

SB

102

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

REPORTED OUT
 MAY 13 2003
 SENATE FINANCE
 COMMITTEE

DATE: 5/7/03

FURTHER:

DATE TURNED
IN TO OFFICE: 5/13/03

Finance Committee considered

SENATE BILL NO. 102

SB 102 CHARITABLE GAMING REVENUE

"An Act increasing the amount of revenue received by the state from charitable gaming activities; and providing for an effective date."

and recommends:

be replaced with _____ CS _____ (_____)

adopt previous _____ CS SB 102 (Y2C)

attached amendment(s)

adopt Letter of Intent by _____ Committee

further referral to _____ Committee

Senate Bill:

same title

new title

House Bill:

same title

technical title

new: SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#
Rev	5/6/03	180.0		2

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Adrian Traylor</i>		✓		✓
<i>Don H. ...</i>		✓		
<i>Francis ...</i>		✓		
<i>C. Blumberg</i>				✓
<i>Ben Stevens</i>	✓			
COCHAIR: <i>Lynne Green</i>	✓			
COCHAIR: <i>...</i>	✓			

CS FOR SENATE BILL NO. 102(L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE SENATE LABOR AND COMMERCE COMMITTEE

Offered: 5/7/03

Referred: Finance

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 **"An Act increasing the amount of revenue received by the state from charitable gaming**
2 **activities; relating to taxes on pull-tabs; and providing for an effective date."**

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

4 *** Section 1. AS 05.15.128(a) is amended to read:**

5 (a) The department shall revoke the license of an operator who does not

6 (1) report an adjusted gross income of at least 15 percent of gross
7 income annually based on the total operation of the operator; [OR]

8 (2) pay to each authorizing permittee annually at least 30 percent of the
9 adjusted gross income, as determined under (1) of this subsection, from a pull-tab
10 activity or at least 10 percent of the adjusted gross income, as determined under (1) of
11 this subsection, from a gaming activity other than pull-tabs, received from activities
12 conducted on behalf of the authorizing permittee; or

13 (3) pay the tax imposed under AS 05.15.184.

14 *** Sec. 2. AS 05.15.184 is amended to read:**

1 **Sec. 05.15.184. Pull-tab tax.** A pull-tab distributor shall collect a tax of 15
2 [THREE] percent of [AN AMOUNT EQUAL TO] the ideal net on [GROSS
3 RECEIPTS LESS PRIZES AWARDED ON] each series of pull-tabs distributed. The
4 pull-tab distributor shall pay to the department the tax collected in the preceding
5 month at the time that the report under AS 05.15.183(d) is filed with the department.

6 * **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to
7 read:

8 **TRANSITION: REGULATIONS.** Notwithstanding sec. 5 of this Act, the
9 Department of Revenue may proceed to adopt regulations necessary to implement the changes
10 made by this Act. The regulations take effect under AS 44.62 (Administrative Procedure
11 Act), but not before the effective date of secs. 1 and 2 of this Act.

12 * **Sec. 4.** Notwithstanding sec. 5 of this Act, sec. 3 of this Act takes effect immediately
13 under AS 01.10.070(c).

14 * **Sec. 5.** Except as provided in sec. 4 of this Act, this Act takes effect July 1, 2003.

FISCAL NOTE

REPORTED OUT

MAY 13 2003

SENATE FINANCE
2 COMMITTEE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: CSSB102(STA)
(S) Publish Date: 5/7/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Charitable gaming revenue BRU Revenue Operations
Component Tax Division
Sponsor Rules Committee
Requester Senate Finance Committee Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	125.0	125.0	125.0	125.0	125.0	125.0
Travel	15.0	15.0	15.0	15.0	15.0	15.0
Contractual	22.0	12.0	12.0	12.0	12.0	12.0
Supplies	3.0	3.0	3.0	3.0	3.0	3.0
Equipment	15.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	180.0	155.0	155.0	155.0	155.0	155.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	9,000.0	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts	180.0	155.0	155.0	155.0	155.0	155.0
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	180.0	155.0	155.0	155.0	155.0	155.0

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time	2	2	2	2	2	2
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation would increase the state's charitable gaming tax rate from 3 percent of net on pull-tabs (actual gross less prizes) to 15 percent of ideal net for pull-tabs (the amount that would be left after prizes assuming all of the pull-tabs in a series are sold). This marks the first change in tax rates since 1988. This legislation would not change the state tax rate on raffles, bingo and other charitable gaming.

The tax increase would take effect July 1, 2003. The Department of Revenue estimates the increase will generate \$10 million in additional state revenue for a full fiscal year, with approximately \$9 million in Fiscal 2004 because the state would receive the higher revenues for 11 months in the fiscal year. (Taxes are paid one month after sales for distributors on pull-tab games.)

See attached page for more information on the revenue and program costs.

Prepared by: Jeff Prather and Larry Meyers Phone 465-3410
Division: Tax Division Date/Time 5/6/03 6:22 PM
Approved by: Larry Persily, Deputy Commissioner Date 5/6/2003
Agency: Department of Revenue

**Department of Revenue
Charitable Gaming Revenue
CSSB 102(STA) FN #2**

Page 2 of 2

Operating Expenditures

The Department of Revenue is requesting general fund program receipts to cover the cost of one Revenue Auditor III position and an Investigator III position. With such a large increase in taxes due the state (an estimated \$10 million per year), the department anticipates the need to strenuously verify the ideal net that the tax increase is based upon. A lack of sufficient staff to verify, audit and enforce the state's higher charitable gaming tax rate would exacerbate an already serious shortage in the state's enforcement effort.

The projected annual salary cost for these new positions totals \$125,000.

The department is also requesting one-time Fiscal 2004 funding of \$15,000 for equipment and \$10,000 for start-up contractual costs.

SENATE FINANCE COMMITTEE

1 / 2003 COMMITTEE ACTION

Bill Number	SB 102		
Amendment			
Motion	Report from Committee		
<u>Motion by</u>	Bunde		
<u>Objection by</u>	Hoffman		
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	<u>Y</u>	<u>Vote</u>	<u>N</u>
Senator Bunde	✓		
Senator Hoffman			✓
Senator Olson			✓
Senator Stevens	✓		
Senator Taylor			✓
Co-Chair Green	✓		
Co-Chair Wilken	✓		
<u>Tally</u>			
Yea	4		
Nay	0		
Absent			
<u>MOTION</u>	PASSES		

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CSSB102(L&C)
 () Publish Date: _____

Revision Date/Time (Note if correction): May 11, 2003

Dept. Affected: Revenue
 BRU Revenue Operations
 Component Tax Division

Title Charitable gaming revenue

Sponsor Rules Committee
 Requester Senate Finance Committee

Component No. 2476

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

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See attached page for more information on the revenue and program costs.

Prepared by: Jeff Prather and Larry Meyers
 Division: Tax Division
 Approved by: Larry Persily, Deputy Commissioner
 Agency: Department of Revenue

Phone 465-3410
 Date/Time 5/11/03 11:10 AM
 Date 5/11/2003

**Department of Revenue
Charitable Gaming Revenue
CSSB102(L&C)**

Page 2 of 2

Operating Expenditures

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FAILED

SENATE FINANCE
COMMITTEE

Amendment Number: #1

Bill Number: SB 102

Sponsor: Olson Date: 5/13/03

Logged In By: Mindy

23-GS11311Q.2

Luckhaupt
5/6/03

AMENDMENT

OFFERED IN THE SENATE
TO: CSSB 102(L&C)

BY SENATOR OLSON

1 Page 1, line 1, following "Act":

2 Insert "relating to charitable gaming;"

3

4 Page 1, following line 13:

5 Insert a new bill section to read:

6 "* Sec. 2. AS 05.15.180(g) is amended to read:

7 (g) A municipality or a qualified organization may award a maximum of
8 \$1,500,000 [\$1,000,000] in prizes each year in activities authorized under this chapter;
9 however, if a municipality or a qualified organization contracts with an operator to
10 conduct on its behalf activities authorized under this chapter, the municipality or
11 qualified organization may award a maximum of \$500,000 in prizes each year. The
12 holders of a multiple-beneficiary permit under AS 05.15.100(d) may award a
13 maximum in prizes each year of \$1,000,000 times the number of holders of the permit
14 for activities authorized under this chapter. In this subsection, "activities authorized
15 under this chapter" means all activities subject to this chapter other than bingo.

