Gov. appoint
may hire staff (partially
exempt)
license, regulate, supervise
video gaming
1 yr. resident, US citizen
no gambling related offenses

must hold beverage dispensary
license, club, common
carrier (incl. AMHS), public utility

Premises
Operator's (bar owner) - no fee
no gambling related offenses
US citizen, 1-yr. resident
operator

Premises
operator

max 10 poker
machines per bar

no 5am-8am or
by mun. ordinance

needs
work

Games: draw poker, keno, or another game
authorized by the commission

revoke license if commit felony or gaming
offense
100/day civil fine - fail to pay tax

PENALTIES: class C felony - tamper to affect outcome

BOTH THE ORIGINAL BILL AND THE SPONSOR SUBSTITUTE define "net income" as money put into a video machine minus credits paid out in cash, and allow machines in bars, clubs, pubs, and on common carriers (the ferry).

ALL OF THE ABOVE CHANGES ARE PATTERNED ON THE MONTANA LAW, except I switched the distribution of the net income tax from 1/3 state as in Montana to 2/3 state. Whether or not we want to share revenue with local governments is of course a policy question -- it means less revenue to the state, but possibly more municipal support for SB 263 (more money in municipal coffers to offset increases in law enforcement, etc. that may arise). Allowing local governments to prohibit gambling may have a significant impact -- when I was in Oregon this summer Multnomah County (Portland) was voting to prohibit video gaming, which effectively gutted the proposal since over half of the revenue was expected to come from the Portland area.

THE PRIMARY DIFFERENCE BETWEEN MONTANA'S LAW AND THE SPONSOR SUBSTITUTE is that in Montana the bar owner (holder of the liquor license) is licensed by the Gaming Commission for each machine and pays the fees and taxes. SB 263 is set up so that the distributor is licensed for each machine and pays the fees and tax. I did this initially at the recommendation of the Department of Revenue -- this is how they handle pinball and cigarette machines, and it is administratively efficient because they deal with fewer individuals. Tying the video machine license more directly to the liquor license perhaps provides more of an incentive for the liquor license holder to act properly, but I've asked Legal to try to accomplish the same thing by authorizing the ABC Board to suspend and revoke liquor licenses for violations of the video gaming statute.

OTHER THINGS FROM MONTANA'S LAW I DIDN'T INCLUDE, BUT COULD:

1. A policy statement that the government's role is to protect the public from unscrupulous proprietors and players, etc.
2. Establishment of a Gaming Advisory Council to assist the Commission and make recommendations on needed legislative changes, etc.
3. The granting of peace officer status to certain employees of the Gaming Commission.
4. Regulation of video bingo -- CHARR requested only poker and keno.
5. A ~~limit on the number of poker machines per establishment (10 of the total 20 machines allowed).~~

NOTE: The Sponsor Substitute sets up the Gaming Commission solely to regulate video gaming, not games of chance/contests of skill (pull-tabs, etc). Certainly the Commission can be given broader powers, but it will make your bill very cumbersome so I've left it out for now. The Commission will be patterned after that in SB 311, Zharoff's bill that establishes a Gaming Commission to regulate games of chance/contests of skill. It's a 5-member board in the Department of Commerce.

THE GAMBLING BALLOT INITIATIVE has been certified for placement on the ballot in 1990. Its primary provisions:

1. A 5-member Gambling Board in the Department of Revenue. Board members would be paid at Range 26C, and would regulate all forms of gambling except games of chance/contests of skill.
2. All details would be worked out in regulation (license fees, calculation of gross revenue, forms of gambling permitted, etc.)
3. Gambling could be conducted by a municipality, the state, or a liquor license holder, but couldn't be conducted in a municipality without voter approval.
4. Proceeds would be distributed as follows:
If state-run, 100% to state
If liquor-license-holder-run, 3-5.75% of gross revenue to state (depending on total revenue). If located in muni, this would be split 50 state/50 muni. Plus, muni may establish own fees.
If muni-run, half of the 3-5.75% of gross revenue to state, half to muni.
5. Broad definition of game (roulette, wheel of fortune, craps, poker, baccarat, slot machine, etc.).

Sandra

BY SEN. POURCHOT BY REQUEST

1 IN THE SENATE

2 SPONSOR SUBSTITUTE FOR SENATE BILL NO. 263

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska Gaming Commission,
7 authorizing the commission to regulate video gaming
8 devices and persons who manufacture, assemble, pro-
9 duce, distribute, and operate them, and exempting
10 video gaming devices from the definition of gambling
11 devices; relating to state laws applicable to regu-
12 lation of gambling, state criminal laws defining
13 criminal mischief, municipal regulation and taxation
14 of video gaming devices, and taxes imposed on and
15 regulation of video gaming and coin-operated devices;
16 and providing for an effective date."

17 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

18 * Section 1. AS 05 is amended by adding a new chapter to read:

19 CHAPTER 45. ALASKA GAMING COMMISSION.

20 ARTICLE 1. ESTABLISHMENT AND OPERATION OF COMMISSION.

21 Sec. 05.45.010. ALASKA GAMING COMMISSION. (a) The Alaska
22 Gaming Commission is established in the Department of Commerce and
23 Economic Development. The commission is composed of five members.
24 Four members shall be appointed by the governor, subject to confirma-
25 tion by the legislature. The fifth member of the commission is the
26 commissioner of commerce and economic development or the commis-
27 sioner's designee.

28 (b) Each member of the commission shall at the time of the
29 member's appointment be a resident of the state.

Amended
2/22

in DCED

*5 members
incl DCED.com.*

8

state resident

not "this chapter"
05.45 doesn't
define any
criminal
offense

members → NO
felony
gaming violation

1 (c) Except for the commissioner of commerce and economic devel-
opment or the commissioner's designee, a person may not serve as a
member of the commission if that person has been convicted of
2 (1) a felony; or
3 (2) an offense under AS 05.15, AS 11.66.200 - 11.66.280, or
4 a comparable provision of municipal, state, or federal law.

games of chance
gambling

Criminal
record check

7 (d) Except for the commissioner of commerce and economic devel-
opment or the commissioner's designee, a person may not serve as a
member of the commission until the investigation required under
8 AS 18.65.080(b) is completed.
9

criminal record check - p. 9, l. 26

quorum

11 (e) The commission shall elect a chair from its membership.
12 (f) Three members of the commission constitute a quorum for the
13 transaction of business.

3 yr. term

14 Sec. 05.45.020. TERM OF OFFICE. Members of the commission
15 appointed by the governor serve staggered terms of three years. A
16 vacancy is filled by appointment for the unexpired term. A member of
17 the commission holds office until a successor is appointed and qual-
18 ifies.

remove
for cause

19 Sec. 05.45.030. REMOVAL AND SUSPENSION OF MEMBERS. (a) Except
20 for the commissioner of commerce and economic development or the
21 commissioner's designee, the governor may remove a member for cause,
22 including incompetence, neglect of duty, or misconduct in office. A
23 member being removed for cause shall be given a copy of the charges
24 and afforded an opportunity to publicly present a defense in person or
25 by counsel upon not less than 10 days' notice. If a member is removed
26 for cause, the governor shall file with the lieutenant governor a
27 complete statement of all charges made against the member and the
28 governor's findings based on the charges, together with a complete
29 record of the proceedings.

1 (b) The governor may immediately suspend a member for a viola-
2 tion of law or for misconduct in office pending removal from office
3 under (a) of this section.

4 Sec. 05.45.040. COMPENSATION AND PER DIEM. Except for the
5 commissioner of commerce and economic development or the commis-
6 sioner's designee, members of the commission do not receive a salary
7 for their service on the commission but are entitled to per diem and
8 travel expenses authorized for state boards and commissions under
9 AS 39.20.180.

per diem/
travel

10 Sec. 05.45.050. DUTIES AND POWERS OF THE COMMISSION. (a) The
11 commission shall

12 (1) license, regulate, and supervise video gaming under
13 this chapter;

14 (2) as to the regulation and supervision of video gaming
15 devices, have and exercise all duties and powers that the Department
16 of Revenue may exercise under AS 43 to levy, collect, and enforce the
17 payment of taxes and fees imposed by this chapter;

Added
85

collect taxes
machine specs.
hire staff

18 (3) adopt regulations establishing the minimum machine
19 specifications for video gaming devices that may be used in the state;

20 (4) hire staff as needed to enforce and administer this
21 chapter; and

22 (5) adopt regulations necessary to carry out the provisions
23 of this chapter.

24 (b) The commission may

25 (1) issue subpoenas to compel witnesses to appear before
26 it;

27 (2) compel the production of documents showing the receipts
28 and disbursements of a person licensed under AS 05.45.200 or 05.-
29 45.210;

1 (3) appoint a hearing officer to conduct a hearing required
2 by this chapter or by a regulation adopted under it.

partially
exempt

3 Sec. 05.45.060. EMPLOYEES OF THE COMMISSION. Employees of the
4 commission are in the partially exempt service under AS 39.25.120.

5 Sec. 05.45.070. ENFORCEMENT OF REGULATIONS. The attorney
6 general shall enforce the regulations of the commission.

7 Sec. 05.45.080. RECORDS OF THE COMMISSION. All records of the
8 commission are public records and subject to public inspection.

APA

9 Sec. 05.45.090. ADMINISTRATIVE PROCEDURE ACT. The operations of
10 the commission are subject to the Administrative Procedure Act
11 (AS 44.62).

12 Sec. 05.45.100. CONFLICT OF INTEREST ACT. The commission is
13 subject to AS 39.50 (conflict of interest).

14 ARTICLE 2. REGULATION OF PERSONS ENGAGED IN VIDEO GAMING.

distributor's
license

15 Sec. 05.45.200. DISTRIBUTOR'S LICENSE. (a) A person may not
16 manufacture, assemble, produce, or distribute a video gaming device in
17 this state without a valid video gaming distributor's license issued
18 by the commission. To remain valid, a distributor's license must be
19 renewed annually on or before a date set by the commission.

\$1000/yr

20 (b) An applicant for a license or renewal of a license under (a)
21 of this section shall pay to the commission an annual fee of \$1,000.

premises
operator's
license

22 Sec. 05.45.210. PREMISES OPERATOR'S LICENSE. (a) A person may
23 not install or allow another to use a video gaming device without a
24 valid video gaming premises operator's license issued by the commis-
25 sion. The commission shall refuse to issue a gaming premises opera-
26 tor's license to a person unless the person holds a license described
27 in AS 05.45.230. To remain valid, a premises operator's license must
28 be renewed annually on or before a date set by the commission.

29 (b) An applicant for a license or renewal of a license under (a)

\$100/yr.

1 of this section shall pay to the commission an annual fee of \$100.

2 Sec. 05.45.220. LICENSING PROCEDURE. (a) The commission

3 (1) shall refuse to issue a license to a person under
4 AS 05.45.200 or 05.45.210 if the person has been convicted of

(suspend/
revoke
05.45.400)

no license⁵ if
felony/gaming
offense⁸

(A) a felony; or

(B) an offense under AS 05.15, AS 11.66.200 - 11.-
66.280, or a comparable provision of municipal, state, or federal
law;

9 (2) may refuse to issue a license to a person under AS 05.-
10 45.200 or 05.45.210, if the person fails to comply with a provision of
11 this chapter or of a regulation adopted under it;

12 (3) may require an applicant for a license or renewal of a
13 license issued under AS 05.45.200 or 05.45.210 and, if the applicant
14 is a corporation, each shareholder and employee of the corporation, to
file an affidavit that the applicant has never been convicted of a
crime identified in (1) of this subsection.

affidavit re
crime¹⁶

17 (b) A person who is denied a license under (a) of this section
18 has the right to a hearing on the commission's decision and may appeal
19 the denial to the superior court.

20 Sec. 05.45.230. INSTALLATION OF VIDEO GAMING DEVICES. (a) A
21 person licensed under AS 05.45.210 may install or allow another to use
22 video gaming devices only in premises that sell alcoholic beverages
23 and for which has been issued

- 24 (1) a beverage dispensary license under AS 04.11.090;
- 25 (2) a duplicate beverage dispensary license for additional
- 26 rooms under AS 04.11.090(e);
- 27 (3) a club license under AS 04.11.110;
- 28 (4) a common carrier dispensary license under AS 04.11.180;

29 or

bar license²⁵

1 (5) a pub license under AS 04.11.220.

2 (b) A person may not install more than 20 video gaming devices
3 on a licensed premises.

4 ARTICLE 3. REGULATION OF VIDEO GAMING.

5 Sec. 05.45.300. TESTING OF PROTOTYPE VIDEO GAMING DEVICES. (a)

6 Before a video gaming device is sold or distributed for use in the
7 state, the commission shall test and approve a prototype of the device
8 to ascertain whether a device manufactured to the specifications of
9 the prototype meets minimum machine specification standards.

10 (b) The commission may contract with another state to fulfill
11 the requirements of (a) of this section.

12 (c) The commission shall require the distributor seeking the
13 examination and approval of a new video gaming device to pay the
14 anticipated actual costs of the examination in advance and, after the
15 completion of the examination, shall refund overpayments or charge and
16 collect amounts sufficient to reimburse the commission for under-
17 payments of actual costs.

18 Sec. 05.45.310. INSPECTION. The commission may provide for
19 regular inspection of video gaming devices that are approved for
20 installation and use under this chapter. Regular inspection may
21 include a review of the audit trail of the video gaming device to
22 ensure compliance with the payout requirements of AS 05.45.340. The
23 commission may contract with the Alcoholic Beverage Control Board to
24 conduct regular inspections authorized by this section.

25 Sec. 05.45.320. REGULATION OF PLAY. (a) A person who has not
26 reached the age of 21 years may not use a video gaming device.

27 (b) The operator of premises in which video gaming devices have
28 been installed may allow use of the video gaming devices only during
hours when a person may sell alcoholic beverages on the premises under

max. 20

machine tests
audit
wording

rework

distributor pay test

inspections/
ABC Board

who
see p. 3 RE
not just
to player
but to
state &
muni
enforce

age 21

bar hours
only

1 AS 04.16.010 and AS 04.21.010.

2 Sec. 05.45.330. LIMITATION OF WAGER. The maximum amount that
3 may be wagered on a game that is played or simulated by a video gaming
4 device is \$2. A video gaming device may not be programmed to accept a
5 wager in an amount that exceeds the maximum amount authorized by this
6 section.

\$2 bet

7 Sec. 05.45.340. PAYOUT REQUIREMENTS. (a) Each video gaming
8 device shall pay out not less than 80 percent of the value of the
9 amount played during the useful life of the device. Each video gaming
10 device must have an electronic accounting device that the commission
11 may use to verify the payout percentage.

80% payout

12 (b) Based on the play of a video gaming device, the video gaming
13 device shall provide the user of the device who is successful a maxi-
14 mum cash payout of \$100 per game.

\$100 max payout
cash

credits redeemed for not more than \$100 in cash
that may be

15 ARTICLE 4. ENFORCEMENT.

Suspend/
revoke
license

16 Sec. 05.45.400. LICENSE TERMINATION. (a) The commission shall
17 suspend or revoke a license issued under AS ^{distributor} 05.45.200 or ^{premises operator} 05.45.210 if
18 the person holding the license has been convicted of

(deny 05.45.220)

- 19 (1) a felony; or
20 (2) an offense under AS 05.15, AS 11.66.200 - 11.66.280, or
21 a comparable provision of municipal, state, or federal law.

22 (b) The commission may suspend or revoke a license issued under
23 AS 05.45.200 or 05.45.210 if the person holding the license fails to
24 comply with a provision of this chapter or of a regulation adopted
25 under it.

26 (c) A person whose license is suspended or revoked under this
27 section has the right to notice of and a hearing on the commission's
28 decision and may appeal the suspension or revocation to the superior
29 court.

\$200/yr/
machine

put this the premises
operator?
per 05.45.210

15% → state

civil fine -
\$1000/day

define
"net
income"

share taxes
1/3 w/ muni.

ARTICLE 5. TAXES AND FEES.

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Sec. 05.45.500. TAXES. (a) A person who maintains a video gaming device for use or permits the use of a video gaming device on premises under the person's control shall first pay to the commission a tax of \$200 a year for each video gaming device.

(b) In addition to the tax payable under (a) of this section, the holder of a video gaming device premises operator's license under AS 05.45.210 shall, not later than 15 days after the end of the calendar quarter,

(1) pay to the commission 15 percent of the net machine income earned in the previous calendar quarter from a video gaming device; and

(2) file a statement with the commission showing the total net machine income earned in the previous calendar quarter from the licensee's video gaming devices and the amount due the department based on the net machine income.

(c) A person who fails to pay the taxes and fees or file a statement required under this section is subject to a civil penalty of not more than \$1,000 for each violation. Each day a person fails to comply constitutes a separate violation. The civil penalty may be imposed by the commission in an administrative proceeding or by a court.

(d) In this section, "net machine income" means money received from a video gaming device less money paid out in cash for credits earned from the video gaming device.

Sec. 05.45.510. DISTRIBUTION OF REVENUE. Subject to an appropriation made for the purpose, the commission shall pay one-third of the proceeds of the taxes collected under AS 05.45.500(a) and (b) to municipalities in the proportion that the revenue was earned within

1 them.

2 ARTICLE 6. GENERAL PROVISIONS.

3 Sec. 05.45.900. DEFINITIONS. In this chapter,

4 (1) "commission" means the Alaska Gaming Commission;

5 (2) "video gaming device"

6 (A) means an electronic machine that uses a video
7 screen or display and microprocessors to play or simulate the
8 play of the game of draw poker or the game of keno, as defined by
9 regulation of the commission, or of another game authorized by
10 the commission, and that upon insertion of money allows a user by
11 skill or chance to receive

(i) free games; or

(ii) credits that may be redeemed for cash;

14 (B) does not include a machine that directly dispenses
15 coins, cash, tokens, or anything else of value.

16 * Sec. 2. AS 05.15.060 is amended to read:

17 Sec. 05.15.060. REGULATIONS. The department shall adopt regu-
18 lations under the Administrative Procedure Act (AS 44.62) necessary to
19 carry out this chapter covering, but not limited to,

20 (1) the issuance, renewal, and revocation of permits and
21 licenses;

22 (2) a method of ascertaining net proceeds, the determina-
23 tion of items of expense that may be incurred or paid, and the limita-
24 tion of the amount of the items of expense to prevent the proceeds
25 from the activity permitted from being diverted to noncharitable,
26 noneducational, nonreligious, or profit-making organizations, indi-
27 viduals, or groups;

28 (3) the immediate revocation of permits and licenses au-
29 thorized under this chapter if this chapter or regulations adopted

*poker/keno/
other*

*can't dispense
coins*

*games of chance
skill - revoke license
if video gaming offense*

1 under it are violated;

2 (4) the requiring of detailed, sworn, financial reports of
3 operations from permittees and licensees including detailed statements
4 of receipts and payments;

5 (5) the investigation of permittees, licensees, and their
6 employees, including the fingerprinting of those permittees, licens-
7 ees, and employees whom the commissioner considers it advisable to
8 fingerprint;

9 (6) exclusion from participation as a permittee, licensee,
10 or employee of a permittee or licensee, of a person

11 (A) convicted of, in prison for, or on parole for a
12 felony within the preceding five years, or convicted of a crime
13 involving theft or dishonesty or of a violation of a municipal,
14 state, or federal gambling law; or

15 (B) whose video gaming license has been suspended or
16 revoked under AS 05.45;

17 (7) the method and manner of conducting authorized activ-
18 ities and awarding of prizes or awards, and the equipment that may be
19 used;

20 (8) the number of activities that may be held, operated, or
21 conducted under a permit during a specified period; however, the
22 department may not allow more than 14 bingo sessions a month and 35
23 bingo games a session to be conducted under a permit;

24 (9) a method of accounting for receipts and disbursements
25 by operators, including the keeping of records and requirements for
26 the deposit of all receipts in a bank;

27 (10) the disposition of funds in possession of a permittee
28 or a person, municipality, or qualified organization that possesses an
29 operator's license at the time a permit or a license is surrendered,

1 revoked, or invalidated;

2 (11) restrictions on the participation by employees of the
3 Department of Fish and Game in salmon classics;

4 (12) other matters the commissioner considers necessary to
5 carry out this chapter or protect the best interest of the public.

6 * Sec. 3. AS 05.15.122(c) is amended to read:

7 (c) The department may not issue an operator's license to an
8 applicant if the applicant or a person employed by the applicant in a
9 managerial or supervisory capacity

10 (1) [,] has been convicted of, in prison for, or on parole
11 for a felony within the preceding five years, or has been convicted of
12 a crime involving theft or dishonesty or of a violation of a municipi-
13 pal, state, or federal gambling law; or

14 (2) has had a video gaming license suspended or revoked
15 under AS 05.45.

16 * Sec. 4. AS 05.15.122(d) is amended to read:

17 (d) A licensee may not employ a person in a managerial or super-
18 visory capacity if the person

19 (1) has been convicted of, in prison for, or on parole for
20 a felony within the preceding five years, or has been convicted of a
21 crime involving theft or dishonesty or of a violation of a municipal,
22 state, or federal gambling law; or

23 (2) has had a video gaming license suspended or revoked
24 under AS 05.45.

25 * Sec. 5. AS 05.15.140(b) is amended to read:

26 (b) In an application for a permit, a municipality or qualified
27 organization shall disclose the name and address of each person re-
28 sponsible for the operation of the activity and whether any person
29 named

*deny
games of chance
license*

*restrict
games of chance
employment*

*games of chance
permit
application*

1 (1) has been convicted of, in prison for, or on parole for
2 a felony within the preceding five years, or convicted of a crime
3 involving theft or dishonesty or of a violation of a municipal, state,
4 or federal gambling law; [OR]

5 (2) has a prohibited financial interest, as defined in
6 regulations adopted by the commissioner, in the operation of the
7 activity; or

8 (3) has had a video gaming license suspended or revoked
9 under AS 05.45.

10 * Sec. 6. AS 05.15.140(c) is amended to read:

11 (c) The commissioner may not issue a permit for an activity
12 operated by a person who

13 (1) has been convicted of, in prison for, or on parole for
14 a felony within the preceding five years, or has been convicted of a
15 crime involving theft or dishonesty or of a violation of a municipal,
16 state, or federal gambling law; or

17 (2) has had a video gaming license suspended or revoked
18 under AS 05.45.

19 * Sec. 7. AS 11.46.482(a) is amended to read:

20 (a) A person commits the crime of criminal mischief in the
21 second degree if, having no right to do so or any reasonable ground to
22 believe the person has such a right,

23 (1) with intent to damage property of another, the person
24 damages property of another in an amount of \$500 or more;

25 (2) the person tampers with an oil or gas pipeline or
26 supporting facility or an airplane or helicopter with reckless disre-
27 gard for the risk of harm to or loss of the property;

28 (3) the person recklessly creates a risk of damage in an
29 amount exceeding \$100,000 to property of another by the use of widely

*deny
James
permit*

Class C felony - max \$50,000 + 5 yrs

1 dangerous means; [OR]

2 (4) the person drives, tows away, or takes the propelled
3 vehicle of another and the vehicle or any other property of another is
4 damaged or the owner incurs reasonable expenses as a result of the
5 loss of use of the vehicle in a total amount of \$500 or more; or

6 (5) the person physically manipulates or interferes with a
video gaming device regulated under AS 05.45 to alter the outcome of
or payoff from a game played or whose play is simulated on the device.

9 * Sec. 8. AS 11.66.280(2) is amended to read:

10 (2) "gambling" means that a person stakes or risks some-
11 thing of value upon the outcome of a contest of chance or a future
12 contingent event not under the person's control or influence, upon an
13 agreement or understanding that that person or someone else will
14 receive something of value in the event of a certain outcome; "gam-
15 bling" does not include

16 (A) bona fide business transactions valid under the
17 law of contracts for the purchase or sale at a future date of
18 securities or commodities and agreements to compensate for loss
19 caused by the happening of chance, including contracts of indem-
20 nity or guaranty and life, health, or accident insurance; [OR]

21 (B) playing an amusement device that

22 (i) confers only an immediate right of replay not
23 exchangeable for something of value other than the privilege
24 of immediate replay; and

25 (ii) does not contain a method or device by which
26 the privilege of immediate replay may be cancelled or re-
27 voked;

28 (C) an activity authorized by the commissioner of
29 commerce and economic development under AS 05.15; or

*penalty⁶
for machine
manipulation*

*exempt video
gaming from
in lawful gambling*

1 (D) using a video gaming device regulated under
2 AS 05.45;

3 * Sec. 9. AS 11.66.280(3) is amended to read:

4 (3) "gambling device" means any device, machine, parapher-
5 nalia, or equipment that is used or usable in the playing phases of
6 unlawful gambling, whether it consists of gambling between persons or
7 gambling by a person involving the playing of a machine; "gambling
8 device" does not include

*exclude
from
illegal
gambling
device*

9 (A) lottery tickets, policy slips, or other items used
10 in the playing phases of lottery or policy schemes; [OR]

11 (B) an amusement device as described in (2)(B) of this
12 section; or

13 (C) a video gaming device regulated under AS 05.45;

14 * Sec. 10. AS 11.81.900(b) is amended by adding a new paragraph to
15 read:

*criminal
code definition*

16 (58) "video gaming device" has the meaning given in AS 05.-
17 45.900.

18 * Sec. 11. AS 18.65.080 is amended by adding a new subsection to read:

19 (b) The Department of Public Safety shall investigate and ascer-
20 tain whether a person appointed by the governor to serve as a member
21 of the Alaska Gaming Commission has been convicted of a crime set out
22 in AS 05.45.010(c).

