

SB

199

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FILE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

FISCAL NOTE

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Bill Version: CSSB 199 (JUD)
(S) Publish Date: 2-5-98

Revision Date: _____ Dept. Affected: Revenue
Title: Charitable Gaming and Gaming on State Festes BRU: Revenue Operations
Component: Income and Excise Audit
Sponsor: Senate Judiciary
Requestor: (S) JUD COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
OPERATING EXPENDITURES						
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	**	**	**	**	**	**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ()	***	***	***	***	***	***

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1001 CBRF						
1048 University of AK receipts						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year cost \$ _____

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

See attached analysis for details and explanation.

** See the attached analysis, item # 9, the department has prepared a short analysis of the issues and approximate dollar amounts involved. Additional information and discussion with the sponsor is needed prior to recommending a specific dollar amount.

*** See the attached analysis, item # 8, the department has prepared a short analysis of the issues and approximate dollar amounts involved. Additional information and discussion with the sponsor is needed prior to recommending a specific dollar amount.

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Approved by Commissioner: Wilson L. Condon
Agency: Revenue

Phone: 465-4773
Date: February 2, 1998
Date: February 2, 1998

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Income and Excise Audit Division

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Overview and Fiscal Analysis – SB 199 Charitable Gaming and Gaming on State Ferries.

1) New Type of Gaming Allowed - SB 199 would expand the charitable gaming options available under AS 05.15. The most significant change would be authorization of "video lottery machines" (VLM). VLM means an electronic video game machine operated with coins or cash to play poker, keno, or blackjack. A VLM must have accounting software that keeps track of total money played, value of winning tickets, and lottery credits allowed. VLM would not directly pay off winners but would print a winning ticket stating the value of the prize.

2) Who is Authorized to Obtain VLM – Any qualified organization that is currently eligible for other charitable gaming could apply for a video lottery endorsement. DOR would review applications and issue the endorsement.

3) Where VLM Can be Played – VLM's would be allowed:

- a) in all "vendor" locations where pull-tabs are currently allowed. Vendor location means a business that has a beverage dispensary license and has been contracted to conduct VLMs' by a qualified permittee.
- b) In Clubs, where permittees have a "club license" under AS 04.11.110 (club, fraternal organization, patriotic organization, or social organization that has state or national charter).
- c) on Alaska Marine Highway Vessels.
- d) In any location where access is restricted to persons 21 years of age or older in a municipality where sale of alcoholic beverages has been prohibited, the department could issue an endorsement that authorizes VLM use in a manner consistent with (a) above.

Note: VLM could not be played in locations currently run by operators or self-directed gaming operations.

4) Permittee Limitations for Number of VLMs and Gross Gaming Sales - A permittee may contract with up to 5 video lottery vendors and have up to 10 VLMs. Thus each permittee could be authorized to have 50 machines in play. There is a \$2 maximum limit on the amount of a single play. There would be no limit on the dollar value of gross VLM gaming sales a permittee could have in a year.

5) Prize Limitations - On a single play the minimum play is \$.25 (cents) and the maximum prize is \$125. On a single play the maximum play is \$2 and the maximum prize is \$1,000. This bill exempts VLM from the \$1 million prize limitation and would provide an advantage over pull-tabs.

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6) Allocation of Net Gaming Income – Net income from VLM gaming means total money put into a machine minus credits (prizes) paid out. When a permittee contracts with a vendor the allocation of net income would be a) 30% to the vendor, b) 30 % to the permittee, c) 15% to the state and d) 25% to the municipality where the VLM is located. When the VLM gaming is conducted by a "club" the permittee gets 60% of net income.

7) Costs of Licenses, Endorsements and Fees –

- a) VLM manufacturer - \$5,000.
- b) VLM distributor - \$5,000.
- c) Vendor location - \$100.
- d) VLM - \$100

8) Gaming Revenue Analysis – No specific study or analysis has been completed to estimate the dollar amount of gaming or net income that would result from authorizing VLMs in Alaska. Several issues need to be addressed. For example: 1) what would be the effect on the existing pull-tab sales, 2) how much new money would be spent on charitable gaming.

The proposed legislation would significantly increase the state share of net income from a gaming activity. For vendor and club operations the state share could increase to 15% of net income, as compared to less than 1% currently received on pull-tabs.

Municipal governments would go from receiving no gaming revenues (except jurisdictions that currently charge sales tax on charitable gaming) to receiving 25% of net income. The share of charitable gaming going to vendors would remain approximately the same.

The effect on gaming revenues going to exempt organizations, from vendor activity, would very much depend on the level of gaming activity. If there were no new gaming dollars being spent but there were a transfer from existing pull-tab activity the share to organizations would decline from approximately 70% to 30% of net gaming income. Thus, unless there were significant new gaming dollars being spent the exempt organizations would receive less money.

9) State Expenditure Analysis – The proposed legislation directs the department to the extent practicable to contract out the administration and monitoring of video lottery

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charitable gaming. This is to be done to the extent contracting will not jeopardize the integrity of gaming and enforcement of laws. The following discussion of costs would be

9) State Expenditure Analysis, continued

approximately the same whether handled by the state or contracted. The difference is whether the amount would be included on the personal services or contractual line.

Video gaming would add a new gaming activity at a time when the resources available to gaming have been reduced by 33%. Based on administration costs of current gaming activities, 2.5 permanent full time positions would be required to; a) issue licenses and endorsements, b) process and analyze tax returns and reports, c) develop internal controls and monitor gaming activity and d) respond to questions from permittees, local governments and the public. Positions would approximate ranges 8, 12 and 14, with a personal service cost of \$94,000. Increased resources would be needed for auditing, enforcement and administrative appeals. Initially this would require the equivalent of 1.5 positions, with a cost of \$95,000. These cost estimates are based on the assumption that video gaming would be popular and there would be a significant increase in gaming activity. Until further information and analysis can be completed no specific cost to administer video gaming will be estimated.