16

17 Renumber the following bill sections accordingly.

18

19 Page 2, line 8:

20 Delete "sec. 5"

21 Insert "sec. 6"

22

23 Page 2, line 11:

- 1 Delete "secs. 1 and 2"
- 2 Insert "secs. 1 - 3"
- 3
- 4 Page 2, line 12:
 - 5 Delete "sec. 5"
 - 6 Insert "sec. 6"
 - 7 Delete "sec. 3"
 - 8 Insert "sec. 4"
 - 9
- 10 Page 2, line 14:
 - 11 Delete "sec. 4"
 - 12 Insert "sec. 5"

Alaska State Legislature

Out of Session:
PO Box 531
Golovin, Alaska 99762
(907) 443-5599

In Session:
State Capitol, Suite 510
Juneau, Alaska 99801-1182
(800) 597-3707
(907) 465-3707
(907) 465-4821 Fax

SENATOR DONALD C. OLSON

DISTRICT T

Alakanuk
Ambler
Anaktivuk Pass
Atkasuk
Barrow
Brevig Mission
Browerville
Buckland
Chevak
Deering
Diomedea
Elim
Emmonak
Gambell
Golovin
Hooper Bay
Kaktovik
Kiana
Kivalina
Kobuk
Kotlik
Kotzebue
Koyuk
Mountain Village
Noatak
Nome
Noorvik
Nuiqsut
Nunam Iqua
Pilot Station
Pitka's Point
Point Hope
Point Lay
Savoonga
Scammon Bay
Selawik
Shaktolik
Shishmaref
Shungnak
St. Mary's
St. Michael
Stebbins
Teller
Unalakleet
Wainwright
Wales
White Mountain

May 7, 2003

MEMORANDUM

To: Senator Wilken, Co-chair
Senator Green, Co-chair

From: Senator Olson

Re: Amendment to SB 102, Charitable Gaming Revenue.

Attached is an amendment I would like to see included in a finance committee CS of SB 102 if such is going to be proposed. The Iditarod Trail Sled Dog Race requests that the current \$1,000,000 yearly prize limit in AS 05.15.180(g) be increased. Their raffle and lottery operations are at this limit now, so it restricts their ability offer increased purses for the race itself. This limit was enacted in 1988, 15 years ago.

Please contact my office if you need additional information.



THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES



Iditarod Trail Sled Dog Race

P.O. Box 870800
Wasilla, Alaska 99687-8700
(907) 376.5155 (voice) • (907) 373-6998 (facsimile)
www.iditarod.com

Board of Directors

May 6, 2003

President
Rick Koch

Senator Donny Olson
ALASKA STATE LEGISLATURE
State Capitol
Juneau, AK 99801-1182

Vice-President
John Handeland

Secretary
Dick Westlund

Dear Senator Olson:

Treasurer
Rick Swanson

Over the years, Alaska's Iditarod has worked diligently to generate revenues from sources that would isolate it from the influence of outside entities whose stated purpose is to severely limit or eliminate Alaska's Official Sport.

Director
Richard Burmeister

For whatever reason, the State of Alaska considers the Iditarod Sled Dog Race a Game of Skill and Chance. As such, we are required to obtain a state gaming permit to conduct the race. In addition to conducting the race, the Iditarod also conducts raffles to provide additional funding to the Race.

Director
Lee Larsen

As the size of the race purse has grown, considering the combined revenues of our skill and chance activities, we are dangerously close to the \$1 million limit contained in state law. Without some relief, we will be forced to limit the purse. (Limiting the raffle would in essence limit the purse itself, as sufficient funding for prize payout could not be generated.)

Director
Sam Maxwell

Director
Mike Owens

With recent changes in technology utilized for communication, state law also hampers the Iditarod in its advertising efforts for raffles. Despite increased expenditures for print advertising, raffle sales this year lagged behind prior years. For the first time all raffle tickets were not sold prior to the drawing taking \$15,000 out of our budget. We would request that legislation be enacted allowing the Iditarod to utilize electronic methods, i.e. the Internet, and radio and television as alternate methods of promoting its raffle.

Director
Dan Seavey

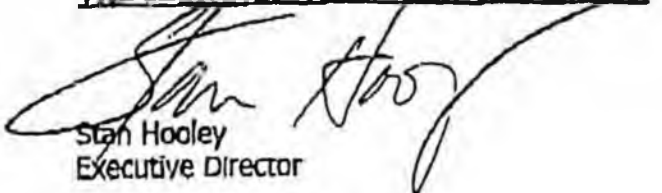
Thank you for your consideration. Please contact me at 907.352.2204 if I can be of further assistance.

Director Emeritus
Joe Redington, Sr.

Sincerely yours for,

THE IDITAROD TRAIL COMMITTEE, INC.

Executive Director
Stan Hooley
Post Office Box 870800
Wasilla, AK 99687
907.352.2204 voice
907.373.6998 facsimile
shooley@iditarod.com


Stan Hooley
Executive Director

cc: Rep. Richard Foster

SLA 88

Chapter 99

1 location where the licensee conducts an activity subject to this chap-
2 ter. The operator shall provide upon request proof of insurance for
3 each location to the department. The operator and the insurer shall
4 inform the department of changes in the coverage of the insurance or
5 of cancellation of the insurance. Cancellation of the insurance
6 immediately suspends the rights of the operator to conduct activities
7 under this chapter at the location covered by the insurance until
8 subsequent insurance is obtained.

9 (e) An operator shall have its financial records reviewed annually by a certified public accountant. The operator shall submit
10 the results of the review to the department by February 28 of the year
11 following the year for which the review is conducted.

12 (f) An operator may not

- 13 (1) charge losses resulting from bad checks or uncollect-
- 14 able debts against the net proceeds due to the authorizing permittee;
- 15 (2) extend credit to players;
- 16 (3) employ house players;
- 17 (4) allow the operator's employees to play a game conducted
- 18 by the operator at the location where the employee works for the
- 19 operator.

20
21 Sec. 05.15.167. OPERATOR'S BOND. (a) The bond or security
22 filed under AS 05.15.122(b) must be made payable to the department and
23 must be conditioned upon payment of the amounts due to the department
24 and payment of net proceeds due to the authorizing permittee. If the
25 operator fails to make the required payments, the operator forfeits
26 the bond or security to the department.

27 (b) The amount forfeited under (a) of this section shall be
28 first used to satisfy delinquent fees, interest, and penalties due the
29 department under this chapter. If the bond or security is not

Chapter 99

1 exhausted by payment of delinquent fees, interest, and penalties, the
2 department may use the remaining amount to pay net proceeds due an
3 authorizing permittee. The total amount available for payment of net
4 proceeds shall be prorated among the permittees to whom proceeds are
5 due from that operator.

6 (c) The operator and the surety shall inform the department if
7 the bond is canceled or the security is impaired.

8 * Sec. 20. AS 05.15.180(b) is amended to read:

9 (b) With the exception of raffles, lotteries, bingo games,
10 pull-tab games, rain classics, goose classics, mercury classics,
11 salmon classics, and other activities authorized under AS 05.15.-
12 100(b), an activity may not be licensed under this chapter unless it
13 existed in the state in substantially the same form and was conducted
14 in substantially the same manner before January 1, 1959.

15 * Sec. 21. AS 05.15.180 is amended by adding new subsections to read:

16 (d) The total value of door prizes offered or awarded under
17 authority of a permit issued to a municipality or qualified orga-
18 nization under this chapter may not exceed \$20,000 a month or \$240,000
19 a year.

20 (e) The total value of all door prizes offered or awarded at a
21 single facility or bingo hall or parlor by an operator on behalf of
22 authorizing permittees or by a permittee in conjunction with other
23 permittees may not exceed \$20,000 a month or \$240,000 a year.

24 (f) A person under the age of 19 years may not play a bingo
25 game.

26 (g) A municipality or a qualified organization may award a
27 maximum of \$1,000,000 in prizes each year in activities authorized
28 under this chapter; however, if a municipality or a qualified orga-
29 nization contracts with an operator to conduct on its behalf

activities authorized under this chapter, the municipality or qualified organization may award a maximum of \$500,000 in prizes each year. In this subsection "activities authorized under this chapter" means all activities subject to this chapter other than bingo.

* Sec. 22. AS 05.15 is amended by adding new sections to read:

Sec. 05.15.181. PULL-TAB MANUFACTURER'S LICENSE. (a) A person may not manufacture pull-tabs in the state unless the person has received a pull-tab manufacturer's license issued by the department.

(b) The department may issue a pull-tab manufacturer's license to a person who pays an annual fee of \$500.

(c) Each series of pull-tabs manufactured in the state shall be sealed and have a serial number label issued by the National Association of Fund Ticket Manufacturers or other serial number label approved by the department.

(d) A pull-tab manufacturer may distribute pull-tabs only to a licensed pull-tab distributor unless the pull-tab manufacturer is also a licensed pull-tab distributor.

(e) Each pull-tab manufacturer shall report to the department by the last business day of the month on each series of pull-tabs distributed during the preceding month, including the serial number of each series distributed and the name of the distributor to whom the series was distributed.

Sec. 05.15.183. PULL-TAB DISTRIBUTOR'S LICENSE; PULL-TAB TAX.

(a) A person may not distribute pull-tab games unless the person has received a pull-tab distributor's license issued by the department.

(b) The department may issue a pull-tab distributor's license to a person who pays an annual fee of \$1,000.

(c) Pull-tabs may be distributed only from a location in the state. A person may not distribute pull-tabs directly to another

person in the state from a location outside of this state.

(d) A pull-tab distributor shall report to the department by the last business day of each month on each pull-tab series distributed in the preceding month. The report must include the name of the permittee to whom each series of pull-tabs is distributed and the serial number of each series.

(e) A pull-tab distributor shall collect a tax of three percent of an amount equal to the gross receipts less prizes awarded on each series of pull-tabs distributed. The pull-tab distributor shall pay to the department the tax collected in the preceding month at the time that the report under (d) of this section is filed with the department.