*criminal
record
check*

23 * Sec. 12. AS 29.10.200 is amended by adding a new paragraph to read:

24 (51) AS 29.35.085 (video gaming devices)

home rule limitations

25 * Sec. 13. AS 29.35 is amended by adding a new section to read:

26 Sec. 29.35.085. VIDEO GAMING DEVICES. (a) A municipality may
27 prohibit the installation and operation of video gaming devices within
28 the municipality by ordinance.

*muni. may
prohibit*

29 (b) Except as provided by (a) of this section, a municipality

1 may not license or regulate video gaming devices.

2 (c) This section applies to home rule and general law municipal-
3 ities.

4 * Sec. 14. AS 29.45.650^{sales tax}(f) is amended to read:

5 (f) This subsection applies to home rule and general law munic-
6 ipalities. A bdrrough may not levy and collect a sales tax on

7 (1) a purchase made with

8 (A) [(1)] food coupons, food stamps, or other type of
certificate issued under 7 U.S.C. 2011 - 2025 (Food Stamp Act);

9 (B) [OR (2)] food instruments, food vouchers, or
10 other type of certificate issued under 42 U.S.C. 1786 (Special
11 Supplemental Food Program for Women, Infants, and Children); or

12 (2) transactions involving video gaming devices. [THIS
13 SUBSECTION APPLIES TO HOME RULE AND GENERAL LAW MUNICIPALITIES.]

14 * Sec. 15. AS 29.45.700^{sales tax}(d) is amended to read:

15 (d) This subsection applies to home rule and general law munic-
16 ipalities. A city that levies and collects sales and use taxes under

17 (a) of this section may not levy and collect a sales tax on

18 (1) a purchase made with

19 (A) [(1)] food coupons, food stamps, or other types of
20 certificates issued under 7 U.S.C. 2011 - 2025 (Food Stamp Act);

21 (B) [OR (2)] food instruments, food vouchers, or other
22 type of certificate issued under 42 U.S.C. 1786 (Special Supple-
23 mental Food Program for Women, Infants, and Children); or

24 (2) transactions involving video gaming devices. [THIS
25 SUBSECTION APPLIES TO HOME RULE AND GENERAL LAW MUNICIPALITIES.]

26 * Sec. 16. AS 29.710800^{muni. apt.} is amended by adding a new paragraph to read:

27 (26) "video gaming device" has the meaning given in AS 05.-
28 45.900.
29

*munis. can't
tax*

1 * Sec. 17. AS 39.25.120(c) ^{partially exempt service} is amended by adding a new paragraph to
2 read:

3 (21) employees of the Alaska Gaming Commission.

4 * Sec. 18. AS 39.50.200(b) ^{conflict interest} is amended by adding a new paragraph to
5 read:

6 (50) Alaska Gaming Commission (AS 05.45.010).

7 * Sec. 19. AS 43.35.010(a) is amended to read:

8 (a) A person who maintains for use or permits the use on premi-
ses under the person's control of a coin-operated device class 1,
class 2, or class 3 shall first pay a tax as follows:

(1) \$48 a year for each coin-operated device class 1;

(2) \$120 a year for each coin-operated device class 2;

(3) \$240 a year for each coin-operated device class 3,

other than a video gaming device.

15 * Sec. 20. AS 43.35.030 is amended by adding a new subsection to read:

16 (b) The provisions of (a) of this section do not apply to a
17 person who is licensed as a distributor of video games under AS 05.-
18 45.010 - 05.45.900.

19 * Sec. 21. AS 43.35.090(3) is amended to read:

20 (3) "coin-operated device class 3"

21 (A) means a slot machine or other apparatus or device
22 that [WHICH] operates by means of insertion of a coin, token, or
23 similar object and that [WHICH], by strict dependence upon the
24 element of chance, may deliver or may entitle the person playing
25 or operating the machine to receive cash, premiums, merchandise,
26 or tokens; the term includes a device or apparatus that is other-
27 wise a coin-operated device class 2 [A DEVICE OR APPARATUS OTHER-
28 WISE FALLING WITHIN THE CLASSIFICATION OF (2) OF THIS SECTION,
29 THOUGH NOT STRICTLY DEPENDENT UPON THE ELEMENT OF CHANCE, IS

clarify
video game
not coin-
operated
device

1 TAXED ACCORDING TO THE RATE APPLICABLE TO SLOT MACHINES] if the
2 device or apparatus itself delivers cash directly to the person
3 playing or operating it;

4 (B) does not include a video gaming device;

5 * Sec. 22. AS 43.35.090 is amended by adding a new paragraph to read:

6 (5) "video gaming device" has the meaning given in AS 05.-
7 45.900.

8 ~~* Sec. 23. AS 44.62.330(a) is amended by adding a new paragraph to~~
9 read: *Admin. Procedures Act*

10 (55) Alaska Gaming Commission (AS 05.45.010).

11 * Sec. 24. INITIAL COMMISSION APPOINTMENTS. The governor shall make
12 the initial appointment of members of the Alaska Gaming Commission within
13 120 days after the effective date of this Act.

14 * Sec. 25. This Act takes effect July 1, 1990.

FISCAL NOTE

Sandra

REQUEST:

Revision Date: _____
Title: An Act relating to video gaming devices
Sponsor: Pourchot by request
Requestor: Senate State Affairs

Agency Affected: Commerce & Economic Dev.
BRU: Occupational Licensing

Components: Operating and Revenue

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	394.9	394.9	394.9	394.9	394.9	394.9
TRAVEL	36.3	36.3	36.3	36.3	36.3	36.3
CONTRACTUAL	104.5	104.5	104.5	104.5	104.5	104.5
SUPPLIES	12.0	10.0	10.0	10.0	10.0	10.0
EQUIPMENT	84.5*					
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	632.2	545.7	545.7	545.7	545.7	545.7

CAPITAL						
---------	--	--	--	--	--	--

REVENUE	<u>(7,481)</u>	7,481	7,481	7,481	7,481	7,481
---------	----------------	-------	-------	-------	-------	-------

FUNDING: (Thousands of Dollars) *2,486 to munis. Balance (4,995) to state*

GENERAL FUND	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
FEDERAL FUNDS						
OTHER						
TOTAL	632.2	545.7	545.7	545.7	545.7	545.7

POSITIONS:

FULL-TIME	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PART-TIME						
TEMPORARY						
	8	8	8	8	8	8

ANALYSIS : (Attach a separate page if necessary)

SEE ATTACHED

*One-time equipment item

less costs =
(4,363) in new revenues

Prepared by: Randall P. Burns, Director Phone: 465-2581
Division: Occupational Licensing Date: 2/20/90

Approved by Commissioner: Larry Mercurieff *SM* Date: 3/6/90
Agency: Department of Commerce & Economic Development

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor:
Office of Management and Budget
Impacted Agency(ies)

SSSB 263

This bill would provide for video gaming devices to be exempted from the definition of gambling devices. It provides for regulation and taxation of these devices as well as the licensing of premises operators and distributors through a five-member Gaming Commission.

In addition to license fees, it provides for a tax at the rate of 15% of the net machine income and a per-device tax of \$200 per year. One-third of the taxes collected are to be distributed by legislative appropriation to municipalities in proportion to the revenue earned from the video devices found within each community.

The bill provides for the installation of video gaming devices only in premises licensed under AS 04.11:

1. a beverage dispensary license under AS 04.11.090;
2. a duplicate beverage dispensary license for additional rooms under AS 04.11.090(e);
3. a club license under AS 04.11.110;
4. a common carrier dispensary license under AS 04.11.180; or
5. a pub license under AS 04.11.220.

The bill would permit a maximum of 20 devices per premises. For the purposes of this fiscal note, an average of five machines per licensed premises was used for the revenue projection.

FY 91 OPERATING EXPENSES

Personal Service Costs

<u>Location</u>	<u>Position</u>	<u>Range/Step</u>	<u>Annual Salary and Benefits</u>
Juneau	Executive Director	24A	\$73.2
Juneau	Revenue Auditor III	18A	\$50.3
Juneau	Tax Examiner II	12A	\$35.0
Juneau	Investigator III	18A	\$50.3
Juneau	Clerk Typist III	8A	\$28.6
Anchorage	Revenue Auditor III	18A	\$50.3
Anchorage	Investigator III	18A	\$50.3
Fairbanks	Investigator III	18A	\$56.9
Total Personal Services			\$394.9

Travel Costs

Staff - Perform inspections, audits, investigations, regulation hearings	\$ 20.0
Commission - travel and per diem	\$ 16.3
Total Travel	\$36.3

Contractual

For Testing of Devices	\$ 15.0
For Routine Inspections (RSA with ABC Board)	\$ 12.5
For Hearing Officer Services	\$ 25.0
For General Contractual (phones, photocopiers, postage, printing, etc.)	\$ 32.0
For Lease Space	\$ 12.0
For Staff Training	\$ 8.0
Total Contractual	\$ 104.5

Supplies (miscellaneous office supplies - start-up): \$ 12.0

Equipment:

Office furnishings and files
(chair, module, S drawer file) -

\$9.9 x 6 staff	\$ 59.4
\$7.7 x 2 staff	\$ 15.4
Wang Laser Printer	\$ 9.7
Equipment Total	\$ 84.5*

TOTAL OPERATING \$ 632.2

*This represents a one-time expenditure.

REVENUE PROJECTION

This projection is based on the average of only five video gaming devices licensed in each premises. SSSB 263 would allow up to 20 devices per licensed premises. Under AS 43.35.210, approximately 935 premises could be licensed. In 1987 the State of Montana implemented "Video Draw Police Machine Law of 1985," which is similar in content to SSSB 263. Our revenue projection for this bill is based on an assumed annual gross profit per device of \$9,300, which was Montana's gross profit per device in 1988. Montana currently has 7,500 devices licensed and collected tax of \$10,500.0 in the first year of the law's enactment. Montana's tax rate is 15%, the same as in SSSB 263.

TAX REVENUES

15% Tax on Gross Receipts

Approx. number of licensed premises	935
Est. total average devices per premise	5
Total estimated number of gaming devices (5 x 935)	4,675
Projected gross profit per device	\$ 9,300

Total gross profits (tax base; 4,675 x \$9,300)	\$43,477,500
--	--------------

15% TAX REVENUE (.15 x \$43,477,500)	\$ 6,521,625
--------------------------------------	--------------

\$200 Per-Device Tax

Total estimated gaming devices	4,675
Annual licensing fee	\$ 200
Total gaming device license fees (4,675 x \$200)	\$ 935,000

TOTAL ESTIMATED TAX REVENUE

1/3 → minus 3
\$ 7,456,652

LICENSING FEE REVENUE

Premise Operator's License

Licensed Premise	935
Annual license fee	\$ 100
Total operator's license fee	\$ 9,350

Distributor Licenses

Est. number of distributors fee	15
Distributor License Fee	\$ 1,000
Distributor license revenue	\$15,000

<u>TOTAL LICENSING REVENUE</u>	<u>\$ 24,350</u>
--------------------------------	------------------

<u>TOTAL ESTIMATED REVENUE</u>	<u>\$7,481,002</u>
--------------------------------	--------------------

Pat,

Here's the ferry gambling fiscal note (SB 146).

SB 146 has Dept. Revenue licensing vessels to operate gaming devices, which can be placed anywhere on the ferry where persons under age 21 aren't allowed, and Dept. Transportation depositing gaming receipts in a separate account in the general fund.

This is very different from your bill, which has the Gaming Commission licensing holders of liquor licenses to operate gaming devices, which can be placed only in bars. The ferry's liquor license is issued to the State, which means DOT would be paying the Gaming Commission \$200 per machine, 15% of net income, etc., and depositing the balance of the machine income in the general fund.

Would it require special wording in your bill to short circuit this? You're right that DOT "had it all worked out last year", but the wording of your bill is much more specific than the bill they were working from last year.

Sandra

**STATE OF ALASKA
1989 LEGISLATIVE SESSION**

BILL VERSION: SB 146
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____
 Title: "allowing gaming devices on ferries"
 Sponsor: Szymanski, Fajks & Pearce
 Requestor: Szymanski, Fajks & Pearce
 Agency Affected: DOT&PF - AMHS
 BRU: Marine Operations
 Components: SE Vessel Operations and Overhaul

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES		35.0	37.0	38.0	39.0	40.0
TRAVEL						
CONTRACTUAL		30.0	-	-	-	-
SUPPLIES		10.0	-	-	-	-
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		76.0	37.0	38.0	39.0	40.0
CAPITAL		0	0	0	0	0
REVENUE		150.0	155.0	160.0	165.0	170.0

FUNDING: (Thousands of Dollars)

GENERAL FUND		76.0	37.0	38.0	39.0	40.0
FEDERAL FUNDS						
OTHER						
TOTAL		76.0	37.0	38.0	39.0	40.0

POSITIONS:

FULL-TIME		0	0	0	0	0
PART-TIME		0	0	0	0	0
TEMPORARY		0	0	0	0	0

ANALYSIS : (Attach a separate page if necessary)

See attachment

Prepared by: Tom Shanley Phone: 465-3955
 Division: Alaska Marine Highway System Date: 3/29/89
 Approved by Commissioner: [Signature] Date: 3/29/89
 Agency: Department of Transportation and Public Facilities

- Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Fiscal note + analysis

DOT&PF FISCAL ANALYSIS FOR

SENATE BILL NO. 146

EXPENDITURES

Personnel Services - added cost would be overtime needed to supervise the gaming devices on the three vessels. Estimate \$12.0 per ship - no added position would be created.

Contractual - there will be approximately \$10.0 cost to upgrade electrical service to handle the 12 machines on each vessel.

Supplies - miscellaneous supplies such as mounting devices to make the games sea worthy.

Revenue - there is no sure way to predict the revenue. We doubled the revenue we are currently making on the 25 video games that are installed at this time. \$150.0 should be a conservative figure.

International Game Technology

Linda J. Dunaway
Regional Sales Manager
Government Systems Group

520 South Rock Blvd.
P.O. Box 10580
Reno, NV 89510

Phone 702/688-0240
FAX 702/688-0668

International Game Technology

INTRODUCTION

We appreciate your interest in IGT -- recognized to be the industry leader in the design and manufacture of video lottery & gaming systems and equipment. Our hope is that the information contained in this packet will give you insight regarding our past and current operations, as well as our visions for the future. We look forward to acquainting you with our company and we stand ready to answer any questions you might have.

To acquaint you with the the Governmental Systems Division of IGT, this group provides liaison support and solutions to governmental bodies in North America, including state legislatures, lotteries, and other agencies. The Division is lead by Vice President Jerome Young, whose previous experience includes Product Marketing Specialist for IBM Corporation, Deputy Director of Operations for the Ohio Lottery Commission, and Vice President of Sales for Syntech International, a leading manufacturer and supplier of on-line lottery systems.

Your contact with IGT is Ms. Linda Dunaway, Regional Sales Manager for the western United States and Canada. With four years of Sales & Marketing experience in the U.S. Regional & International Sales Division of IGT, Ms. Dunaway is prepared to answer any questions you might have regarding the company and its products & systems.

It is our privilege to meet with you; we appreciate your time and interest. In this and future meetings, we look forward to learning more about your operations and specifically about the needs which IGT can address and fulfill.

* * * * *

International Game Technology

FACT SHEET

Corporate Headquarters:

International Game Technology
520 South Rock Boulevard
Reno, Nevada 89502
Phone: (702) 688-0100
Telex: 170485IGTRNO
FAX: (702) 688-0120 (Corporate)
(702) 688-0247 (Sales)

Executive Officers:

- William S. (Si) Redd - Chairman Emeritus
- Charles N. (Chuck) Mathewson - Chairman and Chief Executive Officer
- John J. (Bud) Russell - President & Chief Operating Officer
- G. Thomas Baker - Chief Financial Officer/Vice President
Finance/Administration
- Raymond D. Pike - Senior Vice President & General Counsel
- Peter Dickinson - Senior Vice President Engineering
- Bob Bittman - Vice President Marketing
- Mike Brown - Vice President Operations
- Bob McMonigle - Vice President Sales
- Jerome A. Young - Vice President Governmental Systems

Company History:

- A-1 Supply founded by Si Redd, 1975
- A-1 Supply became SIRCOMA (SI Redd COin MACHines), 1979
- SIRCOMA became International Game Technology with an initial public offering in October, 1981

Subsidiaries:

- IGT (Australia) Pty., Limited
286-288 Coward Street
Mascot, N.S.W., 2020: Australia
Phone: (02) 669-3000
Telex: AA120565
FAX: (02) 669-3779
Dean McClain, Managing Director

● Electronic Data Technologies (EDT)

Las Vegas:

1085 Palms Airport Drive
Las Vegas, Nevada 89119-3715
Phone: (702) 361-1510
FAX: (702) 361-0838
Bill Dukes, President

Reno:

4900 Energy Way
Reno, Nevada 89502
Phone: (702) 688-5650
FAX: (702) 688-5659
Ray Brown, President Gaming Operations

● CMS

520 South Rock Boulevard
Reno, NV 89502
Phone: (702) 323-5060
FAX: (702) 788-6792
Ed Stevenson, President & CEO

Manufacturing Plants:

- Reno, Nevada
- Sydney, Australia

Distributors:

- Atlantic City Coin and Slot Service Company
14 W. Mulberry Avenue
Pleasantville, New Jersey 08232
Phone: (609) 641-7811
FAX: (609) 641-6854
Mac Seelig, President
- Casino Coin (a division of Eurocoin Limited)
Fortune House, Moxon Street
Barnet Herts, England EN5 5SD
Phone: (01) 449-0077
FAX: (01) 449-7217
TELEX: 266016
- IPG Indo Pacific Gaming
Asia:
P.O. Box 57
Crows Nest N.S.W. 2065 Australia
Phone: (02) 906-1810
FAX: (02) 906-2228 or (02) 439-2157
TELEX: SECCO AA 2546

Africa:

Fortune House, Moxon Street
Barnet Herts, England EN5 5SD
Phone: (01) 449-0077
FAX: (01) 449-7217
TELEX: 266016

- Ludi S.F.M.
c/o Le Royal Riviera
3, Avenue Jean-Monnet
06230 Saint-Jean-Cap-Ferrat, France
Phone: 93,01,16.13
FAX: 93,01,23,55

Financial and Capital Fiscal 1989

- \$104,640,000 product sales
- \$ 27,209,000 gaming and route operation revenues
- \$152,073,000 gross revenues
- \$ 20,224,000 CMS revenues
- \$170,233,000 total assets as of September 30, 1989
- \$ 6,868,000 expended on research and development in fiscal 1989

Machines Produced Annually:

<u>YEAR</u>	<u># of units</u>
● 1982	4,812
● 1983	4,670
● 1984	4,698
● 1985	7,143
● 1986	9,645
● 1987	11,875
● 1988	13,404
● 1989	18,708

Current Product Lines:

- S-Plus
- S-Slot Mini Bertha
- Player's Edge-Plus upright series
- Player's Edge-Plus Slant-Top-Bar
- Player's Edge-Plus Drop-In-Bar
- Fortune II Double Screen Keno
- Video Mini Bertha
- Colossus Slot
- Megabucks
- Quartermania

Product Placements:

- 60,000-plus machines in virtually every major casino throughout Nevada, Atlantic City and the world.

Auxiliary Products:

- Progressive meter displays
- Bill Acceptors
- Player/Group tracking systems (EDT Gaming Management Systems)
- Slot Information Systems (SIS) (EDT Gaming Management Systems)
- Computerized Keno (EDT)
- Pick Bingo (EDT)
- Casino Furnishings (seating, bars, slot stands, ect.)
- Casino message units

Customized Services:

- Custom screen printing of slot machine glass
- Custom video graphics
- Casino interior design service
- Training schools for casino slot technicians

Employees:

- 1,064 personnel in engineering, manufacturing, operations, service and marketing divisions (including subsidiaries)
- 228 trained service specialists
- 141 research and development professionals
- 45 quality control experts

Square Footage

- 328,408 square feet encompassing manufacturing, engineering, warehousing and administrative operations.

Vehicle Fleet:

- More than 90 service and route vehicles, allowing radio-dispatched service 24 hours a day, seven days a week.

Sales and Service Offices:

- Reno, Nevada (702) 688-0100
- Las Vegas, Nevada (702) 798-7878
- Elko, Nevada (702) 738-3676
- Hialeah, Florida (305) 821-7375 (Int'l Cruise Ships)
- Missoula, Montana (406) 728-2292
- Billings, Montana (406) 652-8466
- Wellington, New Zealand (64) 432-4247

Service Offices:

- Laughlin, Nevada (702) 754-3517
- Stateline (Lake Tahoe), Nevada (702) 882-3337

Revised: 02/7/90

International Game Technology

IGT HISTORICAL OVERVIEW: A COMMITMENT TO QUALITY

International Game Technology (IGT) is the world leader in the design and manufacture of slot machines, video gaming equipment and a variety of specialty casino devices.

IGT offers the broadest product line of any gaming manufacturer. The Nevada-based company's slogan, "We Make The Games People Play And Play And Play," reflects the high quality, innovative engineering and player appeal found in each IGT machine.

Working closely with casino management, IGT's engineers and marketing representatives have created a complete line of spinning reel slot machines and video gaming products that increase casino profits and entertain gaming customers. From the popular S-Plus series of reel-type slot machines and the colorful Player's Edge-Plus video poker machines, to its unique Megabucks, Quartermania and Power Poker area-wide progressive systems, IGT's commitment to innovation is reflected in its research and development.

The company employs 1,064 persons, including 171 in administrative positions, 75 in sales and 141 in engineering research and development.

IGT's vast product variety includes the Player Edge-Plus poker line, S-Plus slot series, Fortune II Double Screen Keno, Player's Edge bar (available in flat and slant top versions), Stepper Mini-Bertha and Colossus slots. Every product is characterized by tremendous player appeal, sophisticated security, competitive pricing, reliability and strong earning power for the casino.

William S. (Si) Redd founded the company in 1975 as A-1 Supply and changed the name to SIRCOMA in 1979. IGT came into existence as a publicly traded company (NASDAQ: IGAM) in 1981.

Reporting \$98.7 million in sales for fiscal year 1988, the company has assets of \$127.8 million. In 1988 IGT manufactured 13,404 machines, an increase of 11.6 percent over 1987. By quickly meeting the changing

needs of the legalized gaming marketplace, the corporation's history is marked by growth and product achievement.

During the early 1980s, IGT was recognized for generating widespread popularity for its innovative video draw poker machines. The company has established itself as a world leader in both video and reel-type gaming machine technology, and is responsible for revolutionary gaming concepts like Megabucks, Quartermania and Power Poker. While IGT continues to dominate the video poker market with its Player's-Edge series, the technologically advanced S-Plus product line has brought about the company's leadership role in reel slot productions. These electronic microprocessor-controlled reel-type slot machines have been strongly received in the domestic and international markets.

"With the S-Plus slots there's no wear, tear or heat as with the old mechanical machines," says Bob Bittman, IGT vice president of marketing. "New technology has allowed us to make machines that are more secure and reliable. Reprogramming a machine for different games can be done in a matter of minutes so casinos can provide customers with the most popular and appealing games. The machines can be easily linked into progressive jackpot packages for additional player excitement."

Currently, more than 70,000 IGT machines are operating in virtually every major casino gaming market in the world. IGT is highly visible throughout Nevada with sales and/or service offices in Las Vegas, Reno, Lake Tahoe, Laughlin and Elko. IGT also has satellite offices serving cruise ships in Florida, gaming outlets in Montana and the New Zealand market.

The company has exclusive distributorship agreements with Atlantic City Coin and Slot for the New Jersey and Caribbean markets; Casino Coin, a company based in England, represents IGT throughout most of Europe; Ludi SFM Ltd, represents IGT in France; and Indo Pacific Gaming (IPG), with offices in London and New South Wales, services Asia and Africa.

IGT's wholly owned subsidiary in Sydney, Australia - IGT (Australia) Pty., Limited - operates a complete engineering, manufacturing and distributing facility in the most important gaming machine market outside of the United States. Since beginning manufacturing operations in October 1986, IGT Australia has captured 50 percent of all gaming machine sales.

In August 1988 "CMS" was established as a wholly owned subsidiary of IGT to develop and manage certain gaming operations for IGT. CMS currently manages the Treasury Club and Silver Club in Sparks, Nev., King's Casino on the island of Antigua in the Caribbean and the El Capitan in Hawthorne, Nev.

Electronic Data Technologies, a Nevada-based corporation, develops and manufactures information and player tracking systems which monitor the activity of slot machines on a real-time basis. EDT also operates one of the largest gaming machine routes in Nevada. EDT was wholly owned by IGT until October 1987, when EDT completed a public offering of 700,000 shares of common stock. In August 1989, another public offering of 1,083,478 shares reduced IGT's ownership in EDT to 43 percent.

IGT also owns 9.9 percent of the outstanding shares of Syntech International common stock and has warrant to purchase one million shares of common stock at \$9 per share. Syntech, a publicly traded company, is engaged in the design, manufacture, sales and operation of government-sponsored lottery transaction processing systems.

IGT's Chief Executive Officer Charles Mathewson views IGT's future as focusing on its strengths. "We're dedicated to remaining the industry leader in video and reel slot sales, while continuing to commit our resources to innovation within the gaming industry," Mathewson noted.

-# # #-

Revised: 12/19/89

The New York Times

TUESDAY, SEPTEMBER 12, 1989

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Business Day

The New York Times



The New York Times/The Associated Press

Charles N. Mathewson, chairman of International Game Technology, considered the most technologically adept of the gaming machine companies.