Sec. 05.15.185. DISTRIBUTION OF PULL-TAB GAMES. Each series of pull-tabs distributed in the state shall be sealed and have a serial number label issued by the National Association of Fund Ticket Manufacturers or other serial number label approved by the department and may be distributed only to a municipality or a qualified organization that has obtained a permit issued under this chapter or to an operator on behalf of an authorizing permittee.

Sec. 05.15.187. OPERATION OF PULL-TAB GAMES. (a) A municipality or qualified organization may operate pull-tab games. Pull-tabs shall be obtained from a licensed distributor.

(b) A pull-tab series may not be sold at more than one location during the same day.

(c) Pull-tabs from different series may not be mixed or combined, unless 10 percent or less of a series remains unsold, in which case, the remaining pull-tabs may be combined with a different series having an identical price and prize structure.

(d) A pull-tab series may not be withdrawn from sale until all

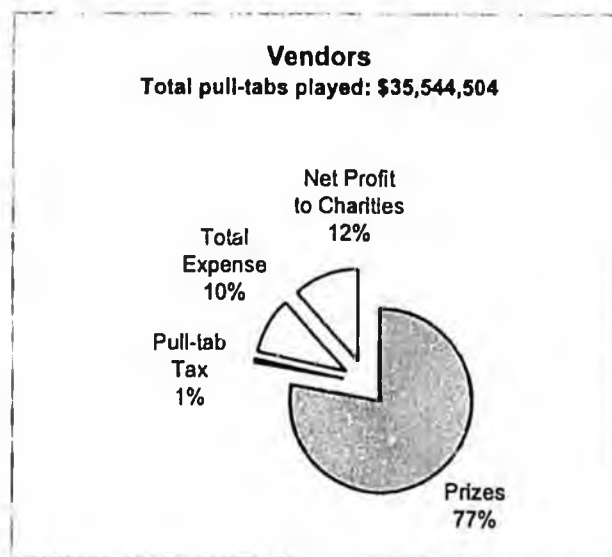
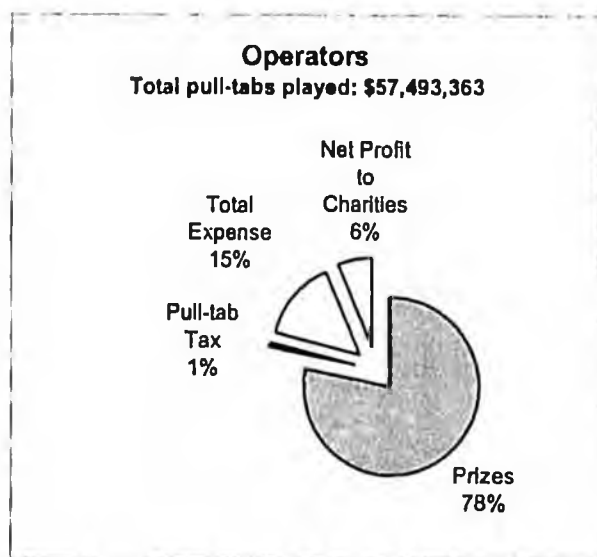
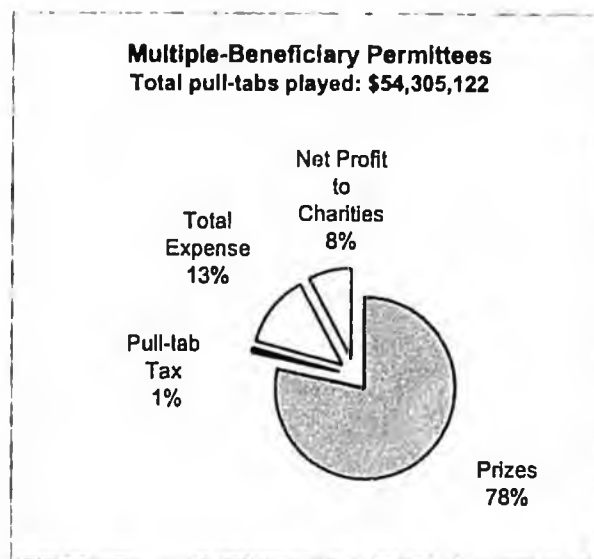
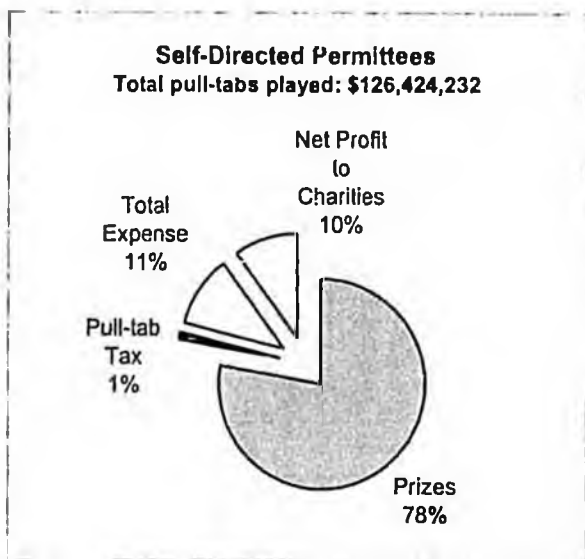
P.O. Box 1
Legislative Committee on Finance
Salem, Oregon 97331

SENATE FINANCE COMMITTEE
5/13/2003 COMMITTEE ACTION

Bill Number	SB 102		
Amendment	#1		
Motion	to adopt		
<u>Motion by</u>	Olson		
<u>Objection by</u>	Green		
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	Vote	N
Senator Taylor	✓		
Senator Bunde			✓
Senator Hoffman	✓		
Senator Olson	✓		
Senator Stevens			✓
Co-Chair Green			✓
Co-Chair Wilken			✓
<u>Tally</u>			
Yea	3		
Nay	4		
Absent			
<u>MOTION</u>	FAILED		

Distribution of Dollars in Pull-Tab Games

Percentages based on total pull-tabs played in Calendar Year 2001



For purposes of this presentation, federal and local taxes have been combined into the expenses category but the state pull-tab tax has been set out separately from expenses.

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

P.O. BOX 110400
JUNEAU, ALASKA 99811-0400
TELEPHONE: (907) 465-2300
FACSIMILE: (907) 465-2389

May 11, 2003

The Honorable Gary Wilken
Chair, Senate Finance Committee
Alaska State Legislature
State Capitol, Room 518
Juneau, AK 9981

Dear Senator Wilken:

I understand there were questions raised at last week's hearing on Senate Bill 102 regarding our charts showing pull-tab taxes paid to the state. Specifically, the questions asked what elements were included in the pull-tab tax total for each of the four gaming types (self-directed games, operators, vendors and multiple-beneficiary permittees).

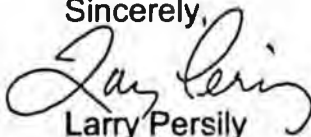
The pull-tab tax line on our charts reflects only the amount of money paid to the state under the existing statutory tax of 3% of actual net (gross receipts minus prizes). Any municipal sales taxes are included under the expense category, as is the federal excise tax on operator-run pull-tab games ($\frac{1}{4}$ of 1% of the net income). Certainly, the tax expense can be considerable for those charities running games in municipalities with a sales tax on gross receipts. However, for the sake of discussion on this state tax legislation, we did not include the federal tax or any municipal taxes in the line item for state pull-tab taxes.

The state pull-tab tax paid under the four gaming types in 2001 were:

- | | |
|---|-----------|
| • Self-directed permittees (charities that run their own games) | \$851,922 |
| • Operator-run games (charities that contract with operators) | \$408,492 |
| • Multiple-beneficiary permittees (charity co-ops) | \$395,281 |
| • Vendor-run games (charities that contract with a bar) | \$223,547 |

Please let me know if you need any additional information on this legislation.

Sincerely,



Larry Persily
Deputy Commissioner

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

P.O. BOX 110400
JUNEAU, ALASKA 99811-0400
TELEPHONE: (907) 465-2300
FACSIMILE: (907) 465-2389

May 8, 2003

The Honorable Gary Wilken
Chair, Senate Finance Committee
Alaska State Legislature
State Capitol, Room 518
Juneau, AK 9981

Dear Senator Wilken:

Senate Bill 102, as amended in the Senate Labor and Commerce Committee, makes a significant change in the state's charitable gaming laws: It amends the pull-tab tax from 3% of actual net (what is left from the actual gross after prizes) to 15% of ideal net (what would be left after prizes, assuming all of the pull-tabs in a game are sold).

The Department estimates this change could boost state tax revenues from pull-tabs from the existing level of \$2 million per year to perhaps \$9 million or \$10 million per year. This estimate makes two assumptions: 1) The charities adjust the prize payout level of their games and/or their expenses to cover the increased tax bill, to avoid taking the money out of their own pockets, and 2) Players do not reduce their gaming activity if prize levels drop.

As the Senate Finance Committee considers SB 102 and its effect on charitable gaming proceeds, it is important to understand how the often-mentioned total of \$351 million in charitable gaming gross receipts in calendar 2001 is divided.