Slot Machine Maker Hits Jackpot

International Game Offers Big Payoffs

By RICHARD W. STEVENSON

Special to The New York Times

RENO — Charles N. Mathewson, a successful investor from California, was at a golf tournament here six years ago when he noticed people lined up to play a video poker game at the Reno Hilton. Intrigued, he checked the machines for the name of the manufacturer and bought some stock in the company, International Game Technology.

Today Mr. Mathewson is International Game's chairman and chief executive, and his interest in the company has proved well justified. More than any other company, International Game has capitalized on the rapidly growing popularity of slot machines and other gaming machines among gamblers and casinos. Unprofitable as a niche player in the business four years ago, International Game has seized the industry's

No. 1 position both in the United States and around the world since Mr. Mathewson stepped in to manage the company in early 1986.

"International Game Technology absolutely dominates the slot machine business," said Willard Brown, an analyst at Dean Witter Reynolds.

Moved Past Competitor

In some extent, the company's success reflects the difficulties encountered during the middle of this decade by the Bally Manufacturing Corporation, which for years was the largest and most respected of slot machine builders. Industry executives say that Bally was slow to adopt the computer technology that revolutionized gaming machines in the early 1980's, and that the company encountered quality control problems, giving International Game an opening.

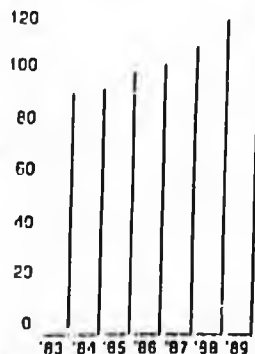
"Bally kind of fell asleep," said Michael Gaughan, the president of the Gold Coast and Barbary Coast casinos in Las Vegas.

International Game has also benefited from the weakening in recent years of the dollar against the yen, which has put price pressure on the company's other major competitor in

Continued on Page C4



Total number of slot machines in Nevada in the second quarter of each year, in thousands.



Source: Nevada Gaming Control Board

The New York Times Page 12 1989

Slot Machine Maker Surges With New Games

Continued From First Business Page

the United States, the Universal Company of Japan.

Innovative Products

But mostly International Game has become successful by developing what analysts and industry executives say are the most innovative and reliable products in the business and establishing a reputation as the most technologically adept of the gaming machine companies.

Moreover, it did so as slot machines were overtaking table games to become the single largest gaming activity in casinos in Nevada and Atlantic City. In 1978, 35 percent of the dollar volume of legal gambling in Nevada went through slot machines. Last year the figure was nearly 60 percent.

Gambling experts attribute the shift largely to the gaming industry's success at reducing its reliance on high rollers, who favor dice and card games, and increasing the appeal of casinos to the mass market — generally people who are reluctant to bet large amounts and who are reassured by the relative simplicity of operating slot machines.

Odds Improved

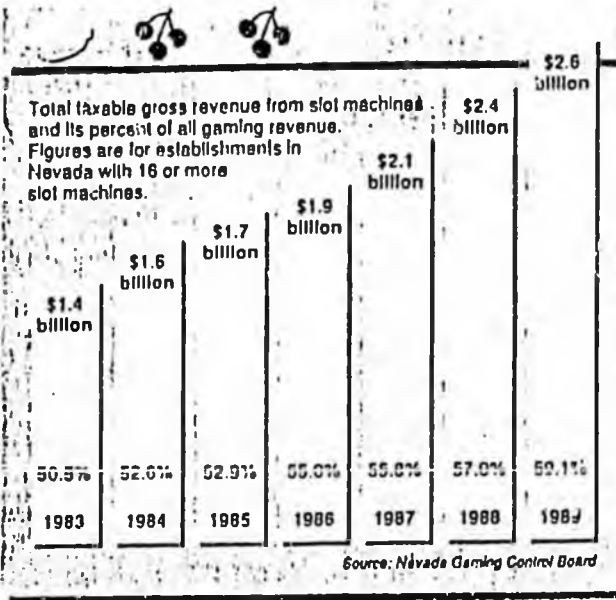
Machines have also shed their image as offering the worst odds in the house. Because of the intense competition among casinos for slot players, most machines return at least 85 to 90 percent of bettors' money in the form of jackpots, which is often better than the odds for an average player in a card game like 21, for example.

"The lowly slot machine is now the lifeblood of the casino industry," Mr. Mathewson said.

International Game contends it has 65 percent of the gaming machine market in Nevada, which has more slot machines than any other place in the world, and 50 percent of the worldwide market.

The company, which had revenues of \$52.1 million three years ago, should finish the year ending Sept. 30 at nearly three times that size, with sales of close to \$150 million. The company lost money until last year, when it earned \$8.4 million. In the nine months ended June 30 this year, International Game had net income of \$7.6 million, and should post a sizable earnings gain for the year.

The company expects to sell as many as 19,000 machines worldwide this year, up 35 to 40 percent from last year, Mr. Mathewson said, and nearly triple the unit volume of two years ago. Sales are being driven by the construction of several casinos in Las Vegas as well as by the trend among many casinos to give more floor space to slot machines. The median price for a slot machine is \$5,000, and at a successful casino a



The New York Times/Sept. 12, 1989

'The lowly slot machine is now the lifeblood of the casino industry.'

new machine pays for itself in months, analysts say.

[The company has been hot on Wall Street, as well. Its stock price, which dipped as low as \$7 early last year, closed Monday at \$31.50 in over-the-counter trading.]

The company seemed far less attractive four years ago, when Mr. Mathewson, who by then had a 16.8 percent stake in the company, took day-to-day control from a management headed by William S. Reed, a longtime gaming executive. Although it had staked out a position as a leader in the fast-growing field of video poker games and had a reputation for technical prowess, the company was losing money, had high costs, and according to some employees was poor at salesmanship and unable to mesh its technological skill with its production capabilities and marketing needs.

Mr. Mathewson and the new managers beefed up marketing efforts, forced engineers to become more responsive to what customers wanted and then promised to get out of the way of operating managers.

"They brought to the company a different management philosophy,

which was to give good people the latitude to do their jobs," said Peter Dickinson, the company's senior vice president for engineering, who had been with the company before Mr. Mathewson's arrival. "We're more vibrant technologically because we have the freedom to pursue things without a lot of meddling from the top."

The primary example of technical creativity is the company's use of technology it had developed for a now-discontinued state-run lottery system in Nebraska. The system linked machines all over the state in a single network that could instantaneously update to all locations the total size of the payoff as it increased with each lottery ticket purchased. After overcoming some knotty problems with insuring the system's security and reliability, International Game adopted it several years ago for use as a network of interlinked slot machines installed in more than 100 casinos around Nevada.

Called Megabucks, the system combines the \$1 to \$3 bets made by gamblers into a "progressive" pool that grows until someone hits the jackpot, much as in a lottery. While the machines continue to pay off small bets, flashing signs at each location advertise the pool's growing size second by second. The minimum payoff is \$1 million, and the largest to date has been \$6.8 million. Another version of the game, called Quartermania, requires bets of only 50 cents and has a minimum payoff of \$200,000. There is also a video poker version.

The games have proved to be among the most popular in years both

with gamblers and with casinos. And they are also quite profitable for International Game. In Nevada, where it owns the Megabucks slot machines itself instead of selling them to the casinos, the company keeps a few cents of every dollar bet in the progressive system, with the casinos also getting part of the take. But it also makes money by paying the winner over 20 years and investing the Jackpot in Government bonds in the meantime.

Last month, gaming regulators in New Jersey approved Megabucks for use in Atlantic City. The system is expected to be operating there by the end of the year, and Mr. Mathewson said all or most of the casinos there — possibly including the one owned by Bally, his slot machine rival — are expected to feature the game. In Atlantic City, gaming regulations preclude International Game from sharing in the proceeds of the betting or paying out the jackpot itself, so the company will make money there by leasing the machines to the casinos and charging a management fee.

"International Game is the only company in the world with an inter-casino progressive game," Mr. Brown at Dean Witter said. "It would take a competitor years to develop the technology."

Mr. Brown thinks the company will use the technology to get back into the state lottery business, another fast-growing industry.

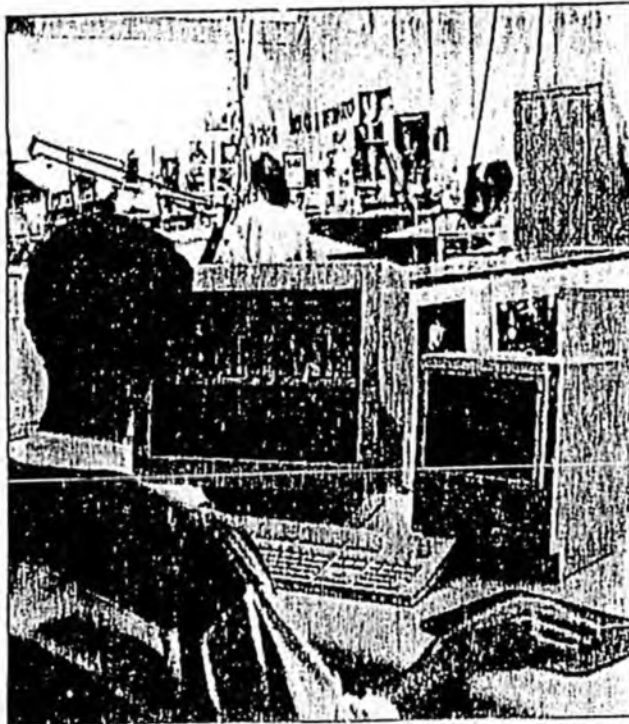
Mr. Mathewson said the company's annual research and development budget of \$6 million to \$7 million was more than the rest of the industry's combined. Casino executives say the company's machines set a new standard in reliability in recent years, although they say Universal and Bally have since caught up. But they say International Game remains particularly good at developing new games in a business where gamblers quickly grow tired of old machines.

Among the company's innovations: a slant-topped machine with a seat, a design widely copied by competitors.

International Game also owns a 28 percent stake in a small company called Electronic Data Technologies. Electronic Data has developed a system that allows casinos to track the slot machine play of individual gamblers by issuing magnetic cards that the gamblers insert in the machines they use.

Casinos, which try endlessly to steal each other's customers and hold on to those they have, use the cards to attract gamblers in slot-machine clubs, which reward frequent play with bonus points that can be redeemed for free gifts — gambler's version of a frequent flier program. International Game plans to sell a further portion of its stake in Electronic Data to the public.

Mr. Mathewson is watching the global growth of casinos. The company has a manufacturing plant in



The New York Times/Mark Savage

Computer artist trainees at International Game Technology in Reno. International Game says it has 65 percent of the gaming machine market in Nevada and 50 percent of the worldwide market.

Australia, which has a sizable and growing casino industry. Mr. Mathewson has hopes for France, where only a handful of the 150 casinos have slot machines, and he is intrigued by the Soviet Union, which sees casinos

as an appealing way to gather foreign currency.

Close to home, he is monitoring states like Ohio and Indiana, which are studying the idea of introducing casinos to raise revenue.

3-12-90
Met w/ Linda Dunaway &
Dan Sullivan

Suggested putting video gaming under
charitable provisions to
make it more palatable to Leg.

Stressed much video gaming going on in
state now (Elks Club, etc.)

cost @ \$5000/machine

provided model legislation.

Technology IGT uses: Would hope to
provide all machines in state, hook
to master computer - daily audit
reports. IGT would run ^{for state} for a small fee.

Pull tabs very non-secure form of
gaming (lots of room for abuse) -
video gaming very secure.

Model Leg. drafted
by IGT

~~CONFIDENTIAL~~

AN ACT TO AMEND THE EXECUTIVE LAW AND THE PENAL LAW, IN RELATION TO THE ENACTMENT OF THE VIDEO GAMING MACHINE LAW, THE CREATION OF THE STATE GAMBLING COMMISSION AND MAKING AN APPROPRIATION THEREFOR.

VIDEO GAMING MACHINE LAW*

§101. State Gambling Commission.

1. There is hereby created in the executive department a state gambling commission which shall consist of five members all of whom shall be citizens and residents of the State and shall have been qualified voters in this State for a period of at least one year preceding their appointment. Not more than three members shall belong to the same political party.

2. No member of the commission shall hold any other public office either of the State or the United States.

3. Each member shall be appointed by the Governor for six years, provided, however, that of the members first appointed, one shall be appointed for a term of two years, one for a term of three years, one for a term of four years, one for a term of five years and one for a term of six years. Their successors shall be appointed for terms of six years.

4. The Governor shall designate one of the members as chairman.

5. The chairman shall, when present, preside at all meetings, and in his absence a member designated by the chairman shall preside.

6. Three members of the commission shall constitute a quorum, and any action or order of the commission shall require the approval of at least three members, except that initial licensing shall require a quorum and the approval of at least four members.

7. Each member of the commission shall receive compensation fixed by the Governor within the amount made available by appropriations therefor. In addition, all members shall receive actual and necessary expenses incurred by them in the performance of their duties.

8. Vacancies in the commission, occurring otherwise than by expiration of term, shall be filled for the unexpired term in the same manner as original appointments.

9. There is established within the commission the

*(This can be modified to include all gaming devices if so desired)

office of director. The director shall be appointed by the commission to serve at the pleasure of the commission. The director shall not be a member of the commission nor hold any other public office. The director shall be the chief administrative officer of the commission and shall have the responsibility for carrying out the decisions and actions of the commission, for administering all affairs of the commission in accordance with its rules and regulations, and have such other powers and duties as shall be delegated by the commission.

10. The director shall receive an annual salary to be fixed by the commission within the amount made available by appropriation therefor, and in addition, he shall be entitled to receive reimbursement for expenses actually and necessarily incurred by him in the performance of his duties.

11. Except as provided by law, and at the discretion of the commission, the director may appoint a deputy and such other officers and employees as he may determine necessary for the efficient operation of the office, and shall prescribe their powers and duties, fix their compensation and provide for reimbursement of their expenses within amounts appropriated therefor. Legal counsel shall be provided by the State Attorney General's Office.

§102. Powers and Duties of the Commission. The commission shall have the power and it shall be its duty to:

1. Establish licensing criteria, licensing procedures and fees for the placement of video gaming machines;

2. Prescribe forms of application for licenses and amendment of licenses;

3. License approved persons and establishments permitting the placement of video gaming machines by approved persons in such establishment;

4. Prescribe the type of games to be conducted;

5. Prescribe the use of video gaming machines or mechanical or electronic devices of any kind, and supervise the placement of same;

6. Monitor the use, maintenance and service of video gaming machines;

7. Report to the appropriate authority, and person, association or corporation liable to prosecution or conviction for unlawful activity or for violation of any provisions of this article;

8. Issue subpoenas or subpoenas duces tecum, administer oaths and examine witnesses under oath, for the purpose of investigating any matter within the jurisdiction herein prescribed for the purpose of aiding the commission in enforcing the provisions of this article. Such subpoenas shall be issued in the name of the commission. Such subpoenas may be served by any enforcement agent, special investigator or by any police or peace officer;

9. Establish procedures to provide that all monies received by licensees from wagering less the amount, if any, retained by such licensees for profit or paid off to winners, be deposited to the commission's credit in banks, banking houses or trust companies designated by the commission; and

10. Prepare and promulgate rules and regulations necessary to implement all provisions of this article.

§103. Enforcement Agents. The commission shall designate such of its employees as enforcement agents as it shall deem necessary who shall have the following powers and duties:

1. Investigate, after the filing of an application for a license, the qualifications of each applicant, to determine the merits of each application;

2. Ascertain that the applicant and persons or members of any organization associated with such applicant, bearing directly upon such application are persons of good moral character and have never been convicted of a felony crime, or any crime involving any gaming laws or moral turpitude;

3. Investigate all of the officers and each of the stockholders who hold 10 percent or more of issued stock, concerning any corporation leasing premises to any applicant where video gaming machines are to be placed to ascertain that such officers and stockholders are persons of good moral character and have never been convicted of a felony crime, or any crime involving any gaming laws or moral turpitude;

4. Notwithstanding the provisions of Subdivisions 1 through 3 of this section, no licensing investigation shall be undertaken prior to the submission of an application together with an initial deposit as specified by the commission to be applied against the cost of the investigation;

5. Investigate fraud, deceit, misrepresentation or any unlawful conduct concerning the operation, maintenance, or placement of gaming or amusement machines;

6. Report to the commission in writing concerning any person, association or corporation liable to prosecution or conviction for unlawful activity or for violation of any provision of this article; and

7. Carry out any and all directions of the commission to implement the provisions of this article.

§104. Issuance of License. The burden is upon each applicant to demonstrate his suitability for licensure. The commission must first issue a video gaming machine license for any premises operated as a resort, licensed liquor establishment, club, or hotel upon which a video gaming machine is to be placed and made available to the public, provided, however that:

1. No license application shall be acted upon for final consideration by the commission until the applicant has reimbursed the commission for the full cost, including agent time and expenses, of the investigation.

2. Each licensed liquor establishment or club shall possess a valid liquor license issued by the state liquor authority in effect during the application for and issuance of a video gaming machine license and at all times thereafter during which a video gaming machine is made available to the public for play;

3. Except as otherwise specifically authorized by the Commission, no licensed liquor establishment or club shall be licensed for more than ~~ten~~ ^{twenty} video gaming machines for any single license; and

*4. [Except as otherwise specifically authorized by the Commission, hotels or resorts shall be licensed for the number of video gaming machines in relation to the number of qualifying sleeping units in such hotel or resort as follows:

<u>Minimum Number of Rooms</u>	<u>Maximum Number of Machines Permitted</u>
50	10
100	20
200	40
300	50
400	60
500	70
1000	150
1500	225
2000 or more	at the discretion of the commission]

*Optional

§105. Suspension and Revocation of License.

1. Any license issued by the commission pursuant to this article may be revoked, cancelled or suspended in the manner prescribed in this section.

2. The commission may on its own initiative or on complaint of any person, institute proceedings to revoke, cancel or suspend any license after hearing at which the licensee shall be given an opportunity to be heard; except in emergency circumstances warranting immediate suspension, in which circumstances a hearing shall be had as soon as practicable following the suspension and such suspension must be authorized by not less than four commission members. Such hearings shall be held in such manner and upon such notice as may be prescribed by the rules of the commission.

3. A license may be suspended or revoked by the commission for the following reasons:

a. Conviction of the licensee, or any officer, key employee or principal shareholder of the licensee, of an offense defined in this Act or in the penal law of this State or the United States Code;

b. Failure to file any return or report or to keep records required by the commission or violation of any regulation of the commission;

c. Failure to pay any tax required by any article of the tax law; or

d. Fraud, deceit, misrepresentation or conduct prejudicial to public confidence in the fair and honest operation of video gaming machines.

§106. Gaming machine use by minor; prohibited.

1. No licensee shall cause or permit any minor under the age of 21 years to use or play a gaming machine.

2. Any licensee who knowingly permits a minor to use or play a gaming machine shall be liable upon conviction, to a fine not to exceed \$5,000.

§107. Licensing and Registration; Video Gaming Machines and Service Industries.

1. Every individual, corporation, contractor, subcontractor or partnership offering a licensee goods or services on a regular basis which directly relate to the manufacture, modification, distribution, sale, operation, maintenance or security of video gaming machines, shall be licensed and registered pursuant to rules and regulations of the commission.

2. Every video gaming device model offered for play shall first be investigated and approved pursuant to the

Regulations of the Commission, and each machine offered in this state for play shall conform to an approved model. Each such approved model must include, at a minimum:

a. Conform to all requirements of federal law, including FCC Emissions Standards.

b. Must theoretically pay out a mathematically demonstrable percentage of all amounts played, which must not be less than 80%. Lottery games which may be affected by skill must meet this standard when using a method of play which will provide the greatest return to the player over a period of continuous play.

c. Must use a random selection process to determine the outcome of each play of a game. The random selection process must meet 95% confidence limits using a standard chi-squared test for [randomness] goodness of fit.

d. Must display an accurate representation of the game outcome.

e. Must not automatically alter pay tables or any function of the device based on internal computation of hold percentage.

f. Must exhibit total immunity to human body electrostatic discharges on all player-exposed areas.

g. The random number generator and random selection process must be impervious to influences from outside the device and must use appropriate communication protocols to protect the random number generator and random selection process from influence by affiliated equipment, such as the central site monitoring equipment.

h. Must be capable of detecting and displaying the following conditions during idle states or on demand: power reset, door open, door just closed, inappropriate coin-in if the appropriate coins in are not returned.

i. The program residing in the device must be contained in a storage media which is not alterable through any use of the circuitry or programming of the device itself.

j. Must have the capacity to display complete play history (outcome, intermediate play steps, credits available, bets placed, credits payed and credits cashed out) for the most recent game played and one game prior thereto.

k. The control program must check for any corruption of random access memory locations used for crucial gaming device functions including, but not limited to, information pertaining to the play and final outcome of the two prior games, random number generator outcome, credits available for play, and any error states. These memory areas must be checked for corruption following game initiation but prior to display of the game outcome to the player. Detection of any uncorrectable corruption shall be deemed to be a game malfunction and must result in a tilt condition.

l. The game must incorporate a non-volatile memory device other than a battery backed up device, that is to store crucial game accounting meters and game options. This device is to be attached to the cabinet in such a way that it will remain with the cabinet of the machine in the event that the game controlling processor circuit board is removed and replaced. The game controlling program must use the information contained in this device if the device contains valid data and the data does not match the data in the game controlling processor boards memory.

m. The device must check for any corruption of the non-volatile memory that is attached to the cabinet of the machine. This memory must be checked on every power up and any read conditions. Detection of any uncorrectable corruption shall be deemed to be a game malfunction and must result in a tilt condition.

n. The theoretical payback percentage of a device must not be capable of being changed without making a hardware or software change in the device.

o. All devices must be equipped with the following electronic digital storage meters: "in," "out," and "drop." The value of these meters are in units equal to the denomination of the device, and must be at least 6 digits in length. The game must provide the means for on-demand display of stored information.

p. Device "in" meters must accumulate all coin and credit transactions that result in wagers. The "out" meters must accumulate all coin and credit transactions paid by the gaming device for winning combinations. The "drop" meters must accumulate the number of coins that have been diverted into a drop bucket.

q. Devices must be designed so that replacement of parts or modules required for normal maintenance does not necessitate replacement of the electromechanical meters.

r. Devices must have an electronically stored digital meter of at least 3 digits for the number of plays since power on and the number of plays since door closure. When

the maximum value has been reached, the meters must remain at that value until reset by occurrence of the appropriate event. The device must provide the means for on-demand display of the stored information.

s. Electronically stored meter information required by this section must be preserved for a minimum of 72 hours after a power loss to the device.

t. Collectible credits may be accumulated from wins or from approved currency acceptors. Collectible credits may be accumulated directly from coin or token acceptance if the gaming device uses a coin/token acceptor that accepts or rejects on the basis of the metallic composition of the coins being used.

§108. Local Option.

1. No video lottery machine shall be placed in any county unless and until a proposition therefor submitted at a general or special election in such county shall be approved by a vote of the majority of qualified electors in such county voting thereon.

2. A proposition for the placement of video gaming machines in a county shall be placed upon the ballot at any such election if a petition signed by 200 qualified electors of such county shall be filed with the county board of elections.

§109. Distribution of Revenues.

1. Revenues derived from video gaming machines by the State shall be held by the commission until such time as they are distributed.

2. The revenues to the State from the licensing and operation of the video gaming machines shall be distributed to the State general fund, except that 40 percent of said revenues shall be allocated to the local county general fund in the participating county from which the revenues are derived.

§110. Distribution of Proceeds.

1. The commission shall set the winning payoff percentage for all video gaming machines licensed in the State. However, at no time shall the average theoretical payoff percentage be less than 83 percent to the player.

2. The State shall receive ¹⁵~~7~~ percent of ^{net machine income.} all monies wagered.

3. The balance, if any shall be retained by licensees. Only a person licensed pursuant to §104 or §107 above may share in the revenue of video gaming machines.

§111. Exemption from Penal Law. The penal law is amended to exclude from its prohibition any manufacture, sale, distribution and operation of video gaming machines pursuant to this article. Such activity is specifically declared exempt from the provisions of 15 U.S.C. §§1171-1177, affecting the shipment of gaming devices in interstate commerce.

§112. Definitions.

1. "Club" means an organization of persons incorporated pursuant to the provisions of the not-for-profit corporation law or the benevolent orders law, which is the owner, lessee or occupant of a building used exclusively for club purposes and is operated solely for a recreational, social, patriotic, political, benevolent or athletic purpose but not for pecuniary gain.

2. "Commission" means the state gambling commission as created by this article.

3. "Hotel" means a building which is regularly used and kept open as such in a bonafide manner for the feeding and lodging of guests.

4. "Licensed liquor establishment" means a place which is duly licensed for, and regularly and in a bonafide manner is used and kept open for, the serving of liquor by the drink to guests for compensation.