First, of that \$351 million total for all charitable gaming statewide, \$267 million went out as prizes and almost \$31 million went to the charitable organizations. The balance of \$53 million went to taxes and expenses, such as rent, utilities, wages and payroll taxes, and the cost of actually buying the pull-tabs and bingo cards. The two largest expenses were wages and payroll taxes, at \$17 million, and the cost of pull-tabs and bingo cards, at \$9 million.

Looking just at pull-tabs, the gross was \$274 million, with \$214 million in prizes, about \$23 million to charities (after paying \$2 million in taxes to the state), and \$36 million in expenses for the cost of pull-tabs, rent, wages, operator fees, etc.

Although operators may get most of the news media attention when it comes to expenses, half of the gaming in the state is run by individual charities, with no commercial operators involved. An additional 20% of the gaming is run by charity cooperatives, leaving just 30% managed by commercial operators and contract vendors (as explained below).

Getting back to the \$351 million total for pull-tabs, bingo, raffles, ice classics, salmon classics and such, it is important to keep in mind that not all of that \$351 million was new money. For example, a pull-tab player may plunk down a dollar and win \$2, or two more chances. That shows up on the books as \$3 in gaming, when it represents just \$1 in actual cash from the player's pocket.

Next, looking at how the \$351 million is distributed among the four types of gaming operations:

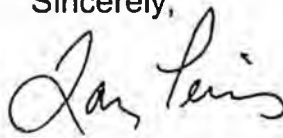
- 1) **Self-directed gaming by the permittees (the qualified charitable organizations are called permittees).** This is when the Elks or Moose or Little League run their own games, either on their own property (such as at the lodge) or at rented property. The charity pays its own expenses. There is no operator involved. The law requires that charities receive at least 30% of the adjusted gross proceeds from the games (the amount left after prizes and federal and local taxes).
- 2) **Vendors.** This is when a permittee sells its pull-tabs to a bar, which then sells the game to its patrons. The charities get paid up-front for the "profit" from the box of pull-tabs. The bar, by law, must pay the charity 70% of the ideal net from the game — that is, 70% of what would be left after prizes assuming all the pull-tabs were sold. The bar then deals with the risk of not selling all of the pull-tabs. The charities have to pay the state tax and the cost of the pull-tabs from their 70% share.
- 3) **Operators.** This is when a permittee (charity) contracts with a for-profit business to sell its pull-tabs, such as at a pull-tab parlor. The operator has to pay the charity a minimum of 30% of the adjusted gross (the amount left after prizes and federal and local taxes).
- 4) **MBPs, or multiple-beneficiary permittees.** This is when several charities get together to form a cooperative to run a gaming site. The MBP hires a manager and pays its expenses. The charities have to receive a minimum of 30% of the adjusted gross (the amount left after prizes and federal and local taxes).

Breaking down the \$351 million total for all gaming between the four gaming types:

- 1) **Self-directed gaming:** Of \$169.4 million in gross receipts, \$127.6 million went out in prizes, the charities paid \$23.2 million in their own expenses, with \$18.1 million in net proceeds to the charities.
- 2) **Vendors:** Of the \$35.5 million in gross receipts, almost \$27.7 million went out in prizes, with \$4.3 million going to charities after the vendors kept their share and after the charities paid their expenses, which included buying the pull-tabs and paying the state tax.
- 3) **Operators:** Of the \$68.8 million in gross receipts, \$53.3 million went out as prizes, the operators charged \$12.8 million in expenses, and charities received \$4.3 million after paying the state tax and buying the pull-tabs.
- 4) **MBPs (charity co-ops):** Of \$77.2 million in gross receipts, prizes consumed \$59.1 million, with \$12 million to expenses and almost \$5.9 million to charities.

I hope this information helps you and your colleagues as you discuss and review SB102. I realize charitable gaming is a complex area, with a lot of details, and we are always willing to meet with you at any time to help with this legislation.

Sincerely,



Larry Persily
Deputy Commissioner

SB102

05/09/03

Senate Finance Committee

Members of the Committee,

The proposed tax in SB102 if adopted in its current form without the prohibition of local taxation will force the operations of the organizations I represent before you today into bankruptcy. Mind you this is not a bluff our records are on the table. From the very start of the process on SB102 we have pointed out the excesses in this industry and acknowledged the possibility of increased taxation. This is your opportunity to set some precedence statewide concerning the taxation of gaming. We can pay a justifiable tax on our activities but we cannot pay a combined state and local taxation burden of 40%.

Bellow is or our **current situation** for each pull-tab we sell:

\$ 1.00 = one pull tab
\$.80 = our prize paid out (the winning pull tabs)
= \$.20 = our adjusted gross income

Revenue taken from that \$.20 (our adjusted gross income)

30.5% = \$.061 = charitable proceeds*
25% = \$.05 = our sales tax liability to the local municipality
3% = \$.006 = our current 3% state ideal net tax
18.5% = \$.037 = our payroll cost (2 positions full time. 2 positions ¾ time)
13% = \$.026 = our cost for that single pull tab
10% = \$.02 = our fixed costs rent utilities permit fees etc.
= 100% = \$.20 = our total adjusted gross income

***Note:** Current state law requires that at least 30 % of the adjusted gross income be used for charitable proceeds and no more than 70% of the adjusted gross income be used for gaming expenses. **In an ideal world we would like to see no tax increase at all but an increase in the mandated return to the non-profits from 30% to 55%.**

Bellow is our **situation if SB102 is passed without prohibition of local taxation**

\$ 1.00 = one pull tab
\$.80 = our prize paid out (the winning pull tabs)
= \$.20 = our adjusted gross income

Revenue taken from that \$.20 (our adjusted gross income)

18.5% = \$.037 = charitable proceeds*
25% = \$.05 = our sales tax liability to the local municipality
15% = \$.03 = **proposed 3% state ideal net tax under SB102**

18.5 % = \$.037 = our payroll cost (2 positions full time, 2 positions ¼ time)
 13% = \$.026 = our cost for that single pull tab
10% = \$.02 = our fixed costs rent utilities permit fees etc.
 = 100% = \$.20 = our total adjusted gross income

***This scenario will put us out of compliance with state law**

You may ask yourselves several questions;

Q: Why don't you pass the sales tax along to the customer?

A: This was tried with disastrous results, as the pace and process of pull tab gaming was frustrated and as a result gross revenues dropped 60%. We had no choice but to absorb the tax. Imagine if you will every time someone exchanges a playback the oil that runs all gaming (the small winning tickets \$ 1, \$2, \$5, \$10 winners) they had to reach for small change in their pocket or receive change. These transactions currently take place in seconds. This logistical senero of passing along a tax to the consumer is frankly impossible. Believe me if we could pass the sales tax along we would have been doing so since its inception. The City and Borough of Juneau has long since realized this as well; however, they have also been arrogantly aware of the room for taxation in this industry. We can pay a justifiable tax but we cannot pay a combined local and state tax burden of 40%. There can only be one hand in the taxation of this revenue stream. That hand in this case should be the state. The state should then decide on what proportion these tax proceeds should be spent between local and state interests.

Please note, that the City and Borough of Juneau does not seem willing to back down on its rhetoric either. Please do not put us at their mercy for they might by default simply choose to tax local gaming out of existence with out a vote of the local electoraie.

Q: Are your expenses higher than other types of business?

A: No in fact I challenge you to find another business in the State that that returns 30.5% profit while absorbing our current 28% tax burden. (25% sales tax 3% state ideal net tax)

Q: How can we create an equitable tax structure on gaming State wide, while making sure we have proper regulation and no profiteering? Thus insuring the permit holders receive the maximum possible return.

A: 1. Outlaw local sales taxation on charitable gaming. (**This plan will only work with the passage of legislation that would outlaw local taxation**)

2. Increase the current 3% state ideal net tax to 20% on pull-tabs.

3. Split that revenue generated with the local municipalities on a proportional basis that you find just.

4. Use an adequate percentage of the additional revenue the state will be receiving to step

up enforcement of gaming regulations. Deposit the rest not split with the local municipalities in the general fund.

5. License all management (not just operators) involved in gaming and revoke those licenses if the permits they manage do not return the state mandated minimums.
6. Prevent "ghost charities" those charities that only exist on paper from being allowed gaming permits by strengthening the requirements for qualification.

I would like to extend a detailed inspection of our books to you or your staff. Please also feel free to talk with the current regulators, members of our community, or anyone else you may think has input regarding our past performance and ethics in the endeavor of charitable gaming. SB102 in its current form without local tax prohibition will without question bankrupt the gaming operations of the organizations I represent. This will force them out on the streets or to the public trough to make up for that lost revenue. I am certain this is not the Governor's intention with this proposed legislation.

Sincerely,

David. D. Sanden
Primary Member in Charge of Gaming
Juneau Montessori Center
Southeast Alaska Friends Of the Montessori
Juneau Dance Unlimited
I can be reached @ 364-2890 or paged @ 463-7654
Email: sandenconsultant@aol.com
750 St. Ann's Ave
Douglas, AK 99824

Juneau Montessori Center
Southeast Alaska Friends of Montessori
Juneau Dance Unlimited
c/o 750 St. Ann's Ave.
Douglas, AK 99824

05/13/03

Senate Finance Committee
State Capitol
Juneau, Alaska 99811

Dear Members of the Committee,

We would like to thank you for your time and understanding of the concerns we raised at last Friday's hearing regarding SB102.