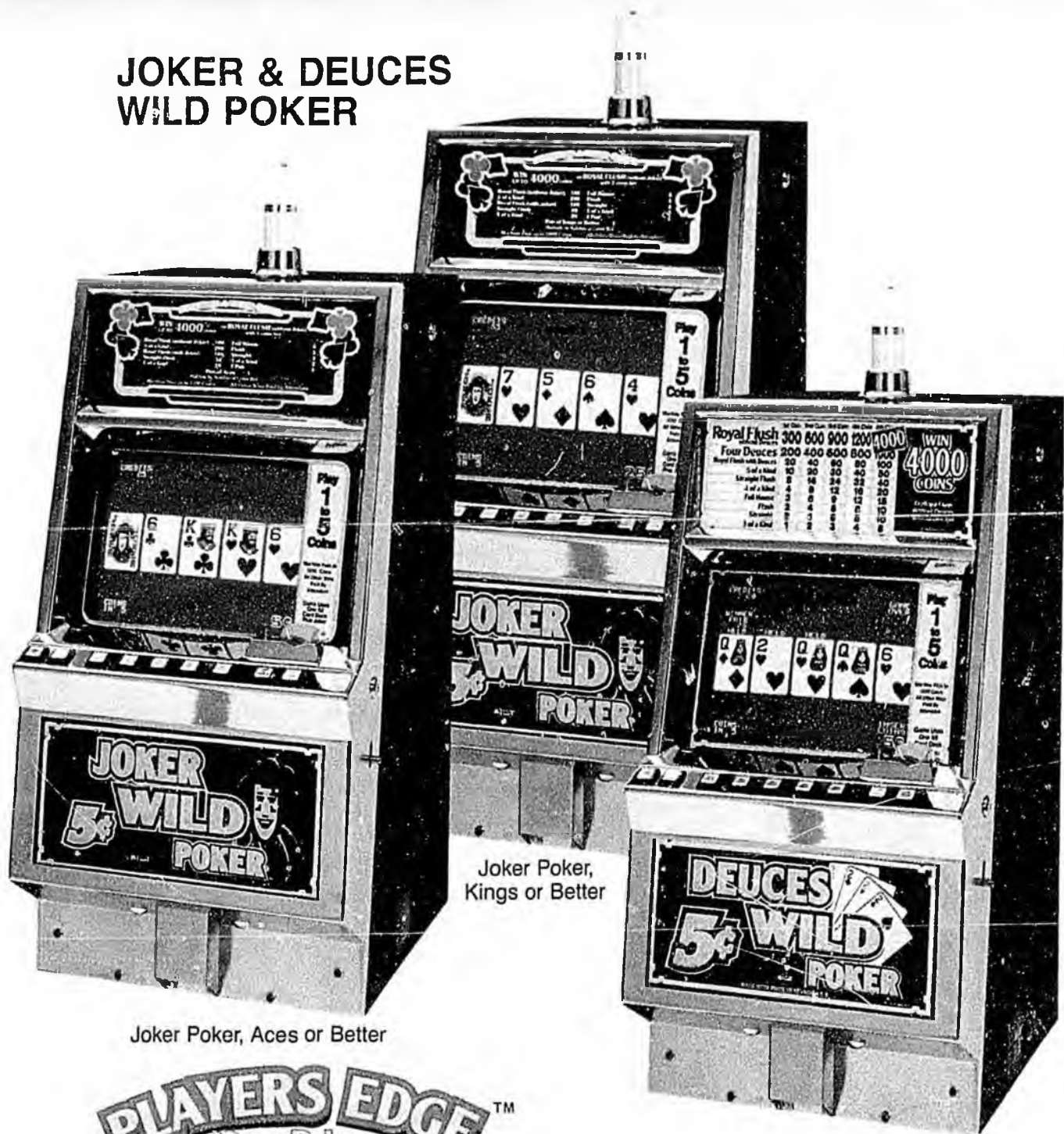
5. "Participating counties from which revenues are derived" means counties wherein any gross revenues from the licensing of video gaming machines originate.

6. "Participating county" means any county that elects through the local option provisions of this article to permit the licensing of video gaming machines by the commission within its boundaries.

7. "Resort" means an establishment that, in addition to providing lodging and other services customarily associated with the business of hostelry, as devoted substantial space to public recreational pursuits, both indoors and outdoors, such as dining, entertainment, sports, theaters, dance halls, swimming pools, tennis courts, golf courses, riding stables and such other activities as are normally associated with recreation and vacation that are beyond the requirements of mere transient guests.

8. "Video gaming machine" means any electronic device displaying a game through the use of a video screen and that receives coins or tokens or other evidence of value for the opportunity to win predominantly through the element of chance, more coins or tokens or valuable prize of any nature whatsoever, whether or not they are received immediately, succeeding play or subsequent thereto.

JOKER & DEUCES WILD POKER



Joker Poker, Aces or Better

Joker Poker,
Kings or Better

Deuces Wild Poker

PLAYERS EDGE™
Draw Poker

The Player's Edge series from IGT preserves that classic image that has become a casino standard for video equipment. Inside, however, are the latest advancements you expect from the company known world wide as the leader in gaming technology.

Player's Edge makes many common options easily selectable by casino management, without a program change. Service and maintenance have been virtually eliminated, and a blend of updated hardware and software provides the utmost in security.

We encourage you to buy the best video gaming equipment in the world... and it's Made in America!



International Game Technology

Player's Edge Poker

A full complement of poker programs are available in the Player's Edge machine. In addition to conventional draw poker, a variety of Joker Poker and Deuces Wild programs are also available.

Credit play and link progressive capabilities are standard features in this model.

Player's Edge is compatible with Electronic Display Technology's (EDT) Action System, which integrates a Slot Information, Player Tracking and Group Tracking System into an on-line data collection and reporting network.

PROGRAM DESCRIPTIONS

Joker Poker, Aces or Better

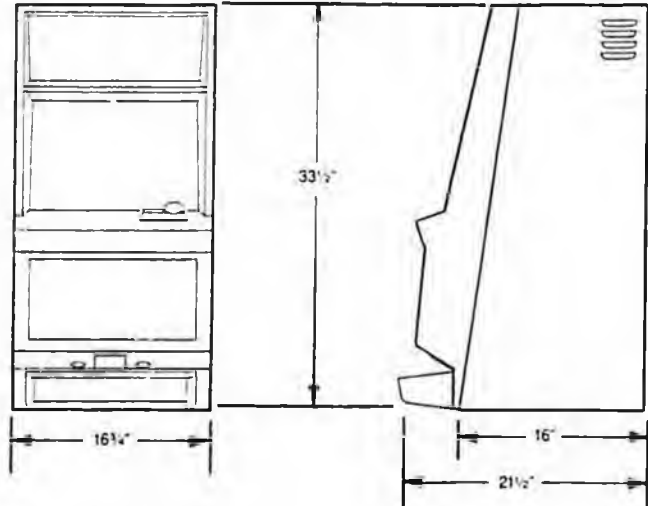
A Draw Poker game with the added player appeal of a joker in the deck. This program also returns a player's bet on a pair of aces. An enticing program to the Joker Poker player.

Joker Poker, Kings or Better

A program that not only offers the player appeal of a wild joker, but also returns a player's bet on a pair of Kings or better. This game offers both the player and the house a money making proposition.

Deuces Wild

A video version of the classic "Deuces Wild" draw poker game. An excellent way to increase both the drawing power and earnings of the video poker section of your floor.



Specifications:

Height: 33 1/2" (85.1 cm)

Width (Base): 16 3/4" (42.6 cm)

Depth (Base): 16" (40.6 cm)

Depth (to front of coin tray): 21 1/2" (54.6 cm)

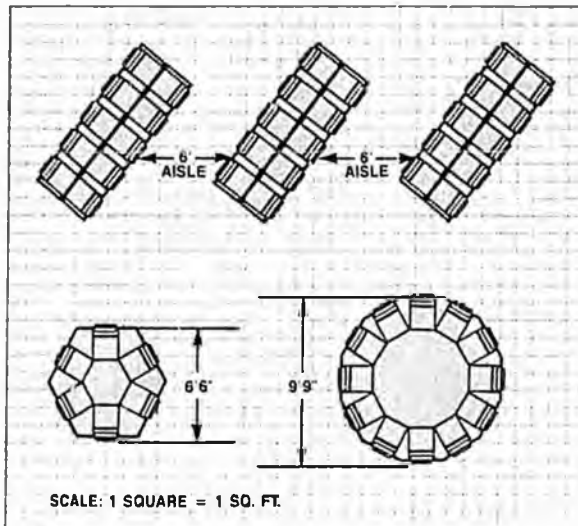
Power Requirements: 115/220/240 Volts—50/60 Hz

1.5A idle, 3.5A hopper running (at 115V/60Hz)

Weight: 144 lbs. (65.5 kg)

Stand Width: 24" (61 cm)

Recommended Stand Height: 26" (66 cm)



International | Game Technology

CORPORATE HEADQUARTERS

520 South Rock Boulevard; Reno, NV 89502-4169
Phone: (702) 323-5060
FAX: (702) 788-6564. TELEX: 550452 IGT EXEC

SALES AND SERVICE OFFICES:

NORTHERN NEVADA 520 South Rock Boulevard
Reno, NV 89502-4169. Phone: (702) 323-5060

SOUTHERN NEVADA 3155 West Harmon Avenue
Las Vegas, NV 89103-4111. Phone: (702) 798-7878

EASTERN NEVADA 688 Idaho Street
Elko, NV 89801-3822. Phone: (702) 738-3676

INTERNATIONAL & U.S. REGIONAL 520 S. Rock Blvd.
Reno, NV 89502-4169. Phone: (702) 323-5060
FAX: (702) 788-6792. TELEX: 170495 IGT RNO

INTERNATIONAL CRUISE SHIPS One S.E. 15th Road
Miami, FL 33131. Phone: (305) 371-3332
FAX: (305) 375-8256

SUBSIDIARIES:

IGT (Australia) Pty., Limited
286-288 Coward St., Mascot, N.S.W. 2020, Australia
Phone: (02) 669-3000. FAX: (02) 669-3779
TELEX: AA120565

EDT (Electronic Data Technologies)

3155 West Harmon Avenue, Las Vegas, NV 89103-4111
Phone: (702) 798-8112. FAX: (702) 798-6562

DISTRIBUTORS

Atlantic City Coin and Slot Service Company
14 West Mulberry Ave.; Pleasantville, NJ 08232
Phone: (609) 641-7811. FAX: (609) 641-6584

Casinocoin

Old Fold Lane; Barnet, Herts, England EN5 4QN
Phone: (01) 449-0077.
FAX: (01) 449-7217. TELEX: 266016



PLAYER'S EDGE DRAW POKER



**MONTANA
POKER**

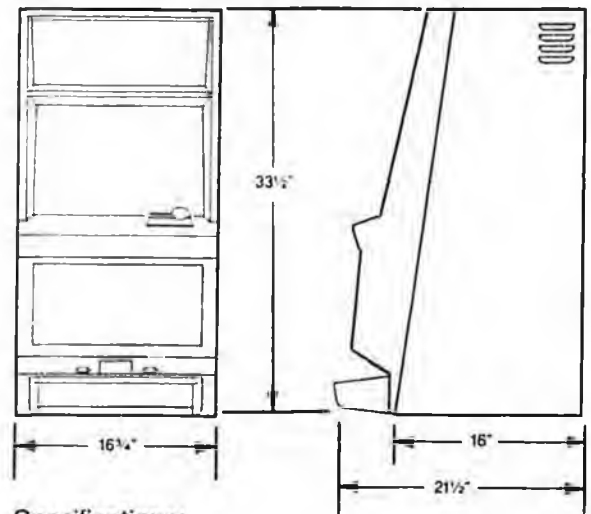
PLAYER'S EDGE POKER

A casino style draw poker machine, specially designed for Montana. All the appeal of a classic Nevada casino game, including the expanded security and accounting features that have become gaming industry standards. The rugged all-metal cabinet, dual coin entries, sturdy printer and the most static-proof electronics available combine to provide you with a reliable money making poker machine.

Service and maintenance are virtually eliminated. A blend of updated hardware and software technology provides the utmost in reliability. Within its all-steel cabinet is an exceptionally modular design; meaning less parts and easy access to all components.

Player's Edge uses the same type of safety paper ticket stock you've come to expect from IGT. Your profits are too important to fall prey to counterfeit tickets.

When players are looking for the best poker game in town, offer them an edge—IGT's Player's Edge. Your answer to casino style gaming.



Specifications:

Height: 33 1/2"

Width (Base): 16 3/4"

Depth (Base): 16"

Depth (to front of tray): 21 1/2"

Power Requirements: 115 Volts—60 Hz—1.5A

Weight: 145 lbs.

Recommended Stand Width: 24"

Recommended Stand Height: 26"

PLAYER'S EDGE POKER FEATURES

- Classic casino poker look
- Available in Draw Poker and 'Joker Poker' versions
- Heavy steel cabinet
- Dual coin entries
- Preprinted safety ticket stock to discourage counterfeiting
- Switch selectable 'attract mode'
- Player prompted hold cards
- Fast credit entry by holding 'Play Credits' button
- Auto re-bet of previous wager
- Recall of previous game results
- Separate locked areas for electronics and cash compartment
- Easily removable 'Two Day' brand printer
- Optional Electronic coin acceptor
- Enhanced card and graphic displays
- Battery backup for memory maintenance during power failure
- Static proof electronics
- Printer clock easily set using player switches
- Play up to 8 credits per game
- Video or printed ticket display of bookkeeping information
- Easy ticket paper change

IGT-MONTANA, Inc.

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International Game Technology

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International Game Technology

MONTANA KENO

A casino style Keno machine, specially designed for Montana. All the appeal of a classic Nevada casino game, including the expanded security and accounting features that have become gaming industry standards. The rugged all-metal cabinet, dual coin entries, sturdy printer and the most static-proof electronics available combine to provide you with a reliable money making Keno machine.

Service and maintenance are virtually eliminated. A blend of updated hardware and software technology provides the utmost in reliability. Within its all-steel cabinet is an exceptionally modular design; meaning less parts and easy access to all components.

Keno uses the same type of safety paper ticket stock you've come to expect from IGT. Your profits are too important to fall prey to counterfeit tickets.

When players are looking for the best Keno game in your town, offer them an edge - IGT's Keno. Your answer to casino style gaming.

KENO FEATURES

- Classic casino Keno look
- Heavy steel cabinet
- Dual coin entries
- Preprinted safety ticket stock to discourage counterfeiting
- Switch selectable "attract mode"
- Player friendly keypad number selection
- Fast credit entry by holding "Play Credits" button
- Auto re-bet of previous wager
- Recall of previous game results
- Separate locked areas for electronics and cash compartment
- Easily removable "Two Day" brand printer
- Optional electronic coin acceptor
- Enhanced Keno card and graphic displays
- Battery backup for memory maintenance during power failure
- Static proof electronics
- Printer clock easily set using player switches
- Play 2 to 10 spot Keno cards
- Play up to 8 credits at a time, maximum win \$800.00
- Video or printed ticket display of bookkeeping information
- Easy ticket paper change
- Enhanced diagnostic test modes, added self-test inputs and outputs test, CRT Test
- Bill acceptor capability



10	9	8	7	6	5	4	3	2	1
10	10	10	10	10	10	10	10	10	10
10	10	10	10	10	10	10	10	10	10
10	10	10	10	10	10	10	10	10	10
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10	10	10	10	10	10	10	10	10	10
10	10	10	10	10	10	10	10	10	10
10	10	10	10	10	10	10	10	10	10

1	2	3	4	5	6	7	8	9	10
11	12	13	14	15	16	✓	18	19	20
21	22	✓	24	25	26	27	28	29	30
31	32	✓	34	35	✓	38	39	40	
GAME OVER									
41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70
71	72	73	74	75	76	77	78	79	80

CLOSURE
CARDS PLAYED 8 SPOTS MARKED 8 HITS 3 CREDIT 132

1	2	3	4	5	6	7	8	9	10
11	12	13	14	15	16	17	18	19	20
21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40
41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70
71	72	73	74	75	76	77	78	79	80





PLAYER'S EDGE-PLUS DRAW POKER





PLAYER'S EDGE-PLUS

The Player's Edge-Plus is IGT's new generation of leading-edge video gaming technology — the direct descendant of the popular and high-earning Player's Edge.

Player's Edge-Plus combines the classic look of IGT's video poker with the industry's most advanced electronic innovations. The result is a completely flexible machine. One that possesses an extraordinary ability to attract players, while providing uncompromised security and extreme reliability.

Player's Edge-Plus accommodates virtually any application. It accepts the full spectrum of IGT video poker programs, paytables and game versions (such as Deuces Wild, Jokers Wild, and Double Draw Poker). Plus the expanded memory processing capacity of its on-board computer and extra serial ports can easily drive a variety of options for increased player appeal — such as three-level progressives, bill acceptors, enhanced sound packages, and embedded progressive meters.

- Progressive flexibility
 - Stand-alone or link progressive capability
 - Capable of up to six levels of progressive meters (RBP format)
 - Up to 32 digits of inlaid progressive meter capability
- Upgraded coin handling
 - Choice of electronic or mechanical coin acceptors
 - Will handle up to 50mm (1.97") diameter (\$5.00) coin or token
 - Three stage optical coin-in/anti-stringing sensor
- Bill acceptor capability
- Enhanced sound package available
 - Jackpot sounds ■ Door open alarm
 - Credit sound ■ Mechanical bell capability
 - Ascending credit tones
 - Selectable musical melodies
- Enhanced electronics with computer grade video monitor
- E² memory retains accounting data and machine set-

- up modes in the event battery backed CMOS memory is cleared or fails
- 64K EPROM and 8K RAM will drive a variety of player options
- Credit play features
 - Standard credit
 - Non-credit
 - Player initiated credit
 - Eurocredit (where legal)
 - Accepts from one to 9,999 coins-in as credits
 - Automatic bet repeatability
- "Double Up" option available on poker games
- Choice of standard three-meter package (coin-in, coin-out, coin-drop) or up to six (6) of the hard (mechanical) meters:
 - coin-in ■ cancelled credits ■ jackpot
 - coin-out ■ credits played ■ games played
 - coin-drop ■ credits won ■ credits paid
- Accounting system compatible — including the Electronic Data Technology (EDT) Gaming Management Systems, which integrates a slot information, group of tracking and player tracking system into an on-line data collection and reporting network.
- Accommodates internal or external mounted EDT Player Tracking card reader.
- Real time clock capability.
- Audit printer or ticket printer capability (requires special software).

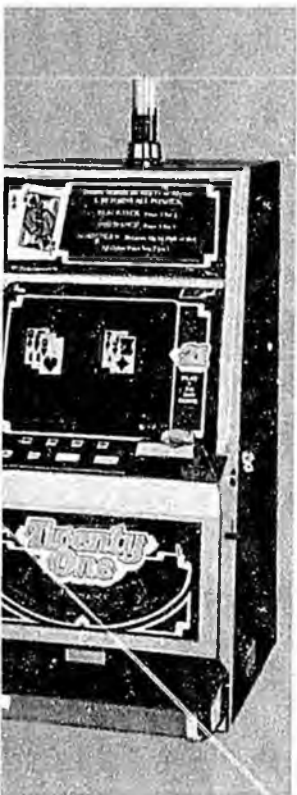
Without a program change, a technician can select the following poker features:

- Denomination
- Maximum coins played per game: 1-20, 1-100
- Paytable on or off-screen
- Monitor background color
- Maximum hopper pay: 300, 400, 600, 1000, or customer selectable
- Deal speed: .3 seconds to 2.9 seconds for a 5-card deal
- "Double-Up" option on winning hands
- Sound: tones, music, or no sound
- Animated video symbols
- Progressive or non-progressive play
- Switch selectable game percentage software (where approved)

The versatility of the Player's Edge-Plus has an added dimension of being easily converted. By simply changing glass, program, switch panel, and in the case of a video slot adding or removing a handle, the machine can be converted to a poker, "21", or video slot machine.

Due to the advanced design of the hardware and software, service and maintenance are virtually eliminated. The refined modular design of the Player's Edge-Plus results in an extremely reliable machine.

- Fewer electrical connections mean improved circuit integrity
- Low internal operating temperatures resulting in longer component life



- Self-test mode assists technician in locating problems
 - Long-life, low-maintenance hopper
 - Single board microprocessor and motherboard
 - Computer grade monitor
 - Coin acceptor can be easily removed to clear jams
- Constant internal surveillance prevents undetected tampering. Suspect occurrences, such as the following, are displayed on the monitor:
- On-screen accounting, security, and winning hand meters
 - Hopper tilts
 - Door openings
 - Power interruption
 - Coin-in/coin-out timeouts
 - Last game verification of original hand, final hand and "Double-Up" hand (if played)
- With all its built-in flexibility, the Player's Edge-Plus gives you the competitive edge to immediately adapt to changing trends in the gaming market place. This results in a greater ability to attract more players and increase your bottom line.
- One more advantage of the Player's Edge-Plus is the organization behind it. As the world leader in gaming technology, IGT's sales and service centers and exclusive distributors reach around the world.
- At IGT, we keep making the games people play. And play. And play.

SPECIFICATIONS:

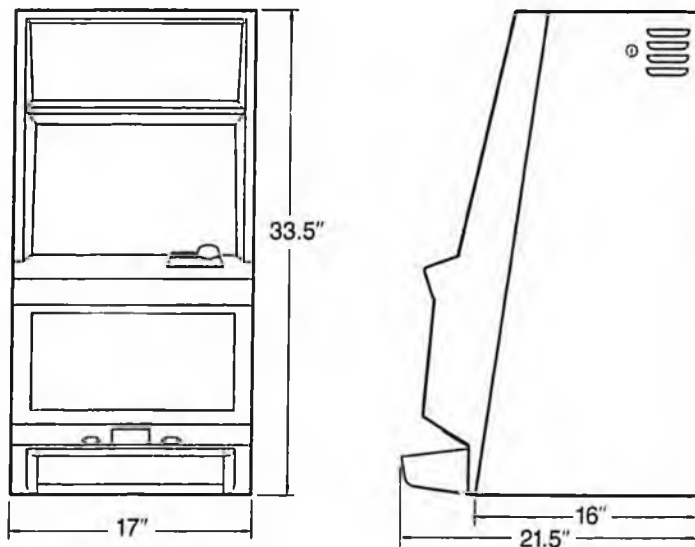
POWER CONSUMPTION

Line Voltage	115VAC	220VAC
Idle (Avg.)	1.3 AMPS	.7 AMPS
Hopper On (Avg.)	4.0 AMPS	2.5 AMPS

Line Frequency: 50/60 Hz

SHIPPING INFORMATION

Weight	Shipping Container Size
155 lbs (69.75 kg)	43"x25"x25" (109.2cm x 63.5cm x 63.5cm)



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TELEX: 470302 BEDFORD



We Make The Games People Play.
And Play. And Play.

DROP-IN BAR and SLANT-TOP UNITS



SLANT-TOP

DROP-IN BAR

PLAYERS EDGE™
Plus

The *fourth* generation of high earning, hard working video products from the world leader in gaming technology. These advanced Drop-In Bar and Slant-Top units feature all-new designs inside and out which provide greater earning power, reliability and security. Feature by feature, Player's Edge-Plus is the best video gaming machine buy on the market.

Players find these models especially comfortable, and we've preserved the appealing IGT video game look. Increased security and convenient operation are achieved with a separate high capacity locked drop box. Inside is the most powerful and flexible, yet extremely reliable, microprocessor technology available in any gaming machine. Service access is easily gained from the top *and* front... *plus* the monitor, coin-in handling, hopper and PC boards are packaged as independent modules for immediate replacement, without tools, and zero downtime.



International Game Technology
World Leader in Gaming Technology

THE 36XX/37XX SERIES

The Player's Edge-Plus Drop-In Bar and Slant-Top units allow you to "open up" your floor, while creating unique profit opportunities in areas that may currently be unproductive. Maximum space utilization translates into increased gaming revenues. These machines make it possible to design a slant-top cabinet, bar or cocktail table to fit your decor and space requirements.

Player's Edge-Plus features a greatly expanded memory processing capacity—64K of program memory and 8K of data memory—PLUS E² memory that provides a redundant circuit to existing battery backed-up CMOS.

These models accept the full complement of popular Player's Edge poker programs, as well as new and enhanced Player's Edge-Plus programs.

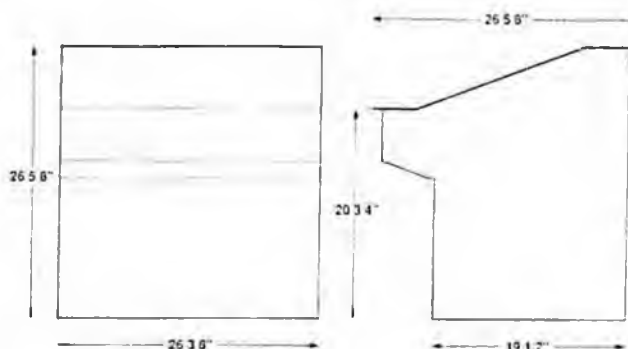
Stand alone and link progressive capabilities are *standard* in this model. And it is compatible with the Electronic Data Technologies (EDT) Gaming Management Systems.

No other gaming machine is as flexible as Player's Edge-Plus. PLUS its future expandability to satisfy unforeseen future applications makes this model an exceptional value for today and tomorrow.

Features and Options

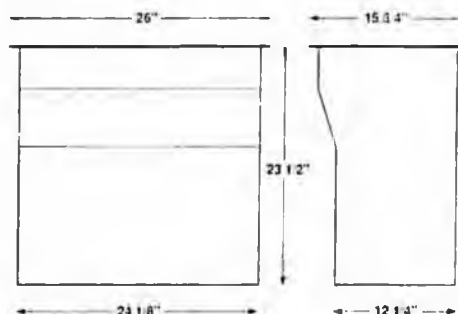
- Computer grade monitor has 10° slope for player comfort.
- Up to six level Rapid Bonus Progressive (RBP) capability
- "All Win" progressive capability
- Up to six hand (mechanical) meters
- Eurocredit (unlimited coin-in) accepting 1-9,999 coins as credit and automatic bet repeat
- Electronic coin acceptor
- Double Up option on winning hands
- Door open alarm
- Switch selectable game percentage software (where legal)
- Audit printer compatible
- Enhanced sound package
- Bell capability
- Real time clock compatible

Many features and/or options must be specified at the time of ordering and require Player's Edge-Plus software for operation. Also, certain aspects may vary, dependent upon the jurisdiction. Certain options may involve extra costs.