~~We cannot support the passage of this legislation in its current form without local sales tax prohibition.~~

We urge you to amend this legislation to incorporate local sales tax prohibition. If time does not allow for an adequate examination of this issue during the current legislative session, we urge you to hold this bill until next year. This will allow the newly formed Senate Labor and Commerce interim subcommittee (to be chaired by Senator Seekins) the time to closely examine all the issues concerning this legislation.

If you have any questions or would like to discuss these issues further, please feel free to call anyone of us. Thank you.

Sincerely,

David Sanden (364-2890 or pager 463-5327)
Lupita Alvarez (364-3535 or 364-2334)
Maria Moya (789-2947)

May 8, 2003

Senator Gary Wilken
State Capitol, Room 518
Juneau, Alaska

Dear Senator Wilken:

I am concerned with Senate Bill 102 and its affects on the charities that rely on pull-tab funds to operate.

I am affiliated with two charities in Juneau that benefit from pull-tab money. While not opposed to a statewide sales tax on the gaming proceeds, I am opposed to the double taxation imposed on Juneau businesses. Juneau's pull-tab operators are already paying a sales tax of 5% to the City and Borough of Juneau.

I believe that the bill should be amended so that it includes a statewide prohibition on local sales taxation of pull-tab receipts.

If you want to see the benefits of non-profits utilizing pull-tab funds, simply drive over to Douglas and walk into the Juneau Montessori School. This high-quality child care and school would not exist without pull-tab money.

I urge you to consider changing the language of SB 102.

While I understand the need to generate additional money for state operations, I do not believe that double taxation on responsible pull-tab operators and the charities they fund is the appropriate mechanism.

Sincerely,



Anna Eberhardt
Concerned Citizen



Alaska State Legislature

Please enter into the record my testimony to the Finance committee name

Committee on SB102, dated 05-09-03
 bill # / subject public hearing date

I am opposed to SB102 because we are looking at 23 million dollars from 2001 statistics that non-profits had to use for charitable donations. I believe that the economy now in 2003 has changed dramatically. As a few examples; gas prices rose, liquor and cigarettes increased, property taxes keep rising and insurance is mandatory and outta pocket expenses are alot higher, meanwhile the PFD is lower, CIRRA dividends aren't in the budget, interest rates are lower on savings, stock markets down and jobs are being lost all over this state, therefore the economy has forced many more non-profits to resort to gaming. Grants are being cut and their donations are alot less so they cannot be self supported and are relying on proceeds to keep their doors open. OVE

Signed: Dalvie Bushnell
 Testifier
Allied Charities, Alaska Indoor Sports Center, Anchorage, AK 99503
 Representing (optional)
37004 Robinson Loop Sterling, AK 99672
 Address
394-2360
 Phone number

I believe now we have less money being spent on gaming and more non-profits getting a smaller piece of the pie. At the same time there is an increase in local communities for help help that only comes from gaming proceeds. Then you have the State wanting to get a bigger piece of the pie so they can serve the increase of 6 million dollars to offset the rising costs of medical benefits. I have a hard time approving this thought process, when other nonstate workers like myself are forced to pay outta my pocket when medical benefit expenses from employers go up. Let alone all the people who work for employers who can't afford to offer any benefits; but are glad to have a job. This bill is unfair to the local people affected by less money being available for local communities. I feel that gaming proceeds are needed now even more than 2001 to keep the doors open of non-profit so they can control the goodwill use better than what the State intends on using their proceeds for. Thank You! Debbie Bussiere

May 5, 2003

Senator Gary Wilken
1851 Fox Avenue
Fairbanks, Alaska 99701

Via E-mail

Re: SB 102 / HB 169

Dear Honorable Senator,

In response to your recent e-mail I offer you my thoughts and observations on these bills. Through the required annual gaming reports to the Department of Revenue, it can be determined which permittees and licensees are within so many percentage points of being out of compliance. Once you have identified how many percentage points the proposed tax amount will add to the existing expenses of a pull-tab gaming operation, non-profits with compliance issues can be determined. These same operations would then have to be closed according to statute if the tax was initiated. The tax in effect is an increase in expenses and may push the gaming operation over its statutory 70 % of Adjusted Gross Income expense limitation. (The ideal net minus federal and city taxes equals the adjusted gross income.) I.e. If XYZ permittee's expenses are 65% of the Adjusted Gross Income and a tax that equates to 6% of the Adjusted Gross Income is added, XYZ is now over the statutory limit on expenses by one percent.

Gaming operations that compensate to stay in compliance by a reduction of prizes will further complicate any analysis on this matter. Letters from Mary Magnuson, lead counsel for the National Association of Ticket Manufacturers, states that as prizes are reduced to compensate for a tax, games have less incentive to play and Gross Receipts from the activity will decline. (These letters were given to Senator Bunde and the Interior Delegation.) In a nut shell the tax base disappears whether the additional new tax is a percentage of Gross Receipts or a percentage of the Adjusted Gross Income. The erosion of the Gross Receipts or taxable base that pays expenses (Adjusted Gross Income) will also cause further compliance issues for the permittees. Pull-tabs, which are a paper slot machine, paid prize payouts of 78% in 2001. Correspondingly, Electronic Gaming Machines, (Slot Machines) in casinos pay out prizes of 85 to 96% to stimulate play. No stimulation, no play, non-compliance, no tax base, the economic ruin of this industry and its benefits to Alaskan communities.

I suggest a legislative audit be done on charitable gaming before anyone supports a tax being levied. It is imperative to quantify the economic impact of any proposed tax before passing such a bill. By knowing which charities are affected you will know: how many dollars in goods & services may leave the community, how many jobs may be lost, and how much real estate may go vacant. It may be that the tax benefits gained are less than the qualitative and quantitative damages to our communities. Or, it may indicate that there are opportunities for a tax and which gaming operations can support the extra burden.

Please give this matter further study before passing these bills. I have enclosed a spreadsheet to identify the impact of taxes for quick reference.

Thank you, for the opportunity to give more comment on this matter.

Respectfully,

John Lopez
President
Denali Gaming Supply, Inc.

CHARITABLE GAMING COMPLIANCE TAX COMPARISON/WORKSHEET

	2001 based on current tax 3% of Ideal Net	2001 based on proposed tax 5% of Gross Receipts
Gross Receipts	\$273,800,000.00	\$273,800,000.00
Less Prizes	\$213,600,000.00	\$213,600,000.00
Less Federal & City Sales Taxes	\$1,000,000.00	\$1,000,000.00
Adjusted Gross Income	\$59,200,000.00	\$59,200,000.00
Less 2001 Reported Expenses	\$34,100,000.00	\$34,100,000.00
Less Tax (3% of Ideal Net)	\$1,806,000.00	\$0.00
Less Tax (5% of Adjusted Gross)	\$0.00	\$13,690,000.00
Amount Available for Net Proceeds*	\$23,294,000.00	\$11,410,000.00
Less Statutory Requirement for Compliance (30% of adjusted gross)	\$17,760,000.00	\$17,760,000.00
Surplus/Difference	\$5,534,000.00	(\$6,350,000.00)

* According to the 2001 Annual Report \$23,276,643.00 was the actual amount returned to the permittees.

Propose your own tax within the following spreadsheet to see the outcome on the Net Proceeds. Enter below, in the highlighted portion of the equation the percentage of tax "proposed" to see the outcome on the permittees Net Proceeds. This formula may also be used to determine whether or not specific permittees and/or licensees would remain in compliance with your "proposed tax". Simply enter the specific information as labeled.

	Propose a Tax based on the Ideal Net*	Propose a Tax based on the Gross Receipts**
Gross Receipts	\$273,800,000.00	\$273,800,000.00
Less Prizes	\$213,600,000.00	\$213,600,000.00
Less Federal & City Sales Taxes	\$1,000,000.00	\$1,000,000.00
Adjusted Gross Income	\$59,200,000.00	\$59,200,000.00
Less 2001 Reported Expenses	\$34,100,000.00	\$34,100,000.00
<i>Place your proposed tax here (use a percentage)</i>	0%	0%
LESS TAX	\$0.00	\$0.00
Amount Available for Net Proceeds	\$25,100,000.00	\$25,100,000.00
Less Statutory Requirement for Compliance (30% of adjusted gross)	\$17,760,000.00	\$17,760,000.00
Surplus/Difference	\$7,340,000.00	\$7,340,000.00

*Tax based on the Ideal Net is calculated as follows: Gross Receipts minus Prizes multiplied by the tax.

**Tax based on the Gross Receipts is calculated as follows: Gross Receipts multiplied by the tax.



Yukon Quest

INTERNATIONAL, LTD.

April 18, 2003

Dear Senator Wilken,

I wish to voice to you my concerns regarding Senate Bill 102 "Charitable Gaming Revenue." Please do not support this Bill as currently written and amended. If this bill passes it will severely cripple the very non-profits that it is meant to benefit. My main concerns are the following:

1. Amending Sec. 5. (h). This reduces the amount the vendor receives by 5% and increases the non-profit's take by that same 5%. There are not enough vendors for all the permittees now. It is not easy to locate a bar (vendor) to provide the space and labor for the selling of the pull-tabs. The Yukon Quest has been looking for another vendor for six months and we are a popular non-profit. Non-profit agencies such as the Interior Aids Association have great difficulty locating bars to represent them as a vendor. Decreasing the bar's revenue will only lessen the number of bars willing to provide the non-profit agencies with assistance.
2. Amending Sec. 5 (J) This restricts the ideal net to a minimum of 28 %. Players of pulltabs are very aware of the odds. There are almost no pull tabs games with this poor of pay out. There is a good reason for this. These games play very slowly or not at all. Good business practice has led me to use games with an ideal net of 18 to 24%. I would rather sell a lot of games with a smaller profit margin than very few games with a larger profit. This amendment will bring in less revenue for both the non-profit and the state of Alaska.
3. Amending Sec. 6 (46) This amends the definition of the ideal gross of a pull-tab game. Implementing this amendment would change the proposed increase in state tax from 2% to 650%. Yes, approximately six hundred and fifty per cent. For at least the last ten years, government - Federal, state, and local - has stated that non-profits must assume a greater proportion of the burden for quality of care and quality of life issues. Locally, non-profits have been able to implement this policy through an increase in the use of gaming. This amendment would eviscerate the funding non-profit agencies derive from the sale of pull-tabs.

I believe that the Governor's advisors are dealing with "Fuzzy Logic". This bill as written would not assist either the non-profits or the State of Alaska. What experience do the Governor's Advisors have with the people who actually purchase and play the pull-tabs that make them better at evaluating the consequences of this Bill over the local non-profits who deal with these people on a daily basis?

I understand that the State of Alaska is in need of additional revenue and I think the non-profit agencies are willing to play their part. Retain the basic increase as proposed in the amendment to Sec. 05.15.184 **Pull-Tab Tax** from 3% to 5%. This should be the only part of Senate Bill 102 retained. If necessary, make that increase to 6 or 7%. Yes, this increase will hurt but it would not ruin the non-profit agencies. Do not change any other part of current gaming regulations.

Thank you for your patience in listening to my concerns.

Sincerely,

Layne St. John
Executive Director, YQI Alaska

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Richards, Johnson & Granberry P.C.

Certified Public Accountants

1100 West Barnette Street, Suite 102, Fairbanks, AK 99701
(907) 452-4156 Fax (907) 452-3156 www.rjgcpa.com

Gerald Richards
Jeffrey Johnson
Philip Granberry
Arlene Koenig
Debra Gross

April 21, 2003

Honorable Gov. Frank Murkowski and
Members of the Senate and the House of Representatives
State of Alaska
P.O. Box 110001
Juneau, Alaska 99811-0001

Re: Proposal to tax Gross Sales of Pull Tabs at 5%

Dear Gov. Murkowski, Senators and Representatives,

I have analyzed the effect of the proposed 5% tax on gross sales of pull tabs, and I believe that the attached examples show that there are serious errors in the administration's representations about how the tax would effect the Charities in Alaska that conduct charitable gaming. Likewise, the taxes ultimately raised by this proposal will be lower than the \$14 million currently estimated by the Administration.

The most significant error the Administration has made in their analysis is that they have ignored the phenomenon of the Playback. In the Pulltab business, a Playback is a prize that a player has won that is turned in for additional ticket sales. Small playbacks occur on the spot when a player wins \$2, \$10, \$20 or more with a winning ticket, and they use those winnings to purchase more pulltabs. Larger winings of \$50 to \$250 ultimately become playbacks in the future as a pulltab player has a certain amount of money that is available as disposable income. A very small percentage of the prizes paid out to pulltab players is really kept out and not eventually re-invested back into buying more pulltabs.

I have prepared 3 examples, which are attached to this letter. I have also attached the letter dated March 24, 2003 that the Governor's office recently sent out to all charities that participate in charitable gaming.

Example #1 assumes that there is an initial pot of money that is currently being spent on pulltabs by the public of about \$64,471,902. The average prize payout has historically been about 78% according to the March 23 letter. Accordingly, if you had \$64,471,902 to purchase pulltabs, you would receive \$50,288,084 in prizes assuming a 78% prize payout. Applying the playback phenomenon, players then use their prize winnings to purchase more pulltabs. This time, the \$50,288,084 of pulltab purchases generates \$39,224,705 of prizes paid out to the players. Following this example through until sales reach \$274,000,000, my example shows that of the starting pot of \$64,471,902, only \$4,471,902 is retained by the players, leaving the \$60,000,000 of adjusted gross income. The adjusted gross income is what the charities use to pay for the expenses of gaming and the taxes to the State of Alaska. The Charities get what is left over, which historically has been \$23,000,000.

April 21, 2003

Page 2

Example #2 shows what happens when the State imposes a maximum prize payout of 72% (compared to the current industry average of 78%) and imposes a 5% tax on the gross sales (in lieu of the current 3% state tax on adjusted gross). Example #2, assumes that prizes would be turned over approximately 11 times, as is currently the case as shown in Example #1. Starting with the same pot of money to spend on pulltabs of \$64,471,902, this example shows that the total sales would be only about \$224,000,000 instead of \$274,000,000, a decrease of about \$50,000,000. This makes sense, because the prize payout is lower, and therefore the players have less prize winnings to use as playbacks to purchase additional tickets. The State raises only about \$11,000,000 in taxes because the gross sales are lower. Because sales are lower, the cost of pulltabs will decline by about 18%, which I have estimated to be \$750,000. The decrease in funds available to the charities is about \$4,700,000.

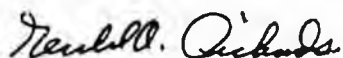
Example #3 assumes the same changes proposed by the State, except it assumes the players retain about the same amount of winnings as they historically have. With this set of circumstances, the playbacks only turn over 8 times instead of 11 times. Because the sales are lower, the cost of the pulltabs is lower and the sales taxes generated by the state is lower. Under this example, the decrease in funds available to the charities is about \$7,000,000. I believe Example #3 is the more likely result of the proposed changes.

There will be other fall out from the proposed 5% gross tax and lower mandated prize payouts that are not reflected in these examples. Players will not want to risk as much of their disposable income because their chances of winning are significantly reduced. Operators will not be able to meet the mandatory higher payouts to charities, so they will go out of business. Those charities that rely on operators to raise funds for them will get nothing! The sales taxes the state will raise will be even lower as sales decline as a result of this. The overall result will be a dramatic change to the charitable gaming industry as it currently exists, with significantly fewer dollars going to the charities.

Charitable organizations in Alaska should not be asked to pay for our government. We should pay them for existing and carrying on programs that otherwise would cost the State money, or that make Alaska a better place to live. This proposal to raise taxes on the gaming industry has not been well thought out and should not be put into law. Let's leave well enough alone and find another way to pay for the cost of our government.

I would be happy to meet with the Administration or any of the Senators or Representatives to explain any portions of this letter or the attached examples.

Sincerely,



Gerald A. Richards, C.P.A.

Example 2 - Effect of 5% Gross Tax and Prizes Payout at 72%

		<u>5% Tax</u>
L.	Starting pot of money spent on pulltabs	64,471,902
		<u>3,223,596</u>
M.	Prizes paid out at 72% average rate line A above	46,419,769
		2,320,989
N.	Prizes paid out at 72% average rate line B above	33,422,234
		1,671,112
O.	Prizes paid out at 72% average rate line C above	24,064,008
		1,203,200
P.	Prizes paid out at 72% average rate line D above	17,326,086
		866,304
Q.	Prizes paid out at 72% average rate line E above	12,474,782
		623,739
R.	Prizes paid out at 72% average rate line F above	8,981,843
		449,092
S.	Prizes paid out at 72% average rate line G above	6,466,927
		323,346
T.	Prizes paid out at 72% average rate line H above	4,656,187
		232,809
U.	Prizes paid out at 72% average rate line I above	3,352,455
		167,623
V.	Prizes paid out at 72% average rate line J above	2,413,768
		<u>120,688</u>
	Total sales assuming prizes are played back 100%	<u>224,049,962</u>
		<u>11,202,498</u>
	Starting Pot of Money Spent on Pulltabs	64,471,902
	Estimated prizes retained by Players	(1,737,913)
	Expenses of Operatlons	(34,000,000)
	Decrease in Cost of Pulltabs	750,000
	State of Alaska Taxes	<u>(11,202,498)</u>
	Net Proceeds for Charities	<u>18,281,491</u>
	Decrease in Net Proceeds for Charities	<u>(4,718,509)</u>

Example 3 - Effect of 5% Gross Tax and Prizes Payout at 72%

		<u>5% Tax</u>
LL.	Starting pot of money spent on pulltabs	64,471,902
		<u>3,223,596</u>
MM.	Prizes paid out at 72% average rate line A above	46,419,769
		2,320,989
NN.	Prizes paid out at 72% average rate line B above	33,422,234
		1,671,112
OO.	Prizes paid out at 72% average rate line C above	24,064,008
		1,203,200
PP.	Prizes paid out at 72% average rate line D above	17,326,086
		866,304
QQ.	Prizes paid out at 72% average rate line E above	12,474,782
		623,739
RR.	Prizes paid out at 72% average rate line F above	8,981,843
		449,092
SS.	Prizes paid out at 72% average rate line G above	6,466,927
		323,346
TT.	Prizes paid out at 72% average rate line H above	-
UU.	Prizes paid out at 72% average rate line I above	-
VV.	Prizes paid out at 72% average rate line J above	-
	Total sales assuming prizes are played back 100%	<u>213,627,552</u>
		<u>10,681,378</u>
	Starting Pot of Money Spent on Pulltabs	64,471,902
	Estimated prizes retained by Players	(4,656,187)
	Expenses of Operations	(34,000,000)
	Decrease in Cost of Pulltabs	900,000
	State of Alaska Taxes	<u>(10,681,378)</u>
	Net Proceeds for Charities	<u>16,034,337</u>
	Decrease In Net Proceeds for Charities	<u>(6,965,663)</u>

FRANK H. MURKOWSKI
GOVERNOR

GOVERNOR@GOV.STATE.AK.US

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March 24, 2003

Optimist Club of Fairbanks, Inc.
1100 West Barnette, Suite 102
Fairbanks, AK 99701

Dear Friends:

Many individuals from charitable and nonprofit organizations such as yours have contacted me expressing concern regarding House Bill 169 and Senate Bill 102, the charitable gaming revenue bills. I appreciate their comments and would like to take this opportunity to clarify our proposal.