Slant-Top Specifications:

- Height: 26 5/8" (67.6 cm)
- Width: (Top): 26 3/8" (67 cm)
- Width (Enclosure Base): 26 3/8" (67 cm)
- Depth (Top): 26 5/8" (67.6 cm)
- Depth (Enclosure Base): 19 1/2" (49.5 cm)
- Power Requirements: 115/220/240 Volts—50/60 Hz
1.5A idle, 3.5A hopper running (at 115V/60 Hz)



Drop-In Bar Specifications:

- Height: 23 1/2" (59.7 cm)
- Width: (Top): 26" (66 cm)
- Width (Enclosure): 24 1/8" (61.3 cm)
- Depth (Top): 15 3/4" (40 cm)
- Depth (Enclosure Base): 12 1/4" (31.1 cm)
- Power Requirements: 115/220/240 Volts—50/60 Hz
1.5A idle, 3.5A hopper running (at 115V/60 Hz)



International Game Technology

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Casinocoin

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FAX: (01) 449-7217. TELEX: 266016

International Game Technology

SPORTS BOOK POKER

A New Player's Edge-Plus Slant Top

IGT's Sports Book Poker* gives your customer the option of viewing sporting events or playing poker by simply pressing a button.

This machine was designed for casino race and sport book areas. It allows race/sports bettors to play video poker between events. It also turns the non-event hours of the race/sport lounge into a revenue-producing area.

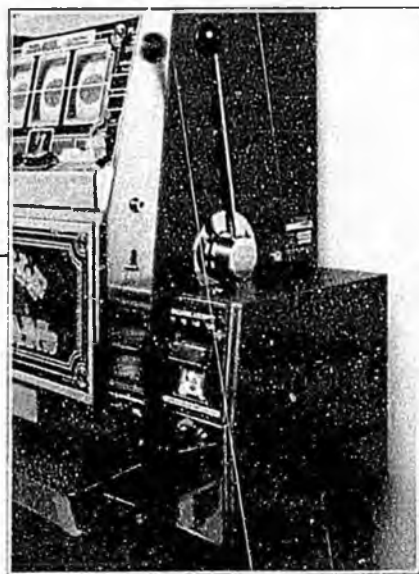
FEATURES:

- **Player's Edge-Plus Slant Top Bar**
 - Wide selection of the most popular poker programs
 - Computer grade monitor with a 10 degree slope for enhanced player comfort
 - Electronic coin acceptors
- **Accepts NTSC (National Television Standards Committee) broadcast video signals.**
 - Accepts signals from satellite receivers, video cassette recorder, video disc and television camera.
- **Customer-initiated game selection**
 - The customer can return the machine to the broadcast event by pressing the "SELECT" button
 - The broadcast event can not be selected if a poker game is in progress
 - The customer can return to poker by pressing the "SELECT" button, inserting coins into the machine or playing credits accumulated from previous games.
- **If no broadcast video signal is detected by the machines after a time period chosen by the sports book operator, the machine will return to poker.**
 - The sports book operator may choose a time period of 13 seconds or 64 seconds.
- **The sports book operator has the option of setting the machines to poker play only or broadcast only.**
- **The machine can be set to automatically return to poker if the broadcast event has been viewed for a time period chosen by the sports book operator, or remain in poker or event mode until the customer chooses to select the other mode.**
 - The sports book operator has the choice of selecting a seven-minute or twenty-minute period.

* Patent Pending



BILL ACCEPTOR



We Make The Games People Play.
And Play. And Play.

FEATURES:

Validator Is Rowe model OBA-4

- Validator accepts \$1, \$5, \$10 and \$20 bills
- Bill position and properties are validated by four optical and one magnetic sensor
- Anti pull-back lever will not allow a bill that has been validated to be pulled from the validator
- All invalid bills are returned to the customer
- One-year Rowe factory warranty
- In the event of a malfunction, error codes are displayed on LEDs located on the validator processor board

Modular design of acceptor assembly promotes easy service

- Acceptor tray assembly provides quick access to the validator, stacker motor and electronics
- Bill jams are easily cleared through the validator access door
- In the event of a malfunction, the acceptor will assist in diagnosis
 - Light remains on during machine malfunctions
 - Light flashes during validator malfunctions
 - Light turns off when the validator will accept bills

Removable collection box is designed to hold more than 100 bills. The collection box remains locked when it is removed from the acceptor assembly.

The acceptor will work in two modes:

- **Change Mode:** The machine/acceptor assembly acts like a change machine. The validator will not accept bills if a game is in process or if the hopper is empty
- **Credit Mode:** When a bill is accepted, credits are accumulated on the credit meter. The validator will not accept bills if a game is in progress, or if there are credits on the credit meter.

Two types of soft accounting meters — resettable and cumulative — provide up-to-date accounting information

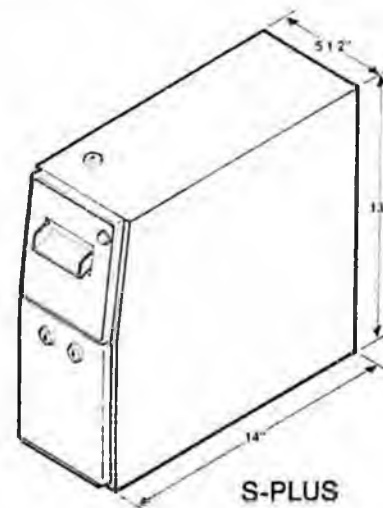
Meters:

- \$1 bills in
- \$5 bills in
- Total number of bills in
- Number of coins dispensed or credits collected
- \$10 bills in
- \$20 bills in

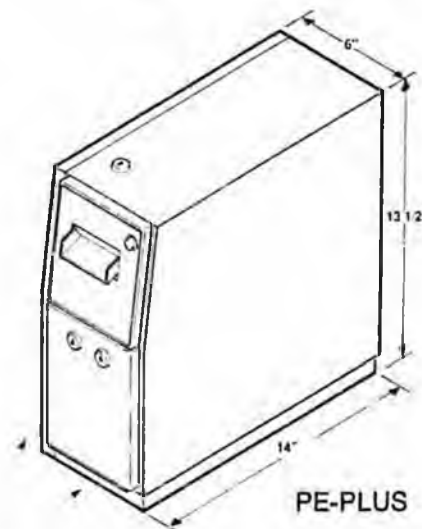
Security features:

- The acceptor and collection box are housed within a solid steel casing
- The acceptor assembly will accept up to five locks
 - One on the validator module maintenance door
 - Two on the collection box access door
 - Two on the collection box
- The last five bills accepted can be verified through soft meters
- In the event of a machine or validator malfunction, the validator will not accept bills
 - If the validator is out of service, the machine remains playable
- The accounting meters are maintained in E² and CMOS. Therefore in the event of a power failure, CMOS error, program failure or replacement of the processor board, the integrity of the meters will be maintained.

SPECIFICATIONS



S-PLUS



PE-PLUS

— Spacers are required on the PE-Plus version to allow easy access and maintenance of the Bill Acceptor.

	S-PLUS	PE-PLUS
Height	13"	13 1/2"
Width	5 1/2"	6"
Depth	14"	14"



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**EXCERPTS FROM A SPEECH BY JEFF RENNER
CITY ADMINISTRATOR, BELLEVUE, NEBRASKA
AT THE 12TH NATIONAL CONFERENCE ON PUBLIC GAMING
PALM BEACH, FLORIDA - SEPTEMBER 6, 1984**

*To put the economic successes of the Bellevue lottery in perspective, this city, with a population of 32,000, began the experiment with a \$500,000 deficit, and a year later had a surplus of \$1.5 million. Seventy-seven percent of the citizens of Bellevue approved of the lottery. Before video lottery was initiated, the city looked at all forms of lotteries, and chose video to make more money. In eleven months, the city's lottery brought in gross income of \$38.8 million, which included the initial startup from 15 video lottery terminals, gradually building to today's 268 units. It might be noted that 50 percent of the license plates observed at lottery locations were from outside of the city, implying significant new sources of income.

The city's share of this revenue was \$1.75 million in 11 months, with \$2 million expected in the 12 months period. Against this income, the city had zero expense and zero investment.

The law in Nebraska reads that only 10 percent of the gross income from the lottery can go to expenses, and at least 65 percent must go to players. The city decided that a 65 percent video lottery would not be successful and chose an 85 percent pay-back to the players. Douglas County, which includes Omaha and has a population of 400,000 (more than ten times that of Bellevue) grosses less than Bellevue with their paper lottery and shut down the lottery due to losses. With the income Bellevue is receiving from their share of the lottery proceeds, it would need no property taxes.

Besides the income and tax relief Bellevue receives from video lottery, employment has increased substantially during the period of the lottery and Bellevue became the leading metropolitan area in the state by a factor of four in terms of economic activity. \$1.4 million from lottery proceeds were made in direct payments to the operating locations or agents. There was a tremendous increase in day tourism from, for instance, Iowa and Missouri.

Other benefits included the entertainment made available to the public, lowered property taxes, and increased services. Bellevue is the only city where the citizens stand in line to pay taxes, and love it! A survey of players was conducted, and every category of player in terms of sex, age, and income, favored video lottery. The overall results were 61 percent in favor, 15 percent no opinion, and 24 percent opposed.

The \$25,000 to \$35,000 middle to upper income players were the biggest supporters. It was not the poor or the wealthy who were playing. IGT was very supportive of the lottery, was interested in the community, and hired in the community. This vendor relationship made a big difference in the success of the lottery.

The disadvantages included the daily press which constantly emphasized all of the bad things that were to happen. The most incredible development from this lottery experiment is that the social problems were exactly zero:

- o There was no increase in crime - we had a decrease in crime.
- o There was no gambling away of paychecks.
- o There was a decrease in unemployment.
- o The lottery was felt to be a form of entertainment and it was harmless.
- o The lottery diverted funds from the illegal sector to the legal sector, i.e. it was new money coming into the legal economy.

From Michael Jones' speech concerning the Illinois lottery, we understand that their gross revenues are approximately \$1,000 per unit per week. During the entire 11 month period of the Bellevue lottery, our gross receipts were \$3,500 per machine per week. Recently our income has increased to \$4,200 per week, four times that of Illinois! This favorable experience may be due to a difference in philosophy in that our games are quick, they are simple, and they are traditional, non-amusement games which include a Flash Card, or Numbers, game, which is like Tic-Tac-Toe, as well as Keno and Poker.

Players want to play quick and know quickly if they have won or lost. Another possible factor is that we have had one year of experience versus one month in Illinois.

In summary:

1. The Nebraska lottery was an unqualified success.
2. There was a complete lack of problems including social problems, and there was an actual decrease in crime.
3. The lottery was simple, it was efficient, being totally computerized, with no paper, and it was effective, with no money spent by the city to produce the revenue.
4. It lowered taxes and the funds were used socially whereas formerly the money went to illegal bookmaking.
5. Most important, several manufacturers are competent to produce the required equipment. The key element then is the people who are supplying the product. We need to look at the management, not the machines. Through our supplier, IGT, we brought in local management, obtained public acceptance, and produced the bottom line.

Some suggestions, including allowing municipalities some form of option, as it's more difficult to obtain acceptance of a lottery at the state level and opposition will be less. A large bureaucracy is also not necessary with local option. With this, competition can be introduced at local levels as opposed to vendor monopoly at the state level.

In terms of continuation of the lottery, if the Legislature is friendly in January, we will ask to have the law changed. If we are not successful, we will challenge the hasty legislation in the courts under the present law."

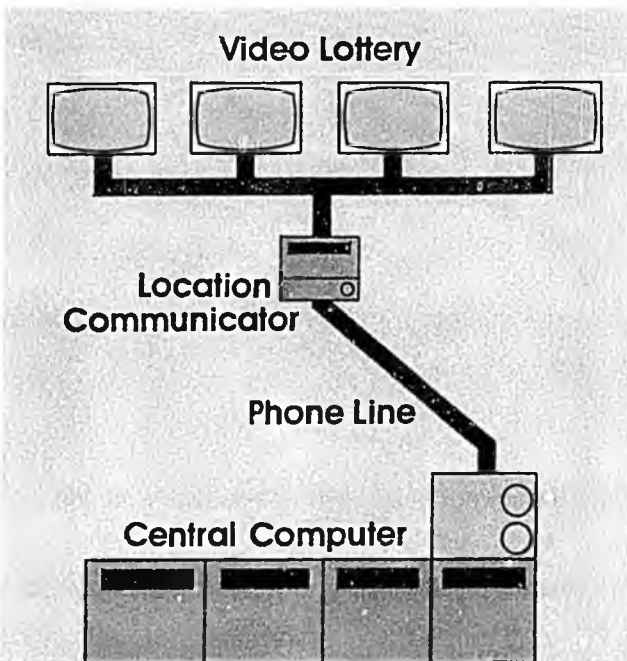
Video Lottery

IGT, known for its extensive video knowledge and experience, has produced more than 75,000 machines currently in use in licensed casinos worldwide. Allocating a substantial budget to research and development, it produces the only line of video machines recognized as the gaming industry standard. And the security and reliability of IGT's products have made it possible to award the first multi-million-dollar prizes in history.

IGT's latest development is the Video Lottery machine, providing one of the most advanced and exciting forms of adult entertainment around. Self-instructive and user-friendly, it offers optimum player appeal with lively animation, vivid colors, and digitally synthesized music and sound effects.

Prizes are tallied by the machine and printed on an encoded winning ticket, using security-controlled stock paper. Low-tier awards are redeemed by the sales agent after validation by the central computer. High-tier prizes are paid by check and mailed from a central location.

Whether free-standing, on-line or dial-up, IGT's lottery machine features customized software and game design services to meet every need.



Machines are monitored via dedicated or dial-up phone lines, guaranteeing accurate accounting and security.

Video Lottery Success Story

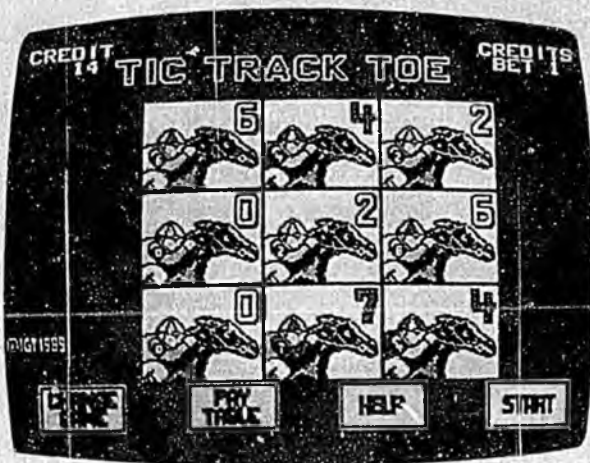
For a look at a legal video lottery system with tremendous success, take a look at Bellevue, Nebraska. The city, with a population of 32,000, was burdened with a budget deficit of \$500,000 in 1984 when it undertook a year-long experiment with an IGT video lottery system. In the words of then-Bellevue City Manager Jeff Renner, "The experiment was a resounding success." In fact, the Bellevue video lottery generated revenue for a city equaling all property taxes collected.

"I think the success of our lottery can be traced directly to the IGT Video Lottery System," Renner said. "Public acceptance of the video lottery was extremely high, particularly among the middle class. Through our supplier, IGT, we brought in local management, obtained public acceptance, and produced the bottom line."

Features

- One to Five Games Per Terminal
- Light Pen Interface
- Self-Test Diagnostic Mode
- Printed Cash-Out Ticket
- Display Accounting Meters Mode
- Real-Time Clock
- Complies with FCC regulations for a Class A Computing Device
- Audible and Visible Attract Modes
- Game Speed Selection
- Background Color Selection
- Autoplay (Pressing "Start" replays the same number of credits and automatically starts the game.)
- Lift-up Top Panel for Easy Maintenance Access
- Modular Mechanical Design for Minimum Downtime
- Random Shuffle Before Every Game
- Non-Volatile Memory (retains data during power interruptions or outages for up to three months.)
- Fiber-Optic Communication Interface (immune to electro-static hazards therefore not subject to approval by NFPA.)
- Single Board Processor
- Individual Game Play Statistics Monitored by the Accounting Communication System
- Custom Games, Graphics, Digitally Synthesized Music and Sound Effects

The following are examples of some games currently available. Additional games can be created or modified to fit specified requests or requirements. Contact your IGT representative for the latest information on video lottery games and systems.



TIC-TRACK-TOE

Player's objective is to score three of any digit in a row, column or diagonal.



SHOWDOWN

Cards are dealt out of a 52-card deck (no joker) with no holds or draws.



WIN-PLACE-SHOW

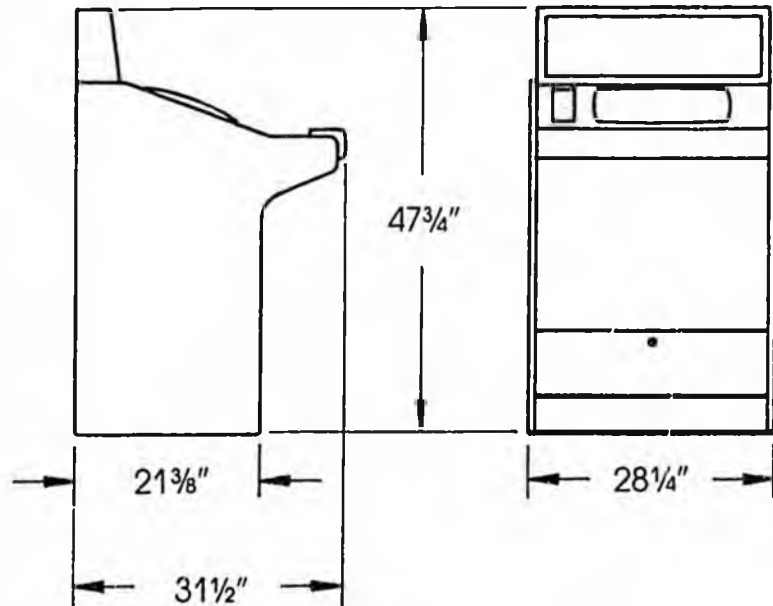
Player selects three digits, while machine selects three digits. Wins are based on matches between the two.



MONEY MATCH

The player selects four hidden dollar amounts. Any three matching amounts returns the credits played, while four wins a multiple of credits played.

IGT VIDEO LOTTERY



SPECIFICATIONS

Height	47 3/4"
Maximum Width	28 1/4"
Maximum Depth	31 1/2"
Shipping Weight	375 lbs.

Power Requirements:

100-128VAC - 50/60HZ

1.5A Idle, 3.5A Max With Printer Running



International Game Technology

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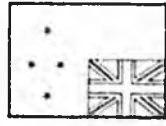
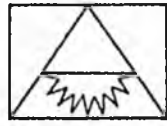
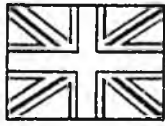
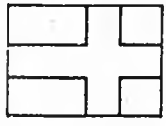
Indo Pacific Gaming

Africa Division:

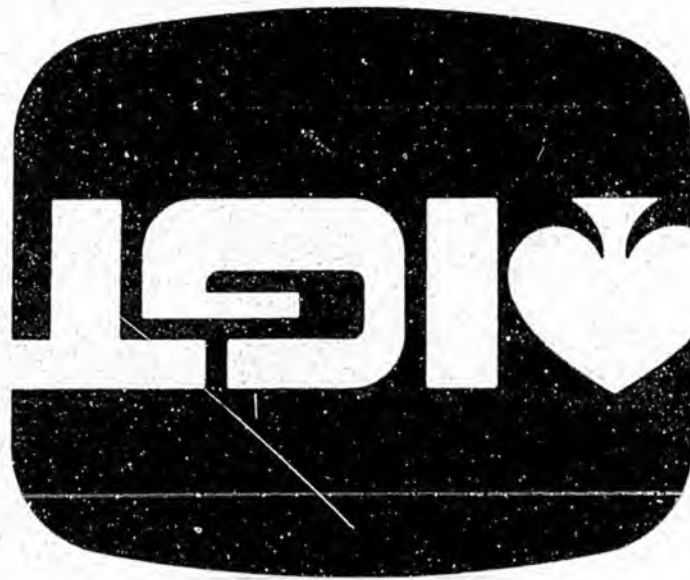
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1989 Annual Report



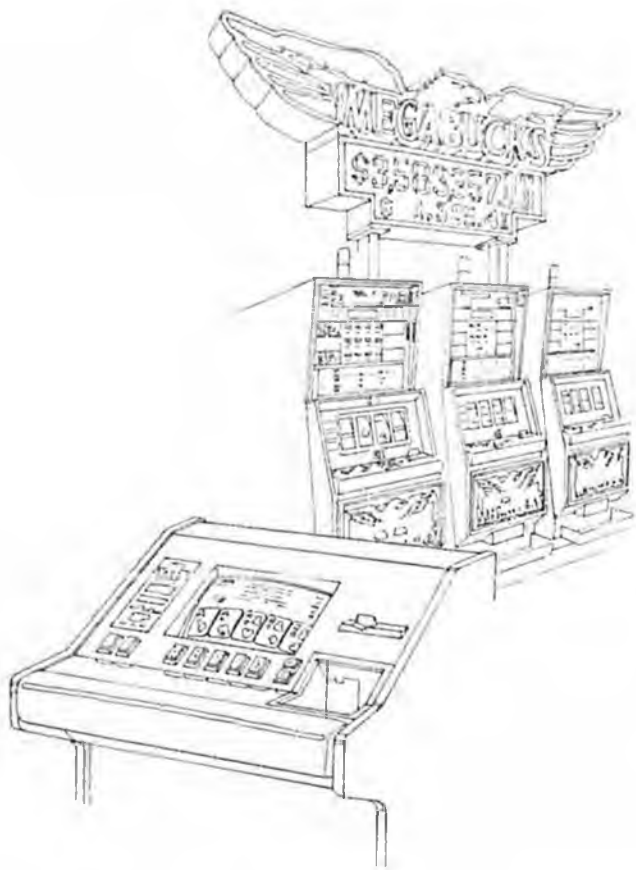


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About the Company

International Game Technology (IGAM) is the parent company of several subsidiary companies which are involved in major aspects of the gaming business, and markets a broad range of gaming machines in all jurisdictions where such machines are permitted. IGAM wholly owns IGT, IGT-Australia Pty. Ltd. and Casino Management Services and holds a 45% interest in Electronic Data Technologies.

IGT, with manufacturing facilities in Nevada, is the world leader in the design and manufacture of microprocessor-based gaming products and systems. IGT utilizes an internal sales staff and distributors to market its product in Nevada, Atlantic City, New Jersey, and other markets throughout the world. IGT has developed multi-location progressive slot machine systems and operates two such systems under "Megabucks" and "Quartermania" in Nevada. A similar system has been approved for implementation in Atlantic City, New Jersey; such systems are also operating in Macau and, on a trial basis, in New South Wales, Australia.

IGT-Australia, with manufacturing facilities in Sydney, designs, manufactures and markets microprocessor-based gaming products in the Australian market, the second largest market in the world, as well as other gaming jurisdictions in the Southern Hemisphere and the Pacific Rim.

Electronic Data Technologies, a 45% owned subsidiary, develops and manufactures information and player tracking systems which monitor the activity of slot machines on a real time basis. EDT also develops and markets Keno and Bingo gaming products and operates a Nevada gaming machine route.

Casino Management Services owns 55% of the Silver Club Hotel & Casino in Sparks, Nevada, 100% of the Treasury Club in Sparks, Nevada, and 50% interest in Kings Casino on the island of Antigua in the Caribbean. CMS will complete the purchase of the El Capitan Hotel & Casino in Hawthorne, Nevada on January 1, 1990.

Letter to Stockholders

We are pleased to report that your company had a very good year in fiscal 1989.

The record number of units installed in 1989, increased play on our Systems Division products and revenues generated by the newly created CMS subsidiary resulted in total revenues of \$151 million in fiscal 1989, a 53% increase over the prior year. The resulting \$13.5 million of net income increased 61% and earnings per share on a fully diluted basis increased from \$1.35 to \$1.74 or 29%. The per share percentage increase is less than the dollar increase because the number of shares outstanding is significantly greater, primarily as a result of the successful conversion of our debentures to equity on September 19, 1988.

We are focused in the gaming industry, which is experiencing explosive growth throughout the world. Our business segments permit us to maximize revenues in this industry. Our core business is the design, manufacture and sale of reel and video gaming machines and systems to link these machines to provide security, accounting and player information. In addition, we operate gaming routes throughout the State of Nevada, using machines located in various locations to produce revenue on a rental or participation basis. And finally, our CMS subsidiary operates casinos in Nevada and on the Caribbean island of Antigua.

Nevada accounts for approximately 50% of the world market in which we operate. Over the next three years, growth in the Nevada market for our systems and equipment will be accelerated by the need to replace almost 65,000 units of older equipment due to advanced technology and the competitive arena brought on by new and remodeled casino properties. In addition, at this writing, there are 16,400 rooms under construction in southern Nevada. There are an additional 55,000 rooms on the drawing boards. While we do not foresee completion of all of the proposed rooms, we do believe this growth will increase the population of machines in the state by as much as 35,000 machines during the coming three year period.

Australia represents approximately 25% of the world market. There are approximately 55,000

machines in operation there. Of these, 47,000 are located in the private club system in New South Wales and the balance are in seven casinos located throughout the country. We are relative newcomers to this market, having established our Sydney manufacturing plant in 1986. Since that time IGT-Australia has gained a significant share of the market and we are growing. During the coming year we will relocate our facility, doubling our manufacturing space in light of new markets that are opening. Officials in Queensland have announced that they will authorize gaming machines in their state for placement in their club system and in pubs. There are approximately 2,000 sites which will eventually accommodate as many as 20,000 machines. In addition, Queensland authorized two new casinos which will bring the total number to four in that state. New Zealand has also authorized two casinos to be opened, one each on the north and south islands.

Throughout the world, from Deadwood, South Dakota to Leningrad, U.S.S.R., legalized gaming is on the increase, particularly in lotteries, casinos, off-track betting, bingo, video poker and other gaming machines. Our Systems Division has and will continue to play a key role in this growth. "Megabucks" and "Quartermania" are two product lines developed by our engineers. Both are now in operation in the state of Nevada and account for about 1.65% of the total Nevada casino gross win with 1% of the machine population. The Megabucks system operates on IGT machines in Macau where they account for 45% of the play with 25% of the machine population. These systems, and others like them presently under development, reassure governments by providing regulators with security and accounting information, and provide operators with information that enables reduced costs of operation and increased efficiency of marketing efforts.

Electronic Data Technologies (EDT), our 45% owned subsidiary, continues to be the leader in design and manufacture of slot information and player tracking systems. Its equipment is now installed on more than 25,000 machines in Nevada,

Letter to Stockholders (continued)

New Jersey, Italy, Australia and Portugal. With a growing world population of 250,000 machines, EDT has a considerable market remaining. EDT has also developed a Keno writing system, a "Pick Bingo" product and will soon introduce new and exciting Keno products to the market.

At the beginning of the 1989 fiscal year, our CMS subsidiary was in the planning stages. We were operating the Mizpah Hotel and Casino in Tonopah, Nevada. On January 1, 1989 we began operations at the Silver Club Hotel and Casino in Sparks, Nevada and, in a joint venture, we opened the Kings Casino on the island of Antigua in the Caribbean. Subsequently, we opened a small casino in Sparks - the Treasury Club. We will begin operations in the newly purchased El Capitan Hotel and Casino in Hawthorne, Nevada on January 1, 1990 and terminate operations at the Mizpah. Management of this newly organized subsidiary is consolidated under the guidance of a team of highly experienced managers with many years experience in this business. We anticipate a small contribution from CMS to net profits during the coming year.



Charles N. Mathewson
*Chairman of the Board
and Chief Executive Officer*

We have reserved \$10.2 million in anticipation of any future losses that may result from investments in or amounts due from Syntech International, Inc. We feel this reserve is prudent in view of the losses suffered by that company. Also, during the year, we sold 1,140,000 shares of EDT common stock on the public market for \$12.8 million and a profit of \$10 million, as shown on the financial statements which accompany this letter.

On behalf of our 1,960 employees, thank you for your continued support. Our efforts will be targeted to increase gross revenues by a 20% annual compound rate and to achieve increased net operating after tax profits from our present 8.8% to 11.0% over the next three years. To accomplish this we must be dedicated to our customers, our fellow workers and you, our stockholders.



John J. Russell
President and Chief Operating Officer

Selected Financial Data

The following information has been derived from the Company's consolidated financial statements:

<i>Amounts in thousands, except per share data</i>	Years Ended			Nine	Year Ended
	1989	1988	1987	Months Ended Sept. 30,	Dec. 31, 1985
Selected Income Statement Data:					
Total revenues	\$ 151,152	\$ 98,694	\$ 83,110	\$41,574	\$56,564
Income (loss) from continuing operations before extraordinary item and cumulative effect of changes in accounting principles	\$ 13,220	\$ 7,698	\$ (613)	\$ (5,126)	\$ 1,475
Income (loss) from discontinued operations	\$ 261	\$ (971)	\$ 134	—	—
Extraordinary item (utilization of tax loss carryforward)	—	—	\$ 218	—	—
Cumulative effect of changes in accounting principles	—	\$ 1,650	—	\$ (1,008)	—
Net income (loss)	\$ 13,481	\$ 8,377	\$ (261)	\$ (6,134)	\$ 1,475
Income (loss) per primary share, from continuing operations before extraordinary item and cumulative effect of changes in accounting principles	\$ 1.73	\$ 1.38	\$ (.10)	\$ (.64)	\$.18
Net income (loss) per primary share	\$ 1.76	\$ 1.50	\$ (.04)	\$ (.76)	\$.18
Average primary common and common equivalent shares outstanding	7,660	5,573	5,842	8,073	8,104
Selected Balance Sheet Data:					
Working capital	\$ 68,245	\$ 48,097	\$ 31,802	\$23,562	\$32,668
Total assets	\$170,492	\$127,799	\$108,631	\$95,002	\$93,848
Convertible Senior Subordinated Debentures	—	—	\$ 30,000	—	—
Capital leases and long-term notes payable	\$ 23,909	\$ 18,024	\$ 21,214	\$ 2,910	\$ 2,300
Stockholders' Equity	\$ 82,028	\$ 67,067	\$ 29,451	\$60,021	\$66,120

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Company's business is primarily comprised of sales of gaming products, operation of casinos and the operation of a gaming route. The timing of large sales can cause revenues to fluctuate from quarter to quarter.

Results Of Operations

Fiscal 1989 Compared to Fiscal 1988

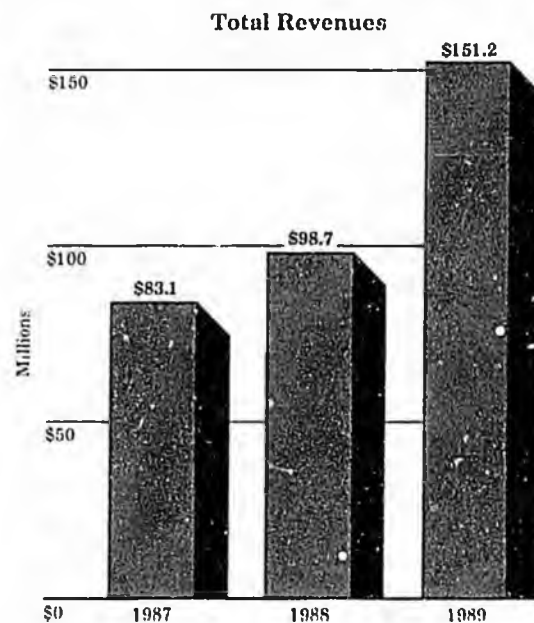
Net income increased to \$13.5 million, or \$1.76 per primary share compared to the previous year's net income of \$8.4 million or \$1.50 per primary share.

Net income for fiscal 1989 included \$261,000 or \$0.03 per share of income from discontinued operations. Net income in fiscal 1988 included \$1.7 million or \$0.29 per share of income attributable to the cumulative effect of adoption of an accounting standard to recognize a lower federal income tax rate on future payments of the Company's deferred federal income taxes and a loss from discontinued operations of \$971,000 or \$0.17 per share. During the fourth quarter of 1989 income from continuing operations included a \$10.0 million gain on the sale of 1,140,000 shares of EDT stock, reducing the Company's investment from approximately 77% of the outstanding common stock of EDT to approximately 45%. The Company also recorded a \$10.2 million expense to fully reserve its notes receivable from Syntech and reduce its investment in the common stock of Syntech to \$323,000. The Company felt these reserves were necessitated by the operating losses Syntech recorded during the last fiscal year and a significant reduction in the market value of Syntech common stock. Excluding the above non-recurring items, net income for fiscal 1989 increased 75% to \$13.4 million.

The increase in net income from operations is the result of a 37% increase in product sales, an improved gross margin on product sales, and the continued growth of the Company's progressive slot systems division in Nevada.

The 53% or \$52.5 million increase in revenues to \$151.2 million in fiscal 1989 included a 37% in-

crease in product sales and a 107% increase in gaming and casino operations revenues. Increased product sales reflected a 40% increase in gaming machine shipments from Nevada and increased sales of player tracking/slot monitoring systems by the Company's subsidiary, EDT. The Company anticipates continued growth in product sales from both the replacement of older gaming machines and the continued growth, particularly in southern Nevada, in new and expanding casinos. Product sales by the Company's wholly-owned subsidiary IGT-Australia increased only slightly from its record 1988 year. It is anticipated that future growth in gaming equipment in the Australian market as a result of the expansion of legalized gaming activities in Australia will be strong. The significant increase in gaming and casino operations revenues resulted primarily from the Company's addition of three casino properties during fiscal 1989 through its CMS subsidiary. These three properties included the opening in December 1988 of the Kings Casino on the island of Antigua in the Caribbean, the January 1989 acquisition of the Silver Club Hotel and Casino in Sparks, Nevada, and the March 1989 opening of the Treasury Club Casino also in Sparks, Nevada.



Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

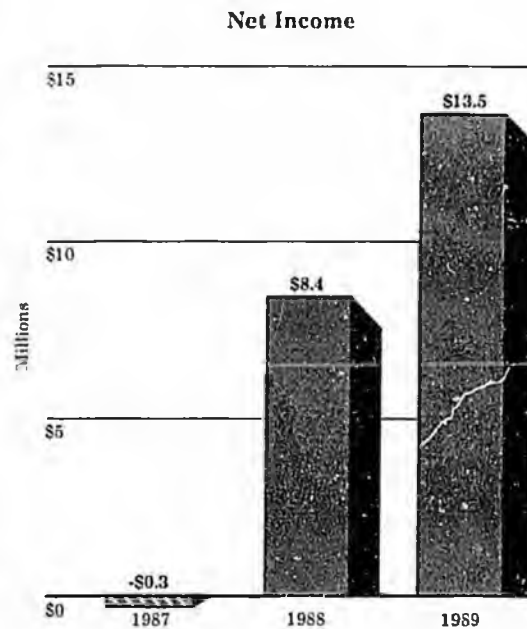
Also contributing to this increase in game operations revenues was the continued growth of Megabucks, the first linked progressive system and the 1989 introduction of Quartermania, which similarly links gaming machines throughout Nevada, generating a single large jackpot prize.

The gross profit margin on product sales which had increased by 4% in fiscal 1988 to 43.1%, increased an additional 1.8% in fiscal 1989 to 44.9% reflecting continued improvement in the efficiencies in the design, manufacture and installation of gaming machines. The gaming and casino operations expense increase of \$17.3 million to \$27.0 million was primarily caused by the addition of the three CMS casino properties described above, costs incurred by EDT in entering the slot machine route business and expenses of the Company's new Quartermania systems product.

The addition of the three CMS casino properties and EDT's new route business also contributed to the 49% or \$9.6 million increase in selling, general and administrative expense and the 20% or \$1.1 million increase in depreciation and amortization expense. Increased administrative payroll costs including benefit plan costs and increased sales staff in Australia also contributed to the selling general and administrative expense increase. EDT realized increased amortization costs relating to previously capitalized product enhancement costs of its new slot management and keno system versions.

Research and development costs increased 29% or \$1.5 million to support increased product sales, a greater diversity of customer requirements and the development of other linked progressive systems for applications in Nevada and Australia. The provision for bad debt expense increased 31% or \$738,000 to \$3.1 million as a result of additional reserves for an Argentina customer, in light of current economic conditions in that country.

Net interest and other income increased 19% or \$1,065,000 primarily as a result of increased income recognized on the Company's investments in



annuities utilized to pay off system jackpot winners and interest income received on notes receivable from Syntech related to a sale of 3,500,000 shares of Syntech common stock to that corporation in April 1988.

Fiscal 1988 Compared to Fiscal 1987

Net income increased to \$8.4 million or \$1.50 per primary share compared to a loss in the previous year of \$261,000 or \$0.04 per primary share. Income from continuing operations (which excludes discontinued operations, an extraordinary item and the cumulative effect of a change in an accounting principle) was \$7.7 million or \$1.38 per primary share in fiscal 1988 compared to a loss of \$613,000 or \$0.10 per primary share in fiscal 1987. This earnings improvement resulted primarily from a 19% increase in total revenues to \$98.7 million, an improved gross margin on product sales, and a change effective April 27, 1988 from the equity method to the cost method of accounting for the Company's investment in Syntech.

The 19% revenue increase resulted from significant increases in product sales and game operations. Increased sales were achieved by IGT-

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Australia as the Company's products gained increased Australian acceptance. EDT also recognized revenue growth from the sale of player tracking/slot monitoring systems and automated Keno systems. Improved game operations revenues resulted from an increase in the average number of machines operated during the year. Although the average daily number of machines was greater in fiscal 1988 than fiscal 1987, the number fluctuates due to sales and other causes and the number of machines in place on the last day of fiscal 1988 happened to be less than that on the last day of fiscal 1987. Gross profit margin on product sales increased by 4% from fiscal 1987 to fiscal 1988 as a result of the Company's ability to increase manufacturing efficiencies while maintaining product price levels.

Game operations expense increased \$2.1 million or 28% to \$9.7 million in fiscal 1988, primarily because of costs associated with expansion of route operations. Additionally, the Company incurred costs in seeking regulatory approvals. Selling, general and administrative expense increased \$4.7 million or 32% in fiscal 1988 compared to fiscal 1987. This reflected increases in the Company's use of outside consulting services, advertising and promotional costs, and staffing requirements. Depreciation and amortization expense declined 17% or \$1.2 million in fiscal 1988 as a result of management's decision in the prior year to shorten the depreciable lives of the game operations equipment and reduced amortization following expiration of certain gaming rights. During fiscal 1988, research and development expense increased \$669,000 or 14%, primarily because of higher development costs incurred by IGT-Australia and EDT. The provision for bad debts increased \$425,000 or 22% primarily from increased product sales.

Interest and other income increased \$1.3 million primarily from the notes issued by Syntech in April 1988. In fiscal 1988 the Company recognized a loss

of \$204,000 in accounting under the equity method for its Syntech investment compared to a loss of \$3.6 million recorded in fiscal 1987. The reduced loss is the result of more profitable operations of Syntech and the change to the cost method of recording this investment upon the sale of 3,500,000 shares of Syntech common stock in April 1988. Interest expense increased by \$1.1 million due to the Company's \$30.0 million Convertible Senior Subordinated Debentures issued in May 1987. All of the outstanding Debentures were converted into common stock in September 1988.

In October 1988 EDT made the decision to divest itself of its investment in APT Computer Consultants Pty. Ltd. ("APT"), a 51% owned subsidiary. APT is a custom computer software development company which was responsible for marketing and technical support of EDT's products in Australia. IGT-Australia now provides marketing and technical support of EDT products in Australia. This discontinued operation resulted in a loss to the Company of \$971,000 or \$.17 per primary share in fiscal 1988. In fiscal 1987, the Company recorded \$134,000 net income or \$.02 per primary share from this discontinued operation.

During the first quarter of fiscal 1988, the Company adopted a new accounting standard under a pronouncement issued by the Financial Accounting Standards Board that required the Company to convert from the deferred method to the liability method of accounting for income taxes. The liability method requires that the Company's balance sheet reflect taxes payable in the future based on the current tax rates. This change, in conjunction with the reduction in corporate tax rates under the Tax Reform Act of 1986, resulted in a reduction of deferred tax liabilities and a corresponding favorable adjustment to income of approximately \$1.7 million which is presented as the cumulative effect of a change in accounting principle.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Financial Condition

During fiscal 1989, working capital increased \$20.1 million to \$68.2 million at September 30, 1989. This increase resulted primarily from a \$12.4 million increase in trade accounts receivable, and a \$11.8 million increase in cash and short term investments. The cash and short term investment increase resulted from the Company's sale of 1,140,000 shares of the common stock of EDT, the sale of certain contracts receivable, and the addition of the Silver Club Hotel and Casino to the Company's consolidated financial statements. Inventories increased \$4.4 million as a result of increased "in process" production and finished goods inventories. Offsetting the above working capital increases was a \$5.5 million increase in accrued liabilities as a result of the addition of CMS gaming properties and an increase in employee related payroll costs.

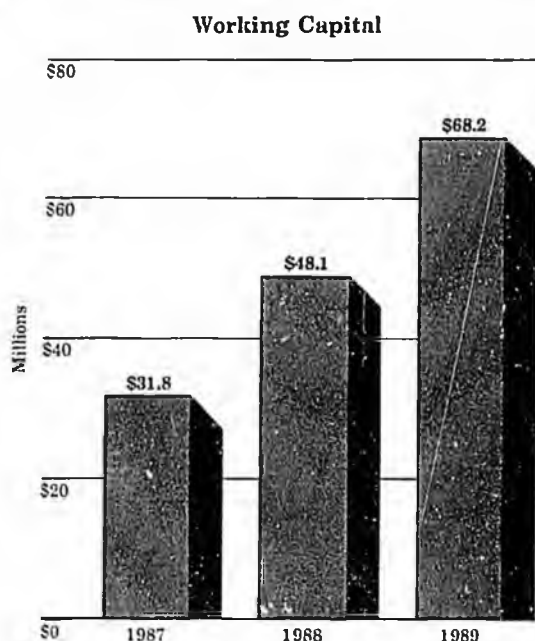
During fiscal 1989, the Company increased its line of credit from \$5.0 million to \$15.0 million under which no amounts were outstanding at September 30, 1989. The new line of credit has an expiration date of January 31, 1990. EDT has a \$6.0 million

line of credit on which \$4.1 million was drawn at September 30, 1989. \$4.0 million on this EDT line of credit expires on June 30, 1990 and the remaining \$2.0 million expires on June 2, 1992. IGT-Australia has a \$500,000 (Australian) bank line of credit with a May 1990 expiration date, of which \$500,000 (Australian) was available at September 30, 1989. CMS, through its 55% owned subsidiary, Silver Club, had a \$500,000 bank line of credit, with an expiration date of December 31, 1989, under which \$200,000 was drawn down at September 30, 1989.

On September 13, 1989, the Company sold 1,140,000 shares of its common stock in EDT for \$12.8 million in cash, reducing its investment from approximately 77% to 45% or 1,660,000 shares. The Company recorded a gain of \$10.0 million on this sale. The 1,660,000 shares the Company currently holds with a book value of \$2.4 million had a market value of \$16.0 million at December 1, 1989. The Company currently has no plans to sell additional shares of EDT common stock.

During the fourth quarter of 1989 the Company reserved \$8.6 million or 100% of its notes and related interest receivable from Syntech and wrote down its investment in the 575,000 shares of common stock of Syntech by \$1.6 million to \$323,000 or \$0.56 per share. The Company felt these actions were appropriate due to the operating losses Syntech recorded during the last fiscal year and a significant reduction in the market value of Syntech common stock.

Under separate agreements with both First Interstate Bank of Nevada and Valley Bank of Nevada which expire on May 31, 1990 and September 15, 1990, respectively, the Company is able to sell certain of its notes and contracts receivable, resulting from gaming equipment sales, to either of these banks up to a combined limit under both agreements of \$30.0 million, subject to the bank's credit approval of the creditor and terms of the equipment sales contracts. During the last six months



Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

of fiscal 1989 the Company sold \$4.9 million of receivables under these agreements on a non-recourse basis. The Company anticipates utilizing these agreements as a source of liquidity. The Company has financed and anticipates it will continue to finance a percentage of its equipment sales, but believes that through these agreements it can better utilize its assets to enable it to expand its business.

The Company, through its wholly-owned subsidiary, Casino Management Services International, owns and operates casino properties. In fiscal 1988, the Company commenced operations at the Mizpah Hotel in Tonopah, Nevada under lease agreements which expire in January 1990. The Company does not intend to renew these leases and will discontinue operations at the Mizpah on December 31, 1989. During fiscal 1989, the Company began operations of three additional casino properties. On December 27, 1988, the Company, as a 50% owner, completed construction and opened the approximate 10,000 square foot Kings Casino on the island of Antigua in the Caribbean. The Company has invested approximately \$2.8 million in this facility to date. On January 1, 1989, the Company, as a 55% owner, completed the purchase and began operation of the Silver Club Hotel and Casino ("Silver Club") which includes 206 hotel rooms and approximately 18,500 square feet of casino gaming space in Sparks, Nevada. The \$11.9 million purchase price of the Silver Club, which included operating cash and inventories, was paid with \$1.2 million cash and a note secured by the purchased assets for the balance, payable over 10 years. On March 6, 1989, the Company opened the Treasury Club Casino, with approximately 2,900 square feet of gaming space in Sparks, Nevada, under a lease agreement with an option to purchase.

On January 1, 1990, the Company anticipates completing the purchase and will assume operations of the El Capitan, an approximate 10,000 square foot casino and hotel operation in Hawthorne, Nevada. The purchase price of \$10.0 million, which includes

operating cash and inventories, will be financed by notes guaranteed by the Company.

On October 3, 1989, the Board of Directors authorized the repurchase of up to ten percent of the Company's then outstanding shares. Pursuant to such Board action a total of 475,563 shares have been repurchased as of December 20, 1989 for an aggregate purchase price of \$13,589,000. Of these shares, 231,558 shares were repurchased from current employees of the Company.

Impact Of Inflation

Inflation has not had a significant effect on the Company's operations during the three fiscal years ended September 30, 1989.

Independent Auditor's Report

To the Shareholders and Board of Directors of International Game Technology:

We have audited the accompanying consolidated balance sheets of International Game Technology and subsidiaries as of September 30, 1989 and 1988 and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the years then ended. These financial statements and the supplemental schedules discussed below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at September 30, 1989 and 1988 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidated supplemental schedules as of September 30, 1989 and 1988 and for the years then ended listed in Item 14(a)(2) are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such consolidated supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Deloitte Haskins & Sells

Deloitte Haskins & Sells

Reno, Nevada

November 27, 1989

Report of Independent Public Accountants

To the Stockholders and Board of Directors of International Game Technology:

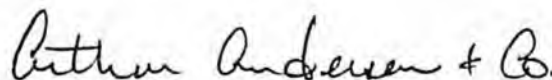
We have audited the accompanying consolidated statements of operations, cash flows and changes in stockholder's equity of International Game Technology (a Nevada corporation) and subsidiaries for the fiscal year ended September 30, 1987. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of International Game Technology for the fiscal year ended September 30, 1987 in conformity with generally accepted accounting principles.

Our audit of the financial statements was made for the purpose of forming an opinion on those statements taken as a whole. Supplemental schedules IV, VIII, IX and X are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

San Francisco, California,
December 21, 1987


Arthur Anderson & Co.