Last fall, the majority of Alaska voters sent a strong message that they were ready for a change in the way state dollars are spent. My budget proposal for the coming year, which concentrates on aggressively growing the state's economy through long-term resource development and reducing state spending, is consistent with the voters' message. In addition, I clearly committed to a budget plan that would not include a Statewide Income Tax or a raid on the Permanent Fund. Our proposal upholds that promise.

Charitable Gaming is a major industry in Alaska, generating in excess of \$351 million a year. That's how much money people wager on pull-tabs, bingo, raffles, ice classics, salmon classics, and so forth. About \$274 million of the total is wagered on pull-tabs. Currently:

- About three-fourths, or \$214 million, of the \$274 million is returned to the players as prizes;
- \$34 million goes for expenses of the pull-tab operations;
- \$23 million goes to charities; and
- less than \$3 million goes to the state for taxes.

The administration's proposal, amended after hearing the concerns of state charities, will change the current formula. Using the same \$274 million figure:

- \$197 million, or 72 percent, would be returned to players as prizes;
- \$35 million would go for expenses;
- \$28 million would go to charities (a \$5 million increase); and
- almost \$14 million would go to the state.

Optimist Club of Fairbanks, Inc.
March 24, 2003
Page 2

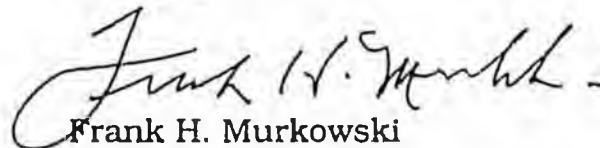
Currently Alaska State law allows for a maximum payoff for a pull-tab of \$500 per tab. In most states average payout for lottery prizes is approximately 50 percent of proceeds collected. After deducting the expenses associated with running their lotteries, the revenue to those states averages between 25 percent and 45 percent. Our approach not only protects the current share of revenues that go to the charities but increases it and provides a reasonable return (5 percent) to the state.

As a family of Alaskans, we have tough decisions to make at this time. Our oil revenues are seriously reduced and our other resource generators, such as mining, timber, agriculture, and fishing, do not yet bring in sufficient revenues to make up for the loss in oil revenues. Together, we must decide on a safe, secure, and sustainable course for Alaska's future.

By reducing state spending now and slightly increasing user fees and other revenue sources for the state, we can protect Alaska's future from disastrous consequences. This will require the reorganization of many state programs, the elimination of others, and the implementation of user fees.

We are working hard to open ANWR, to build a gas pipeline, and to open other areas of the state for a wide variety of resource development projects. I am committed to growing and strengthening our economy and creating an Alaska that provides good-paying jobs for all Alaskans, while keeping us economically and environmentally safe. With your help, we can do this together.

Sincerely yours,



Frank H. Murkowski
Governor

We are regularly updating budget information on the Internet. To access this information, go to the State of Alaska's Home Page and click on the link for the budget. This will take you to the WebPages for the Office of Management and Budget. From there, you have several options to locate detailed information for our FY 2004 budget proposal.



Downtown Bingo

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(907) 451-7353 (FAX)
e-mail: dtbingo@alaska.net

Monday, April 21, 2003

Testimony before the Interior Delegation, Alaska House of Representatives

Good morning ladies and gentlemen. My name is Thomas Rogers and I am the Office Manager for Downtown Bingo, and am testifying on behalf of the permittees, Downtown Association/Mainstreet Fairbanks, Festival Fairbanks, and Fairbanks Shakespeare Theatre. We express our gratitude in your efforts to hear our concerns regarding the proposed changes in the gaming regulations. We wish to address two areas of great concern.

First is the proposed change in the state's tax on pull tabs from 3% of the income to 8% of the gross sales. With the current payout of 78% we pay the state \$30 for each \$1,000 in income. It takes about \$4,600 in sales to make that \$1,000. 8% of \$4,600 is \$368, an increase of \$338 on an income of \$1,000. The cost of a game of that size is approximately \$100 so we have a net income of \$532 of that one thousand dollars and have yet to pay rent, utilities, insurance, payroll and the other expenses involved in running a gaming business.

The state claims to "pass on" this increase to the consumer. This is not the way the pull tab business works. The consumer did not spend \$170 million on pull tabs last year. Most of that spending came out of their "winnings" (that 78% payout.) Decreasing the payout from 78% to 68% will not keep sales at the current level - it will considerably decrease sales. We note with interest that the Nenana Ice Classic raised the cost of its tickets from \$2.00 to \$2.50 and realized a 30% decrease in sales.

That 8% of gross translates to 36.8% of the net income at 78% payout and 25% of the net income at the proposed 68%. That is off the top. What business could stand that kind of tax by the state? Early in this country's history the Supreme Court, in a decision, said 'the power to tax is the power to destroy.' This proposal could very likely destroy the charitable gaming industry in Alaska.

The second area of concern is the placing of video games in the bars and clubs while excluding them from the pull tab parlors and bingo halls. This proposal completely changes the charitable gaming industry in Alaska. Previous testimony from the Department of Revenue claims charities and non-profits will benefit from this with "some" losers. There will be a lot of losers. There are not enough bars in the state to

take the number of charities and non profits that currently engage in gaming to supplement their income, and video machines that pay out 85% and more will effectively wipe out pull tab sales that pay our 78% (or even worse if the proposed 68% payout passes.)

The state currently allows pull tabs in bars in direct competition with pull tab parlors and bingo halls – this is fine – it is a level playing field. However if the state wants to open up gaming to video games, they must not allow them in the bars and clubs exclusively. How could pull tab parlors and bingo halls sell pull tabs at a 78 or 68% payout and expect to compete with bars and clubs with video games that pay out 85%? If you were a gambler, where would you place your bet?

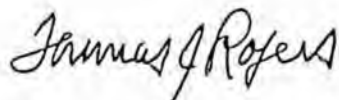
As a member of the charitable gaming industry, I will not attack or defend gaming on the social detriment issues – that is for the state to weigh and decide. However, if video gaming is allowed for non profits then the state must maintain a level playing field and allow them in the pull tab parlors and bingo halls. (Indeed, at proposed payout levels, video gaming will quickly wipe out the pull tab industry – video gaming and bingo will be the what is played and what is currently a pull tab parlor will be a video gaming parlor.)

I have heard the reason to restrict video machines to bars and clubs is to restrict access to patrons who are 21 years or older. Currently the age to play pull tabs is 21 and bingo is 19. It would be much better to legislate all gambling at the 21 year old level and not allow anyone under that age in pull tab parlors and bingo halls.

Certainly the state need income. The state lottery idea could raise revenue outside of the charitable gaming industry. Please do not confuse state lottery payouts across the nation with payouts for pulltabs and video games – they are completely different entities.

I speak from the narrow vision of a small MBP stand alone business and do not have the figures or expertise to crunch the numbers for the whole industry. I urge the legislature to listen to the folks who have this ability and take care not to greatly detract from the gaming industry to the detriment of the charities and non-profits. The proposed changes in the law will greatly harm the non profit organizations and the state will not increase its revenue – 25 or 30% of nothing is nothing.

Thank You,



Thomas Rogers
Office Manager
Downtown Bingo

NATIONAL ASSOCIATION OF FUNDRAISING TICKET MANUFACTURERS

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St. Paul, Minnesota 55104

Phone: 651.644.4710 Fax 651.644.5904
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March 24, 2003

Joe Koss
Revenue Auditor
Alaska Department of Revenue
Tax Division, Gaming Unit
P.O. Box 110420
Juneau, AK 99811-0420

By E-mail and U.S Mail

Dear Mr. Koss:

I am writing in response to your inquiry regarding prize limitations and pay-out restrictions on pull-tab games in the United States. I will try to respond to your questions as you have asked them.