Consolidated Statements of Operations

<i>Dollars in thousands</i>	Years Ended September 30,		
	1989	1988	1987
Revenues:			
Product sales	\$104,356	\$ 76,092	\$ 66,672
Gaming and casino operations	46,796	22,602	16,438
Total revenues (including related party transactions of \$2,898, \$5,613 and \$7,167)	151,152	98,694	83,110
Costs and Expenses:			
Cost of product sales	57,476	43,330	40,884
Gaming and casino operations	26,971	9,688	7,568
Selling, general and administrative	29,137	19,587	14,887
Depreciation and amortization	6,626	5,527	6,695
Research and development	6,869	5,330	4,661
Provision for bad debts	3,133	2,395	1,970
Total costs and expenses	130,212	85,857	76,665
Income from Operations	20,940	12,837	6,445
Other Income (Expense):			
Interest and other income, net	6,681	5,616	4,280
Interest expense	(5,757)	(5,881)	(4,760)
Minority interest in income of consolidated subsidiaries	(451)	(101)	—
Equity in earnings of Syntech	—	(204)	(3,584)
Gain on sale of FDT stock	10,005	—	—
Loss on investment in and receivables from Syntech	(10,189)	—	—
Other income (expense), net	289	(570)	(4,064)
Income From Continuing Operations Before Income Taxes, Extraordinary Item and Cumulative Effect of Change in Accounting Principle	21,229	12,267	2,381
Provision for Income Taxes	8,009	4,569	2,994
Income (Loss) From Continuing Operations Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle	13,220	7,698	(613)
Income (Loss) From Discontinued Operations	261	(971)	134
Extraordinary Item - Utilization Of Tax Loss Carryforward	—	—	218
Cumulative Effect of Change in Accounting Principle - Deferred Income Taxes	—	1,650	—
Net Income (Loss)	\$ 13,481	\$ 8,377	\$ (261)

(continued)

See Accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Operations (continued)

	Years Ended September 30,		
	1989	1988	1987
Per Common and Common Equivalent Share:			
Primary:			
Income (loss) from continuing operations before extraordinary item and cumulative effect of change in accounting principle	\$1.73	\$1.38	\$(.10)
Income (loss) from discontinued operations03	(.17)	.02
Extraordinary item – utilization of tax loss carryforward	—	—	.04
Cumulative effect of change in accounting principle	—	.29	—
Net Income (Loss)	\$1.76	\$1.50	\$(.04)
Weighted Average Shares Outstanding	7,659,906	5,573,186	5,841,917
Fully Diluted:			
Income (loss) from continuing operations before extraordinary item and cumulative effect of change in accounting principle	\$1.71	\$1.26	\$(.10)
Income (loss) from discontinued operations03	(.13)	.02
Extraordinary item – utilization of tax loss carryforward	—	—	.04
Cumulative effect of change in accounting principle	—	.22	—
Net Income (Loss)	\$1.74	\$1.35	\$(.04)
Weighted Average Shares Outstanding	7,736,504	7,667,199	5,841,917

See Accompanying Notes to Consolidated Financial Statements

Consolidated Balance Sheets

<i>Dollars in thousands</i>	Assets	
	September 30,	
	1989	1988
Current Assets:		
Cash and cash equivalents	\$ 15,940	\$ 4,178
Accounts receivable (including \$176 in 1988 due from related parties), net of allowances for doubtful accounts of \$1,237 and \$810	30,483	18,089
Current maturities of long-term notes and contracts receivable (including \$2,210 and \$1,690 due from related parties), net of allowances	20,034	22,306
Inventories:		
Raw materials	13,643	17,547
Work-in-process	9,632	4,611
Finished goods	12,160	9,279
Other	413	—
Total inventories	35,848	31,437
Prepaid expenses and other	5,566	2,835
Total current assets	107,871	78,845
Long-term Notes and Contracts Receivable (including \$226 and \$889 due from related parties), net of allowances and current maturities	12,368	17,453
Property, Plant and Equipment, at cost:		
Land	4,118	—
Buildings	10,733	5,011
Gaming and casino operations equipment	19,096	12,159
Manufacturing machinery and equipment	14,778	11,611
Leasehold improvements	4,308	2,498
	53,033	31,279
Less accumulated depreciation and amortization	(18,933)	(16,574)
Property, plant and equipment, net	34,100	14,705
Investment in Syntech	323	1,958
Long-Term Notes Receivable from Syntech, net of allowances	—	8,214
Systems Annuity Assets	11,593	3,650
Other Assets	4,237	2,974
Total Assets	\$170,492	\$127,799

See Accompanying Notes to Consolidated Financial Statements

Consolidated Balance Sheets (continued)

<i>Dollars in thousands</i>	September 30,	
	1989	1988
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current maturities of long-term notes payable (including \$5,350 and \$4,900 payable to related parties) and capital lease obligations	\$ 10,938	\$ 7,862
Accounts payable	8,026	9,306
Accrued vacation liability	1,840	1,623
Accrued liabilities	13,394	7,889
Accrued and deferred income taxes	5,428	4,068
Total current liabilities	39,626	30,748
Long-Term Notes Payable and Capital Lease Obligations (including \$7,844 and \$13,194 notes payable to related parties), net of current maturities	23,909	18,024
Long-Term Liabilities to Systems Winners	15,793	6,320
Deferred Income Taxes	2,871	2,204
Other Liabilities	86	132
Minority Interest in Subsidiaries	6,179	3,304
Total liabilities	88,464	60,732
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, \$.01 par value; 20,000,000 shares authorized; 7,530,198 and 7,293,590 shares issued	75	73
Additional paid-in capital	48,744	45,830
Retained earnings	36,865	23,287
Treasury stock; 188,783 and 110,057 shares, at cost	(3,656)	(2,123)
Total stockholders' equity	82,028	67,067
Total liabilities and stockholders' equity	\$170,492	\$127,799

See Accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

<i>Dollars in thousands</i>	Years Ended September 30,		
	1989	1988	1987
Cash Flows From Operating Activities:			
Net income (loss)	\$13,481	\$ 8,377	\$ (261)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,626	5,527	6,695
Provisions for losses on accounts/notes receivable	3,133	2,395	1,970
Minority interest in income of consolidated subsidiaries	451	101	—
Equity in earnings of Syntech	—	204	3,584
Loss (gain) on sale of assets	140	(267)	84
Loss on investment in and receivables from Syntech	10,189	—	—
Gain on sale of EDT stock	(10,005)	—	—
(Increase) decrease in assets:			
Receivables (excluding Syntech receivable of \$8,802 in 1988)	(8,170)	(7,285)	(13,181)
Inventories	(4,411)	(11,650)	1,050
Income tax receivable	1	292	3,296
Prepaid and other	(2,333)	(893)	(425)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	6,232	5,740	2,270
Accrued and deferred income taxes payable, net of tax benefit of stock option and purchase plans	2,618	(1,143)	57
Total adjustments	4,471	(6,979)	5,400
Net Cash Provided by Operating Activities (Forward)	17,952	1,398	5,139

(continued)

See Accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows (continued)

<i>Dollars in thousands</i>	Years Ended September 30,		
	1989	1988	1987
Net cash provided by operating activities	\$17,952	\$1,398	\$ 5,139
Cash Flows From Investing Activities:			
Investment in plant and equipment	(16,566)	(8,817)	(8,495)
Proceeds from sale of plant and equipment	3,658	2,403	3,940
Proceeds from sale of EDT stock	11,697	—	—
Proceeds from sale of (paid for) Syntech common stock	—	3,500	(6,899)
Proceeds from collection of loan to Syntech	—	—	2,000
(Increase) decrease in other assets	(1,256)	1,417	(3,578)
Proceeds from systems annuity assets	2,428	1,424	499
Investment in systems annuity assets	(11,358)	(4,667)	(1,313)
Net cash used in investing activities	(11,397)	(4,740)	(13,846)
Cash Flows From Financing Activities:			
Principal payments on debt	(7,934)	(5,296)	(24,221)
Payment on systems annuity liabilities	(2,428)	(1,424)	(499)
Increase in minority interest from subsidiary stock options exercised	732	3,126	105
Collections from systems to fund annuity liability	13,187	5,733	2,511
Proceeds from stock options exercised	555	665	2,451
Proceeds from employee stock purchases	237	71	—
Proceeds of long-term debt	807	2,926	7
Proceeds from issuance of (paid to retire) Debentures	—	(1,907)	30,000
Foreign currency exchange gain (loss)	97	239	(66)
Other	(46)	40	64
Net cash provided by financing activities	5,207	4,173	10,352
Net Increase in Cash and Cash Equivalents	11,762	831	1,645
Cash and Cash Equivalents at Beginning of Year	4,178	3,347	1,702
Cash and Cash Equivalents at End of Year	\$15,940	\$4,178	\$ 3,347

See Accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Stockholders' Equity

<i>Amounts in thousands</i>	<u>Common Stock</u>	<u>Additional</u>	<u>Retained</u>	<u>Treasury</u>	<u>Total</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Stock</u>	
Balance at						
October 1, 1986	8,085	\$81	\$13,373	\$46,698	\$ (131)	\$60,021
Stock options exercised	221	2	2,449	—	—	2,451
Currency translation adjustments	—	—	—	(66)	—	(66)
Tax benefit of stock options	—	—	218	—	—	218
Purchase and retirement of stock	(3,183)	(32)	(1,180)	(31,700)	—	(32,912)
Net loss	—	—	—	(261)	—	(261)
Balance at						
September 30, 1987	5,123	51	14,860	14,671	(131)	29,451
Debenture conversion	1,881	19	28,074	—	—	28,093
Stock options exercised	275	3	2,569	—	(1,907)	665
Currency translation adjustments	—	—	—	239	—	239
Tax benefit of stock options	—	—	171	—	—	171
Employee stock purchases	15	—	156	—	(85)	71
Net income	—	—	—	8,377	—	8,377
Balance at						
September 30, 1988	7,294	73	45,830	23,287	(2,123)	67,067
Stock options exercised	214	2	2,086	—	(1,533)	555
Currency translation adjustments	—	—	—	97	—	97
Tax benefit of stock option and purchase plans	—	—	591	—	—	591
Employee stock purchases	22	—	237	—	—	237
Net income	—	—	—	13,481	—	13,481
Balance at						
September 30, 1989	7,530	\$75	\$48,744	\$36,865	\$(3,656)	\$82,028

See Accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

International Game Technology (the "Company") was incorporated under the laws of the State of Nevada in December 1980 to acquire IGT and to facilitate the Company's initial public offering in compliance with the gaming laws of Nevada.

IGT, a wholly-owned subsidiary, manufactures and markets gaming equipment and operates a gaming machine route, which includes statewide progressive slot machine systems.

Electronic Data Technologies ("EDT") is a manufacturer of slot monitoring and player tracking systems, electronic keno systems for casinos and effective October 1, 1988 began management of selected locations of IGT's gaming machine route in Nevada (see Note 14). EDT was wholly-owned by the Company until October 8, 1987, when EDT completed a public offering of 700,000 shares of its common stock, representing 20% of shares outstanding following the offering. In September 1989, the Company sold, through a public offering, 1,140,000 shares of EDT common stock, reducing the Company's ownership to approximately 45% (see Note 17). In June 1987, EDT acquired 51% of the outstanding common stock of APT Computer Consultants Pty. Ltd. ("APT"), an Australian custom computer software development company. Effective following the close of fiscal 1988, EDT discontinued its equity interest in APT (see Note 15).

IGT (Australia) Pty. Ltd. ("IGT - Australia"), a wholly-owned subsidiary, was established by the Company in 1986 to manufacture and market gaming devices in the Australian market and other jurisdictions in the Southern Hemisphere and the Pacific Rim.

CMS International ("CMS") a wholly-owned subsidiary, was established in August 1988, to develop, own and manage casino operations for the Company.

Lottery Games International ("LGI"), formerly a wholly-owned subsidiary of IGT established in 1983, was granted certain rights to application of specific lottery technology developed by IGT. In February 1987, the Company exercised its option

to exchange all of the common stock of LGI for 1,830,000 unregistered shares of Syntech International, Inc. ("Syntech").

The Company owned approximately 43% of Syntech's outstanding common stock as of September 30, 1987. This investment was accounted for on the equity method through April 27, 1988. On April 27, 1988, the Company sold 3,500,000 shares of its Syntech common stock to Syntech reducing the Company's ownership to approximately 9.9% and changed to the cost method of accounting for its remaining investment in Syntech.

The consolidated financial statements include the accounts of the Company, IGT, EDT and its subsidiaries (APT through September 30, 1988), LGI (through January 1987), IGT-Australia and CMS. All material intercompany accounts and transactions have been eliminated.

Change in Fiscal Year

Effective with the fiscal year ending September 30, 1989, EDT changed its fiscal year end from December 31 to September 30.

Product Sales

The Company makes sales for cash, on normal credit terms (90 days or less), over longer term installments, and through participation in the net winnings of the machines until the purchase price is paid. Generally, sales are recorded as the products are installed or upon customer acceptance, or if the Company does not provide the installation the sale is recorded upon shipment. If a substantial uncertainty exists concerning the collectability or term of a contract, the installment method is used. Participation sales are recorded when the product is installed unless the customer does not agree in writing to keep the product installed until the purchase price is paid, in which case the installment method is used.

EDT sales of slot management systems generally involve contracts covering periods up to twelve months. Billings on such contracts are made periodically in accordance with contract terms, and revenue is recognized on the percentage of completion method.

Notes to Consolidated Financial Statements (continued)

Gaming and Casino Operations

Gaming and casino operations revenues consist of revenues relating to the operations of the systems division, the lease and rental of gaming machines, a share of the net gaming winnings from the operation of machines on participation, and revenues relating to operation of hotel/casino businesses.

Dollars in thousands	Years Ended September 30,		
	1989	1988	1987
Participation	\$26,142	\$21,183	\$15,211
Hotel/Casino operations	20,223	429	—
Lease/Rental	431	990	1,227
Total	\$46,796	\$22,602	\$16,438

At September 30, 1988 and 1989, the Company had accrued approximately \$7.6 million and \$18.4 million, respectively, for its share of outstanding progressive jackpot liabilities. This liability includes the amount required to provide for annuity payments to Systems jackpot winners. The Company is required to segregate cash and investments relating to Systems liabilities.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Depreciation and Amortization

Depreciation and amortization are provided on the straight-line method over the following useful lives:

Gaming and casino operations equipment	2 to 5 years
Manufacturing machinery and equipment	3 to 5 years
Buildings	40 years
Leasehold improvements	Term of Lease
Building under capital lease	Term of Lease

Maintenance and repairs are expensed as incurred. The costs of improvements are capitalized. Gains or losses on the disposition of assets are included in income.

Systems Annuity Assets

This represents annuity investments to meet obligations for funding payments to Megabucks and Quartermania winners. Such investments are stated at cost, which approximates market.

Other Assets

This includes deferred product development costs, deposits, gaming rights, patents, goodwill, and notes receivable from employees (see Note 10). Deferred product development costs have been capitalized in accordance with Statement of Financial Accounting Standards No. 86, and are amortized when the related products are available for release to customers. The cost of gaming rights is amortized on a straight-line basis over the terms of the agreements.

Net Income (Loss) Per Share

Net income (loss) per share is computed based on the weighted average number of common and common equivalent shares outstanding, except in loss years when their effects become anti-dilutive. The Debentures were not common stock equivalents, however, they were considered in the calculation of fully-diluted earnings per share except in 1987 when the Debenture effects were anti-dilutive.

Cash and Cash Equivalents

This includes cash required for casino gaming operations and for funding current systems jackpot payments and annuity purchases. Cash in excess of daily requirements is invested in various marketable securities with maturities of three months or less. Such investments are stated at cost, which approximates market, and are deemed to be cash equivalents for purposes of the consolidated statement of cash flows.

Foreign Currency Translation

The financial statements of foreign subsidiaries have been translated into U.S. dollars for consolidated reporting purposes in accordance with FASB Statement No. 52. All asset and liability accounts have been translated using the current exchange rate at the balance sheet date. Income statement amounts have been translated using the average exchange rate for the year. The gains and losses resulting from the translation

Notes to Consolidated Financial Statements (continued)

adjustments have been accumulated as a component of shareholders' equity, being netted against retained earnings due to the immateriality of the amounts. The effect on the consolidated statements of operations of translation gains and losses is insignificant for all years presented.

2. Business Segments

The Company operates principally in two lines of business: the manufacture of gaming products and gaming and casino operations. The table below presents information as to the Company's operations in different industries.

<i>Dollars in thousands</i>	Years Ended September		
	1989	1988	1987
Revenues:			
Manufacture of gaming products	\$104,356	\$ 76,092	\$
Gaming and casino operations:			
Participation and lease/rental	\$ 26,573	\$ 22,173	\$ 16,438
Hotel/Casino operations	20,223	429	—
Total gaming and casino operations	\$ 46,796	\$ 22,602	\$ 16,438
Operating Profit:			
Manufacture of gaming products	\$ 42,189	\$ 29,009	\$ 22,868
Gaming and casino operations	15,971	10,025	3,998
Total	58,160	39,034	26,866
Other Expenses, Including Net Interest	36,931	26,767	24,485
Income Before Income Taxes	\$ 21,229	\$ 12,267	\$ 2,381
	September 30		
	1989	1988	1987
Identifiable Assets:			
Manufacture of gaming products	\$ 98,070	\$ 89,116	\$ 75,107
Gaming and casino operations	52,464	16,987	8,525
Corporate	19,958	21,696	24,999
Total	\$170,492	\$127,799	\$108,631
Capital Expenditures:			
Manufacture of gaming products	\$ 4,045	\$ 1,565	\$ 632
Gaming and casino operations	23,359	5,403	6,744
Corporate	2,174	3,769	2,331
Total	\$ 29,578	\$ 10,737	\$ 9,707
Depreciation and Amortization:			
Manufacture of gaming products	\$ 2,205	\$ 1,856	\$ 1,549
Gaming and casino operations	3,768	2,973	4,708
Corporate	653	698	438
Total	\$ 6,626	\$ 5,527	\$ 6,695

Notes to Consolidated Financial Statements (continued)

The Company has operations based in the United States and Australia. The table below presents information as to the Company's operations by geographic region.

<i>Dollars in thousands</i>	Years Ended September 30,		
	1989	1988	1987
Revenues:			
United States	\$133,428	\$ 84,058	\$ 77,211
Australia	18,848	16,318	7,813
Eliminations	(1,124)	(1,682)	(1,914)
Consolidated	<u>\$151,152</u>	<u>\$ 98,694</u>	<u>\$ 83,110</u>
Operating Profit:			
United States	\$ 52,475	\$ 33,768	\$ 24,592
Australia	5,791	5,798	2,096
Eliminations	(106)	68	178
Consolidated	<u>58,160</u>	<u>39,034</u>	<u>26,866</u>
Other Expenses, Including Net Interest	<u>36,931</u>	<u>26,767</u>	<u>24,485</u>
Income Before Income Taxes	<u>\$ 21,229</u>	<u>\$ 12,267</u>	<u>\$ 2,381</u>

	September 30,		
	1989	1988	1987
Identifiable Assets:			
United States	\$160,329	\$119,459	\$104,313
Australia	10,163	8,340	4,318
Total	<u>\$170,492</u>	<u>\$127,799</u>	<u>\$108,631</u>

On a consolidated basis the Company does not recognize intersegment revenues or expenses upon the transfer of gaming machines between segments. Operating profit is revenue less cost of sales and operating expenses, including related operating depreciation and amortization, and provisions for bad debts. Other expenses include selling, general and administrative expense and related depreciation and amortization, interest expense, interest income, research and development expense.

During the fiscal year ended September 30, 1987, the largest customer of the Company's products accounted for approximately 15% of such sales. During the fiscal years ended September 30, 1988 and 1989, no single customer accounted for more than 10% of the sales of the Company's products.

The Company had total export sales from the United States of approximately \$4,025,000, \$8,590,000 and \$10,284,000 during the fiscal years ended September 30, 1987, 1988 and 1989 respectively.

3. Notes and Contracts Receivable

The Company grants customers extended payment terms under contracts of sale. These contracts are generally for terms of one to five years, with interest recognized at prevailing rates, and are secured by the related equipment sold.

The Company has provided loans, principally for financial assistance, to several customers. At September 30, 1988 and 1989, the balance of such loans totaled \$1,923,000 and \$1,282,000, respectively, net of the related allowance for doubtful accounts of \$806,000 and \$97,000, respectively.

Notes to Consolidated Financial Statements (continued)

These loans are generally for terms of one to five years with interest at prevailing rates.

The following table represents, at September 30, 1989, the estimated future collections of notes and contracts receivable:

<i>Dollars in thousands</i>	Estimated Receipts
Years Ending September 30,	
1990	\$20,034
1991	7,343
1992	2,633
1993	1,042
1994	276
1995 and after	1,074
	\$32,402

At September 30, 1988 and September 30, 1989, the following deferred income and allowances for doubtful notes and contracts were netted against current and long-term maturities:

<i>Dollars in thousands</i>	September 30,	
	1989	1988
Deferred income:		
Current	\$ 234	\$ 376
Long-term	7	367
	241	743
Allowance for doubtful notes and contracts:		
Current	102	270
Long-term	2,007	2,889
	2,109	3,159
	\$2,350	\$3,902

4. Lines of Credit

As of September 30, 1989, IGT had a \$15.0 million bank line of credit with interest at the lender's prime rate and an expiration date of January 31, 1990. A nominal commitment fee is paid on the unused portion of this line. At September 30, 1989, no advances were drawn under this line.

As of September 30, 1989, EDT had a \$4.0 million revolving bank line of credit with interest at the lender's prime rate and an expiration date of June 1, 1990. A nominal commitment fee is paid on the unused portion of this line of credit. At September 30, 1989, \$3.1 million was drawn down under this line. EDT also has a \$2.0 million long-term credit arrangement with interest at the lender's prime rate. As of September 30, 1989, \$1.1 million was drawn under this agreement, which is repayable in equal monthly installments through December 1991.

IGT-Australia had a \$500,000 (Australian) bank line of credit available as of September 30, 1989. Interest is paid at the lender's reference rate plus 1%. A nominal fee is paid on the unused portion of this line. This line is unsecured, and had a provision for review and renewal annually in May. At September 30, 1989, \$500,000 (Australian) was available under this line.

As of September 30, 1989, CMS, through its 55% owned subsidiary, Silver Club, had an unsecured \$500,000 bank line of credit with interest at the lender's prime rate plus 1/4% and an expiration date of December 31, 1989. As of September 30, 1989, \$200,000 was drawn under this line.

The Company is required to comply with certain covenants contained in the IGT line of credit agreement which, among other things, limits financial commitments the Company may make without written consent of the lender and requires the maintenance of certain financial ratios, minimum working capital and net worth of the Company. The EDT lines of credit contain covenants which require maintenance of certain financial ratios, prohibits payment of dividends or purchasing treasury stock, restricts EDT from incurring additional indebtedness and from lending or advancing amounts to IGT or its other affiliates in excess of \$1 million. EDT has obtained a waiver allowing it to obtain a revolving line of credit of \$4 million from IGT for the purchase of slot machines for its route operations. The EDT lines of credit are secured by its accounts receivables, sales-type lease receivables, inventories, and certain other assets.

Notes to Consolidated Financial Statements (continued)

5. Notes Payable and Capital Lease Obligations

Notes payable and capital lease obligations consist of the following as of:

<i>Dollars in thousands</i>	September 30,	
	1989	1988
Unsecured note with interest at 9% for repurchase of the Company's common stock, maturing in 1992 (see Note 12)	\$ 8,994	\$12,444
Unsecured note with interest at prime plus 1% (11.5% at September 30, 1989) for repurchase of the Company's common stock, maturing in 1992 (see Note 12)	4,200	5,650
Note payable of \$500,000 for EDT's purchase of 51% interest in APT (see Note 1), repaid in 1989	—	237
Unsecured note payable of \$887,500 for repurchase of the Company's common stock, payable April 1, 1990, interest imputed at 12% resulting in a discount of \$51,400	836	—
Note payable with interest at the lender's prime rate plus 1/4% (10.75% at September 30, 1989), secured by real property, with interest only payable until December 1990; then, principal and interest will be paid based on a twenty-year amortization, maturing in 1999 (see Note 16)	10,700	—
Note payable with interest at the lender's prime rate plus 1%, (11.5% at September 30, 1989), secured by real property, interest due monthly until maturity in December 1993	638	—
Note payable, with interest at 10%, secured by real property; monthly payments of \$7,720 commence in 1990, maturing in 1999	800	—
Lines of credit (see Note 4)	4,388	2,450
Capital lease obligations (see Note 8)	4,099	5,039
Other notes payable	192	66
	34,847	25,886
Less current maturities	(10,938)	(7,862)
Long-term notes payable and capital lease obligations, net of current maturities	\$23,909	\$18,024

Future fiscal year principal payments of these notes and capital lease obligations at September 30, 1989 are as follows:

Dollars in thousands

1990	1991	1992	1993	1994	1995 and Later
\$10,938	\$6,924	\$2,872	\$641	\$1,218	\$12,254

Notes to Consolidated Financial Statements (continued)

6. Income Taxes

The effective income tax rates differ from the statutory U. S. federal income tax rates as follows:

<i>Dollars in thousands</i>	Years Ended September 30,					
	1989		1988		1987	
	Amount	Rate	Amount	Rate	Amount	Rate
Taxes at federal statutory rate	\$7,218	34.0%	\$4,171	34.0%	\$1,081	43.0%
Investment tax credit, net	20	0.1	41	0.3	314	12.5
Research and development tax credit	—	—	—	—	(50)	(2.0)
Equity in loss of Syntech	—	—	69	0.6	1,541	61.2
Foreign subsidiaries income	44	0.2	76	0.6	—	—
Other, net	727	3.0	212	1.7	108	4.3
Actual provision (benefit) for income taxes	\$8,009	37.3%	\$4,569	37.2%	\$2,994	119.0%

Total fiscal 1989 pretax income is made up of \$20,993,000 domestic pretax income and \$118,000 foreign pretax income. Total fiscal 1988 pretax income consists of \$11,169,000 domestic pretax income and \$1,098,000 foreign pretax income. Total fiscal 1987 pretax income consists of \$2,005,000 domestic pretax income and \$376,000 foreign pretax income.

Components of the provision for (benefit from) income taxes were as follows:

<i>Dollars in thousands</i>	Years Ended September 30,		
	1989	1988	1987
Current	\$10,648	\$8,027	\$3,520
Deferred	(2,639)	(3,458)	(526)
	\$ 8,009	\$4,569	\$2,994

Notes to Consolidated Financial Statements (continued)

The deferred tax provisions (benefits) are attributable to the following:

<i>Dollars in thousands</i>	Years Ended September 30,		
	1989	1988	1987
Excess of accelerated depreciation over straight-line depreciation	\$ 396	\$ 479	\$ (518)
The installment method of reporting certain sales for tax purposes	(2,398)	(4,469)	(1,059)
Provisions for inventory and fixed asset valuation adjustments deductible for taxes when realized	(307)	273	926
Provision for warranty expenses, accrued jackpot liabilities and other liabilities deductible for tax purposes when paid	3,511	139	54
Investment tax credit taken for financial statement purposes, not creditable for tax return purposes	—	—	210
Syntech note write-down	(3,439)	—	—
Other, net	(402)	120	(139)
	\$(2,639)	\$(3,458)	\$ (526)

Deferred income taxes are provided on timing differences in the recognition of income and expense for tax and financial reporting purposes. Investment and research and development tax credits are accounted for as reductions in the provision for income taxes in the year they arise.

The Tax Reform Act of 1986 affected the Company primarily through elimination of provisions that permitted deferral of its tax liability into future years. As a consequence, a greater portion of book income is currently taxable, and appears as a current liability rather than as a long-term deferred liability. The new provisions that primarily affect the Company are: elimination of the installment sale method; elimination of the investment tax credit; new restrictions on the research and development tax credit; new uniform capitalization rules affecting inventory costs; and the reduction in the statutory tax rates.

Of benefit to the Company, although largely offset by elimination of deferral provisions, was the reduction in statutory tax rates from 46% to 34%. At September 30, 1987, deferred taxes were stated at 46%. The tax rate reduction, coupled with the Company's election to adopt Financial Accounting Standards Board Statement No. 96, resulted in a

reduction in the Company's deferred tax liability and an increase in net income of \$1,650,000 through treatment of the reduction as the cumulative effect of a change in accounting principle. The Company, by early adoption of FASB 96, revalued its deferred tax liability to estimate the expected future taxes which will become due.

7. Employee Benefit Plans

Employee Profit Sharing Plans

In 1980, IGT adopted a qualified profit sharing retirement plan for its employees. Company contributions to the plan are at the sole discretion of the Company's Board of Directors. Benefits vest over a seven-year period of employment. Under a discretionary program effective January 1, 1986, and reviewable by the Board annually, contributions are based on 5% of annual IGT pretax operating profits above a set minimum. Effective for 1988 and 1989 the minimum pretax operating profits were \$2,000,000 before any allocation to the Plan.

Additionally, a cash sharing plan was adopted by IGT effective January 1, 1986, in which 5% of annual pretax operating profits (in excess of \$2,000,000 for 1988 and 1989) of IGT, are distributed to employees on a semiannual basis.

Notes to Consolidated Financial Statements (continued)

Contributions to the plan are reviewed annually by the Board.

The Company's subsidiaries, EDT and IGT-Australia, have similar retirement and cash sharing plans with IGT-Australia's retirement plan designed as a superannuation program. Total consolidated profit sharing and cash sharing expense was \$901,000, \$1,391,000, and \$2,560,000 for the fiscal years ended September 30, 1987, 1988, and 1989, respectively.

Management Bonus Plans

IGT maintains a discretionary management bonus plan in which key employees participate and a marketing management bonus plan. Effective January 1, 1986, 5% of IGT's annual pretax operating profits (in excess of \$2,000,000 for 1988 and 1989) are distributed under the management bonus plan. Bonuses for marketing management are computed using a formula based on product sales levels and gross profit margins achieved. The Company's other operating subsidiaries maintain similar plans. Under these plans total consolidated expense was \$545,000, \$899,000, and \$1,815,000 for the fiscal years ended September 30, 1987, 1988 and 1989, respectively.

Stock Option Plan

In 1981, IGT adopted a tandem Stock Option Plan consisting of qualified incentive stock options and non-qualified stock options. Options under this plan have been granted at fair market value on the date of grant. Typically options become exercisable in five annual installments although a shorter period may be provided.

Under this plan options to purchase an aggregate of 1,694,000 shares may be granted. At September 30, 1989, options to purchase 283,622 shares were available for grant.

	Number of Shares	Option Price Per Share
Outstanding		
September 30, 1988 ...	421,298	\$ 8.08 - \$23.00
Granted	157,261	\$20.19 - \$26.88
Cancelled	(12,227)	\$ 8.08 - \$20.19
Exercised	(54,548)	\$ 8.08 - \$16.25
Outstanding		
September 30, 1989 ...	511,784	\$ 8.08 - \$26.88
Exercisable at		
September 30, 1989	226,537	\$ 8.08 - \$23.00

Employee Stock Purchase Plan

Effective February 26, 1987, IGT adopted a Qualified Employee Stock Purchase Plan. Under this plan, each eligible employee may be granted an option to purchase a specific number of shares of the Company's common stock. The term of each option is twelve months, and the exercise date is the last day of the option period. Eligible employees include only those employees who have completed twelve months of continuous service with the Company. The plan excludes employees who are officers, 5% or more shareholders, employees receiving more than \$54,480 in annual compensation, employees of IGT-Australia, and effective March 1988 employees of EDT. In March 1988, EDT adopted its own qualified employee stock purchase plan with similar exclusions as described above.

An aggregate of 150,000 shares may be made available under this plan. Employees may participate in this plan only through payroll deductions up to a maximum of 10% of their base pay. The option price is equal to the lesser of 85% of the fair market value of the common stock on the date of grant or on the date of exercise.

Notes to Consolidated Financial Statements (continued)

8. Commitments

The Company leases certain of its facilities and equipment under various agreements for periods through 1997. The schedule below shows the future minimum rental payments required under these operating and capital leases which have initial or remaining non-cancellable lease terms in excess of one year as of September 30, 1989.

The cost and related accumulated depreciation of facilities and buildings under capital leases as of September 30, 1988 was \$5,492,000 and \$1,268,000, respectively, and as of September 30, 1989 was \$5,327,000 and \$1,950,000, respectively.

Certain of the leases provide that the Company pay utilities, maintenance, property taxes and certain other operating expenses applicable to the leased property, including liability and property damage insurance. The lease for the Company's existing manufacturing facility in Reno extends through 1997. The lease provides for periodic rental increases.

EDT has entered into a lease agreement for a 78,000 square foot facility which will serve as its principal office in Las Vegas, Nevada. The lease has an initial term of ten years with initial monthly lease payments of approximately \$66,000, which is included in the operating lease payments presented in the table below.

The total rental expense for the fiscal years ended September 30, 1987, 1988 and 1989 was approximately \$2,178,000, \$2,830,000 and \$4,211,000, respectively.

9. Contingencies

The Company has been named in lawsuits in the normal course of its business. Management does not expect the outcome of these suits to have a material adverse effect on the Company's financial position or results of future operations.

10. Related Party Transactions

Company's Founder (see Note 12)

The Company leases a warehouse facility in Las Vegas from the Company's founder and his wife. The lease, which began in 1979, expires in 1991. Rental expense under this lease was \$502,000, \$534,000, and \$518,000 for the fiscal years ended September 30, 1987, 1988 and 1989, respectively. Management believes the terms of this lease are competitive.

The Company leases an aircraft from the Company's founder at a competitive hourly rate. The Company incurred expenses of \$93,000, \$55,000, and \$77,000 for the fiscal years ended September 30, 1987, 1988 and 1989, respectively, for the use of this aircraft.

Dollars in thousands

Years Ending September 30,	Operating Leases	Capital Leases	Total
1990	\$ 2,431	\$ 1,139	\$ 3,570
1991	2,449	1,098	3,547
1992	1,804	1,075	2,879
1993	1,658	802	2,460
1994	1,537	736	2,273
1995 and after	8,276	2,870	11,146
Total minimum payments	\$18,155	\$ 7,720	\$25,875
Amount representing interest		(3,621)	
Capital lease obligations		4,099	
Less current portion		(625)	
Long-term capital lease obligations		\$ 3,474	

Notes to Consolidated Financial Statements (continued)

The Company recognized revenues of \$512,000 and \$1,361,000 for the fiscal years ended September 30, 1987 and 1988, respectively, from other companies owned by the Company's founder. Terms for sales to these companies were comparable to those for sales made to customers other than related parties. Since late 1982, the companies have been operated by an independent third party who placed orders for the equipment purchased by virtue of its management authority. In November 1987, two of these companies were sold to this third party.

The Company had contracts receivable and related interest receivable from three companies owned by the Company's founder of \$752,000 at September 30, 1987, and \$1,237,000 and \$896,000 from one company owned by the Company's founder at September 30, 1988 and 1989, respectively.

The Company's founder has a personal business of loaning funds to certain individuals, which includes individuals affiliated with Company customers. The total of these loans made to individuals affiliated with Company customers was \$1,272,000, \$3,280,000 and \$2,985,000 for the fiscal years ended September 30, 1987, 1988 and 1989, respectively.

From February 1986 through December 1986, the Company's founder served as President and Chief Executive Officer and was not paid a salary.

In July 1986, the Company's current Chairman purchased 500,000 shares of the Company's common stock from the Company's founder. Additionally, in September 1986, 409,300 shares were sold to various persons, including key employees of the Company by the Ivy Lee Redd Testamentary Trust, of which the Company's founder is trustee, for notes requiring payment of interest yearly with all principal due after three years. At the time the notes became due the Company loaned some of these individuals a total of \$1,609,495 to meet that obligation which was outstanding at September 30, 1989. At November 20, 1989, \$504,190 plus interest was outstanding.

Other Members of the Company's Board of Directors

A member of the Company's Board of Directors is an officer of, and has an equity interest in, a Nevada gaming business from which the Company recognized revenues of \$291,000, \$403,000 and \$532,000 during the fiscal years ended September 30, 1987, 1988 and 1989, respectively. Terms for sales to these companies were comparable to those for sales made to customers other than related parties. The Company had a contract receivable balance from this customer of \$97,000 at September 30, 1987, \$143,000 at September 30, 1988 and \$361,000 at September 30, 1989. He is also a director and officer of a parent to five additional gaming businesses in Nevada, from which the Company recognized revenues of \$6,364,000, \$3,849,000 and \$2,366,000 during the fiscal years ended September 30, 1987, 1988 and 1989, respectively. The Company had a contract receivable balance from these businesses of \$2,672,000 at September 30, 1987, \$1,199,000 at September 30, 1988 and \$1,179,000 at September 30, 1989.

From February 1986 through December 1986, the Chairman of the Board of Directors was not paid a salary.

Loans to Employees

In August 1989, the Company made loans totaling \$524,360 to four employees enabling them to meet obligations to pay the principal balances due on notes related to their September 1986 purchases of the Company's common stock from the Ivy Lee Redd Testamentary Trust. These demand notes bearing interest at 10.5% are secured by the purchased common stock. The balance outstanding for these loans was \$524,360 at September 30, 1989, and \$504,190 at November 20, 1989.

Notes to Consolidated Financial Statements (continued)

Syntech (see Note 11)

In April 1987, the Company borrowed \$6,500,000 from Syntech and used the proceeds from this loan to pay a portion of the amounts due on April 2, 1987 to the Company's founder and a trust controlled by him (see Note 12). The Company repaid Syntech \$500,000 in April 1987. The remaining amount owed to Syntech was represented by a promissory note bearing interest at the prime rate of the First Interstate Bank of Nevada plus 2% which was repaid upon completion of the sale of Debentures in May 1987 (see Note 13). Interest paid on this loan during 1987 totaled \$87,000.

LGI recognized revenues from Syntech for consulting and engineering support services of \$219,000 in the fiscal year ended September 30, 1987.

11. Investment in Syntech

On January 10, 1986, the Company acquired for \$11.6 million (which included \$564,000 of related acquisition costs) 1,571,429 unregistered shares of common stock or approximately 35% of Syntech, and a warrant to purchase 1,000,000 additional shares of Syntech unregistered common stock at \$9.00 per share, which expired January 7, 1989. The Company and Syntech also granted options to each other, subject to certain conditions, to exchange all of the common stock of LGI for 1,830,000 unregistered shares of Syntech common stock. LGI holds certain rights for lottery applications of certain specified Company developed technology. Concurrent with the agreement, LGI licensed this technology to Syntech for such lottery applications and Syntech licensed its transaction processing technology to the Company for certain gaming applications. In addition, the Company agreed to provide certain manufacturing services to Syntech at an agreed upon profit margin.

In October 1986, the Company purchased in a private placement 673,077 restricted units (each unit consisting of one share of unregistered common stock and one warrant to purchase an additional share of unregistered common stock) for \$6.9 million or \$10.25 per unit, financed by a short term bank loan. Concurrent with this purchase, Syntech sold an additional 1,250,000 units to the

public for \$10.25 per unit. After this purchase the Company continued to hold approximately 35% of the outstanding common stock of Syntech.

Effective February 2, 1987, the Company exercised an option to exchange 1,830,000 unregistered shares of Syntech common stock for all outstanding common stock of LGI. This transaction did not increase the carrying value of the Company's investment in Syntech. Upon exercise the Company held approximately 46% of the outstanding common stock of Syntech. The exercise of warrants issued in the public offering of 1,250,000 units subsequently reduced the Company's equity in Syntech to approximately 43% as of September 30, 1987. None of the 673,077 warrants acquired by the Company was exercised, but were redeemed by Syntech in October 1987 at \$.10 per warrant.

On April 27, 1988, the Company sold 3,500,000 shares of unregistered Syntech common stock to Syntech at a price of \$3.80 per share or \$13.3 million consisting of cash in the amount of \$1,900,000, short-term notes of Syntech in the principal amount of \$1,600,000 and long-term notes of Syntech in the principal amount of \$9,800,000. The short-term notes were paid when due in May 1988. The long-term notes bear interest at a fixed rate of 8%, and are payable as to principal in 33 consecutive quarterly installments of \$294,000 each, commencing April 27, 1989, with a final payment of \$98,000 due one month after the final quarterly payment. Interest is payable quarterly in arrears. The Company recorded these notes receivable from Syntech at a discounted amount of approximately \$8.7 million to reflect an effective interest rate of 11%, which management believes is a fair market rate for these notes. The proceeds received on the sale, including the discounted value of the notes, approximated the carrying value of the investment. The long-term promissory notes are secured by the shares of common stock repurchased from the Company. This sale reduced the Company's holdings of Syntech's common stock to 574,506 shares or 9.9% of total shares outstanding. These securities are "restricted" as that term is defined under the Securities Act of 1933.

Notes to Consolidated Financial Statements (continued)

Under the April 27, 1988 agreement, the Company granted Syntech certain rights to purchase up to 400,000 shares of common stock of Syntech still held by the Company. The 400,000 shares are restricted, and must first be offered for sale to Syntech if the Company proposes to dispose of them. Any shares so offered shall be at a per share price equal to (a) 100% of market price if the market price is not greater than \$3.80, or (b) the greater of \$3.80 or 90% of the market price, if the market price is greater than \$3.80. "Market price" is defined as the closing price for the trading day immediately preceding the date of the Notice of Offer. The Company also agreed not to purchase shares of Syntech common stock for a period of ten years, except pursuant to the warrant owned by the Company to purchase 1,000,000 shares at a price of \$9.00 per share, which expired January 9, 1989.

From initial acquisition through April 27, 1988, the Company reported its Syntech investment using the equity method of accounting. Under this method, the Company recognized a pro-rata portion of the earnings or losses of Syntech (whether or not Syntech made any dividend payments to the Company) after deduction of preferred stock dividends and tax benefits recognized by Syntech of net operating loss carryforwards existing at the time of the Company's investment. In addition, the Company amortized the estimated value of Syntech's lottery contracts and the amount by which the Company's investment in Syntech exceeded its identifiable assets. The Company recorded losses of \$3,584,000 and \$204,000 for the fiscal years ended September 30, 1987 and September 30, 1988 respectively, based on its investment in Syntech using the equity method of accounting.

The financial statements now reflect the use of the cost method of accounting for the Company's investment in Syntech following the sale of 3,500,000 shares of Syntech common stock to Syntech on April 27, 1988.

As a result of operating losses recorded by Syntech during the past fiscal year and due to a significant decline in the market value of Syntech common stock, in September 1989, the Company

fully reserved the unpaid balances of the notes receivable from Syntech and related accrued interest, totalling approximately \$8.6 million, and recognized a loss of approximately \$1.6 million on the remaining 574,506 shares of Syntech common stock owned by the Company.

Syntech is a publicly traded company subject to the information requirements of the Securities Exchange Act of 1934. Syntech's common stock is traded in the over-the-counter market. The market price of Syntech common stock is volatile and has traded as low as \$0.25 and as high as \$14.50 per share since January 1, 1985, and from October 26, 1987 to December 8, 1989 it has traded from \$0.25 to \$5.875 per share. At December 8, 1989, the quoted market price of Syntech common stock was \$0.25.

12. Repurchase of Outstanding Company Common Stock (See Note 10)

The Company purchased on December 31, 1986, 2,186,000 shares of common stock from the Company's founder for \$10.50 per share (a total of \$22,764,000) and 1,014,830 shares from the Ivy Lee Redd Testamentary Trust for \$10.00 per share (a total of \$10,148,300). These purchases and subsequent sales of stock eliminated the founder's and the Trust's investment in the Company excluding the option described below.

The purchases were financed by two five-year promissory notes. The first note, in the amount of \$22,764,000, payable to the Company's founder, with interest at the rate of 9%, provided for a payment on April 2, 1987, of 25% of the principal balance with accrued interest and monthly installments thereafter of principal and interest. The second note, in the amount of \$10,148,000, payable to the Company's founder (as a trustee for the Trust), with interest at prime plus 1%, provided for a payment on April 2, 1987, of 25% of the principal balance with accrued interest and semiannual payments thereafter of principal and interest. The payments due April 2, 1987 were funded by a short-term loan from Syntech in the amount of \$6.5 million, \$2.1 million from the Company's bank line

Notes to Consolidated Financial Statements (continued)

of credit, and \$362,000 generated from operations. The outstanding principal and interest balances under the \$6.5 million loan and the bank line of credit were repaid upon completion of the sale of Debentures in May 1987 (see Note 13).

Additionally, the Company entered into a five-year employment agreement with the Company's founder, who was previously President and Chief Executive Officer, agreeing to employ him as Chairman of the Board of Directors through December 1987 and Chairman Emeritus from January 1988 to December 31, 1991. Pursuant to this employment agreement he will receive a salary and reimbursement for expenses totaling \$275,000 per year and has a stock option agreement to purchase up to 275,000 shares of the common stock of the Company, exercisable in five equal annual installments at \$10.50 per share.

13. Debt Offering

In May 1987, the Company completed a \$30,000,000 public offering of 7-3/4% Convertible Senior Subordinated Debentures.

The Debentures were convertible into the Company's common stock at the option of the holder at a conversion price of \$14.75, subject to adjustment under certain circumstances, at any time prior to maturity in 2002, unless previously redeemed. The Debentures were redeemable at the option of the Company at specified prices plus accrued interest, except redemption could not be made prior to 1992 unless the sales price of the Company's common stock met a specified test. The Debentures were redeemable on May 1, 1992, at the option of each holder thereof, in whole or in part, at 114% of the principal amount thereof, together with accrued interest to May 1, 1992. Because of the redemption feature, the Company accrued interest on the Debentures at an effective rate of 10%.

Meeting the above mentioned redemption test, the Company called for redemption of all outstanding Debentures effective September 19, 1988. All Debentures remaining outstanding, totaling \$27,745,000, were timely converted into common stock. No interest was payable in respect to the converted Debentures. All previously accrued in-

terest was credited to additional paid-in capital upon the conversion.

14. Management of Selected Game Operations Locations by EDT

Effective October 1, 1988, the Company entered into a management agreement with its then 79% owned subsidiary, EDT, under which EDT manages the game operations at selected locations of the Company's Nevada slot machine route. EDT receives a management fee equal to 65% of the Company's revenue collected from these slot machine route accounts, approximately \$5,958,000 in 1989. In August 1989 this agreement was amended, extending the expiration to October 1, 1992 and granting EDT an option to purchase the managed operation and gaming devices for \$12.0 million. The option may be exercised between October 1, 1990 and October 1, 1992 unless the management agreement is terminated by IGT prior to October 1, 1992, in which event the option may be exercised within ninety days of such termination.

15. Disposition of APT

During October 1988, the Company made the decision to discontinue its investment in APT, a custom computer software development company that was providing marketing and technical support of EDT's products in Australia. The Company's managerial and financial support of APT operations ended in November, 1988. IGT-Australia now provides for marketing and technical support of EDT's products in Australia.

EDT has entered into a sale agreement whereby EDT sold its 51% interest in APT to the minority shareholder and forgave a note receivable from APT in the amount of \$350,000 in exchange for the forgiveness of a \$250,000 note outstanding to such shareholder and a release for EDT from all guarantees in favor of any person or corporation in respect of any present or future indebtedness of APT. As part of this agreement EDT has loaned APT \$175,000, collateralized by 43,473 shares of EDT's unregistered common stock owned by the minority shareholder.

Notes to Consolidated Financial Statements (continued)

The net losses of APT through September 30, 1988 and the anticipated losses for the month of October 1988 are included in the consolidated statements of operations for the fiscal year ended September 30, 1988, under "Discontinued Operations". During fiscal 1989, the Company recognized a non-recurring gain of \$261,000 representing an adjustment to the estimated loss on the disposition of APT recorded in fiscal 1988.

16. Acquisition of Silver Club Hotel/Casino

Effective January 1, 1989, Silver Club, a 55% owned subsidiary of the Company, purchased from First Interstate Bank of Nevada ("FIB") all of the assets of a 206 room hotel and casino for a total negotiated purchase price of \$11.9 million, which was less than the fair market value of the assets acquired. The purchase price was paid with cash provided from the Company's bank line of credit in the amount of \$1.2 million and a \$10.7 million note, bearing interest at FIB's prime rate plus 1/4% and payable over 10 years. The note is secured by the purchased assets and guaranteed by the Company. The remaining 45% of the Silver Club is owned by three executives of CMS International.

The assets purchased include all of the land, buildings, furniture, fixtures and equipment used to conduct hotel and casino business activities on the same premises prior to completion of the purchase. Silver Club uses the assets acquired to conduct similar business activities. The acquisition was recorded by the purchase method and the consolidated statement of operations includes Silver Club effective January 1, 1989.

The following table reflects the pro forma condensed operating results of the Company for the fiscal years ended September 30, 1988 and 1989, assuming the purchase had occurred October 1, 1987.

<i>Dollars in thousands, except per share amounts</i>	Years Ended September 30,	
	1989	1988
	(unaudited)	
Total revenues	\$155,127	\$116,051
Income from continuing operations before cumulative effect of change in accounting principle	\$ 12,736	\$ 6,909
Net income	\$ 12,997	\$ 7,588
Per primary share income from continuing operations ..	\$ 1.66	\$ 1.24
Per primary share net income	\$ 1.70	\$ 1.36

17. Sale of EDT Common Stock

In September 1989, the Company sold 1,140,000 shares of EDT's common stock in an underwritten public offering at \$11.25 per share, or a total of \$12.8 million, realizing a gain of approximately \$10.0 million. The Company now owns approximately 45% of EDT's outstanding common stock.

18. Supplemental Statement of Cash Flows Information

Certain noncash investing and financing activities are not reflected in the Consolidated Statements of Cash Flows. The Company incurred capital lease obligations to obtain property, plant and equipment in the years ended September 30, 1987, 1988 and 1989, of \$1,212,000, \$1,920,000 and \$874,000, respectively. For the year ended September 30, 1989, the Company recorded additions to long term notes payable totaling \$12,138,000 related to purchases of property, plant and equipment.

Payments of interest for the years ended September 30, 1987, 1988 and 1989, were \$3,505,000, \$6,985,000 and \$5,709,000, respectively. An income tax refund of \$577,000 was received in the year ended September 30, 1987. Payments for income taxes for the years ended September 30, 1988 and 1989, were \$3,770,000 and \$5,981,000, respectively.

Notes to Consolidated Financial Statements (continued)

19. Selected Quarterly Financial Data (Unaudited)

<i>Dollars in thousands, except per share amounts and stock prices</i>	Total Revenues	Income From Operations	Net Income	Primary Earnings Per Share	Stock Price	
					High	Low
1988						
First Quarter	\$20,562	\$1,967	\$2,708	\$.53	\$12.50	\$ 7.13
Second Quarter	22,145	3,363	1,874	.36	13.38	8.63
Third Quarter	26,497	4,095	2,498	.46	17.25	12.63
Fourth Quarter	29,490	3,412	1,297	.21	26.88	17.00
1989						
First Quarter	\$29,310	\$3,523	\$2,702	\$.36	\$26.50	\$18.00
Second Quarter	31,857	2,763	1,837	.24	23.50	20.13
Third Quarter	42,271	6,396	4,052	.53	29.00	22.63
Fourth Quarter	47,714	8,258	4,890	.63	32.00	25.00

Investor Information

Quarterly Stock Prices

	1989		1988		1987	
	High	Low	High	Low	High	Low
First Quarter	\$26.50	\$18.00	\$12.50	\$ 7.13	\$12.50	\$ 9.63
Second Quarter	23.50	20.13	13.38	8.63	15.75	10.50
Third Quarter	29.00	22.63	17.25	12.63	14.50	10.88
Fourth Quarter	32.00	25.00	26.88	17.00	13.50	11.50

Form 10-K

A copy of the 1989 Annual Report on Form 10-K as filed with the Securities and Exchange Commission is available to shareholders on written request without charge. All requests should be directed to:

International Game Technology
Attn: Shareholder Relations
P.O. Box 10580
Reno, Nevada 89510
(702) 323-5060
(702) 788-6564 (FAX)

Stock Exchange Listing

The Company's common stock is actively traded on the NASDAQ National Market under the symbol "IGAM".

Transfer Agent & Registrar

Stockholders of record who have questions regarding address changes, stock transfer or lost certificates should direct their inquiries to:

Bankers Trust Company of California, N.A.
P.O. Box 7344
San Francisco, California 94120

Board of Directors and Officers of the Company

Board of Directors

William S. Redd
Chairman Emeritus
Charles N. Mathewson
Chairman
Warren L. Nelson
Director
Wilbur K. Keating
Director
Claudine E. Williams
Director
Albert J. Crosson
Director

Officers of the Company and its Subsidiaries

International Game Technology
Charles N. Mathewson
Chief Executive Officer
John J. Russell
President and Chief Operating Officer
Peter D. Dickinson
Sr. Vice President, Engineering
Raymond D. Pike
Sr. Vice President, General Counsel
and Secretary
G. Thomas Baker
Vice President, Finance and Administration
and Chief Financial Officer
Scott Shackelton
Treasurer and Controller
Frann Gallagher
Assistant Secretary

IGT

Robert Bittman
Vice President, Marketing
Michael Brown
Vice President, Production
Robert McMonigle
Vice President, Sales
Scott Shackelton
Vice President

CMS International
Edward G. Stevenson
President and Chief Executive Officer
Wayne A. Currie
Executive Vice President and
Chief Operating Officer
E. Patrick Crofts
Executive Vice President and
Chief Financial Officer

IGT - Australia

Dean McClain
Managing Director and Chief Executive
Officer
Keiran Daley
General Manager, Group Operations
George B. Cragen
General Manager, Marketing and Services
Edward W. Culley
General Manager, Production/Research
and Development
William J. Cook
General Manager, Manufacturing
Richard G. Shaff
General Manager, Finance

Electronic Data Technologies

William R. Dukes
President and Chief Executive Officer
David B. Brogan
Vice President and Chief Financial Officer
Bob G. Funk
Vice President, Service Division
Elisa M. Pringle
Corporate Controller
Mick D. Roemer
Vice President, New Products
Gordon E. Van Auken
Vice President, Administration
Michael J. Farnham
Vice President, Systems Division
Ray S. Brown
President, Gaming Division

Corporate Headquarters

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Subsidiaries

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IndoPacific Gaming

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