Most states that regulate charity gaming have limitations on prizes. The vast majority of states limit the prize that may be awarded on individual tickets. In the last five years or so, that amount has slightly increased so that the average prize limit is now about \$500. The states with limits of \$500 are: Alaska, Illinois, Louisiana, New Jersey, New York, North Dakota, Pennsylvania, Virginia and Washington. Kentucky and Minnesota permit prizes of \$599. Two states limit winners to \$1000. They are West Virginia and Nebraska. Texas has a \$750 limit and California and Mississippi have limits of \$250. Indiana has a limit of \$300 (but there is legislation that would increase that amount to \$599).

Only a few states impose cumulative prize limits in addition to the individual ticket prize limits. In addition to Alaska, Indiana has a limit of \$2000 per game (but legislation would increase that to \$4000). New York has a per game limit of \$3000 and Illinois a daily limit of \$5000.

Many states have minimum prize pay-out requirements. Kansas, Missouri, Oklahoma, and Washington permit only games that pay-out a minimum of 60%. Nebraska, New Jersey, Pennsylvania, and Texas permit 65% and New Hampshire 45%. I was not aware of any state that imposed a maximum prize pay-out, but recently discovered that Nebraska has a maximum prize pay-out of 80%.

In my experience in dealing with charity gaming around the country, I have learned that states do not impose maximum pay-out limits for a couple of reasons. First, there is a general understanding that pay-out limits depress receipts and hence, the taxes that states hope to collect off of the activity. Minnesota, for example, has the highest gross receipts for pull-tabs in the country, about \$1.3 billion. The average prize pay-out here is also the highest at about 82.2%. The state collects \$55 million in taxes at a rate of 1.7% on pull-tab

gross receipts as well as a "combined receipts tax" on a graduated scale on receipts over \$500,000. However, when the combined receipts tax was implemented in 1989, the growth of pull-tab sales stopped and charities found that their net receipts were reduced dramatically due to the need to reduce prize pay-outs to compensate for the tax. For example, one charity I am familiar with reduced its prize pay-out from 86% to 80% to compensate for the combined receipts tax. Monthly deposits (adjusted gross receipts) decreased by slightly more than 50%! This occurred, when in theory, the lesser amount of prizes should have increased the adjusted gross receipts. The opposite affect occurred because the level of play decreased.

States also do not limit pay-out because it stifles the ability of the charity operator to be flexible in the games that are played. While an operator may not be able to play all games with pay-outs of 80% or more, the operator needs to have a few of those games in play to keep the players interested. In other words, maximum pay-outs suppress play, reduce gross receipts and negatively affect the profits that are available for charity.

An example of this might be North Dakota. Like Alaska, North Dakota allows pull-tabs to be sold in bars and has no significant gaming competition (although a lottery was just approved by the voters at the last election). In 1993 the excise tax on pull-tabs was 2% of the gross receipts. During the 1993 legislative session, that tax was increased to 4.5% of gross receipts. The tax went into effect later that year. In 1994, gross receipts from pull-tabs were \$202,612,503. The average prize pay-out was 80% and the taxes collected were \$12,945,936 (this was total taxes on all charity gaming, not just pull-tabs, but pull-tabs constituted the greater portion of the receipts).

Each successive year saw gross receipts decrease, pay-out percentages decrease and tax collections decrease. By 1998, gross receipts for pull-tabs were \$176,480 and tax collections were reduced to \$10,817, 764. In 2001, gross receipts were even lower at \$160,634,211. Taxes, on the other hand, increased somewhat to \$12,359,653 (less than the 1994 level, but more than the previous few years). The Attorney General's Office suggests that the increased tax amount is probably due to the fact that the smaller charities have had to go out of business, leaving only the larger charities in operation, which pay a tax at the higher percentage.

Oklahoma is another example of how excessive taxation has limited pull-tab sales. Since the legalization of pull-tabs, Oklahoma has imposed a tax of 10% on the gross receipts of each game. Gross receipts for pull-tabs in 2001 were \$4,594,693, despite nearly \$100 million dollars in bingo activity. Pull-tabs are not played in Oklahoma because the charity operators cannot afford the tax. The prize pay-out has to be so low, that no players are interested in playing the games. Hence, the charities do not make money.

Our annual report lists the tax rates for various states. Besides Oklahoma, Massachusetts has a 10% tax, but Massachusetts limits the sales of pull-tabs and specifies by contract what the game specifications must be. Illinois has a 5% tax on the gross receipts of pull-tabs, but that tax has spawned a staggering amount of "raffle" games. In other words, due to a loopnole in the law, charities are playing "raffles" (which are not subject to the tax and are essentially unregulated) in lieu of pull-tabs largely to avoid payment of the tax. Washington has a 5% tax on the commercial pull-tab activity (bars sell the tickets for profit as a commercial stimulant), but only a tax of 10% of the net for the same charity activity. I mention this because I know that you are looking at the NAFTA report for information, and I want to make sure that to the extent possible, you can compare apples to apples.

I know that the legislature is considering increasing the tax on pull-tabs to 5% of the gross receipts. I also know that there is some discussion about capping prize pay-outs at

72% to compensate for the increased tax. I hope that the above information will help you better assess the possible consequences of such action. It is difficult to give you definitive comparisons because no other state has imposed a prize pay-out cap so much lower than the norm. Although our report indicates overall prizes at 73%, it is important to remember that such a figure encompasses all charity gaming (bingo, raffles, charity game nights and pull-tabs), some of which have, on the average, lower average prize pay-outs than pull-tabs.

I would be happy to provide additional information to you in the future. Please feel free to contact me again.

Very truly yours,

Mary B. Magnuson

ACE NOVELTY CO., INC.
ARROW INTERNATIONAL / CAPITAL GAME
BONANZA PRESS, INC.
DOUGLAS PRESS, INC.
STUART ENTERTAINMENT, DYWA BINGO KING
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March 6, 1996

Mr. Mark Higgins
12221 Hilltop Drive
Anchorage, AK 99801

Dear Mark:

I am writing to follow-up our meetings last week concerning the "percentage of gross" proposal.

I took a look at the laws and rules of the more prominent charity gaming states to determine if any had a percentage of gross requirement. Washington was the one state I found with any such requirement, although the applicable percentage varies depending on the size of the organization and whether the activity is bingo, bingo and pull-tabs, or just pull-tabs. I have attached the pertinent Washington rules for your review. Please note that the maximum requirement is 14 percent for bingo and 17 percent for bingo and pull-tab activity. Those percentages apply only for games that gross in excess of \$4 million annually. The requirements for smaller games are significantly less than 17 percent. For pull-tabs, the maximum percentage of gross requirement is 7 percent. The average net to charity (or commercial operator) as a percentage of gross is 11.5 percent.

Minnesota has no percentage of gross requirement. In Minnesota, a charity may not expend more than 60 percent of its bingo gross profit (adjusted gross) less taxes (10 percent of net) on expenses. For pull-tabs, not more than 50 percent of the gross profit may be expended on expenses. A copy of the statute is attached. The average prize payout for bingo is 77 percent; for pull-tabs 82 percent. The average net to charity as a percentage of gross is 5.73 percent.

In Nebraska, a charity may expend no more than 6 percent of the definite profit of a pull-tab game (adjusted gross) on expenses. The average prize payout is 75 percent. For bingo, a charity may expend up to 12 percent of the gross receipts for expenses. For purposes of calculating the percentage amount, the costs of license and permit fees, taxes, prizes, equipment, and rent are not considered expenses. A copy of the relevant statutory provisions are attached. Nebraska averages 75 percent prize payout for bingo. The average net to charity is 11.80

Mr. Mark Higgins
 March 25, 1996
 Page two

percent of the gross.

In Texas, a charity is required to disburse for charitable purposes not less than 35 percent of its adjusted gross receipts, less certain credits allowed by rule for taxes and authorized expenses. A copy of the relevant statute is attached.

The average prize payout in Texas for bingo is 76 percent. For instant bingo (pull-tabs) it is 68 percent. Please remember that in Texas pull-tabs are restricted to a B-I-N-G-O ticket format and sold only at bingo games. The total volume of sales is only 1/4 of the total bingo volume, whereas in most states, pull-tab volume usually surpasses that of bingo. The average net to charities in Texas is 7.72 percent of the gross.

Those states reflected in the NAFTM survey with the highest percentage of gross retained by the charity are:

Connecticut	31.49 percent
District of Columbia	34.50 percent
Idaho	23.45 percent
Iowa	21.67 percent
Michigan	20.18 percent

The rest, basically, fall close to or below the national average of 14 percent.

Connecticut reported gross receipts for bingo of only \$34.6 million. The average prize payback is 72 percent. For pull-tabs, only \$12.8 million was wagered; 65 percent returned to the player in the form of prizes. Pull-tabs may be sold only at bingo occasions. I can find no percentage of gross requirement. The rules prohibit the paying of compensation to workers, thereby eliminating a considerable amount of expenses. Pull-tabs are purchased by the state pursuant to a contract with a single vendor. Thus, there is little variety in game types. The payout is part of the contract specifications. The very low payback in Connecticut seems to be reflective of the extremely low amount wagered, and vice versa.

In D.C., I can find no percentage of gross requirement. Charities may pay only \$15.00 per occasion for compensation per worker. Pull-tabs are sold only at bingo and raffle occasions and must be purchased from the Charitable Games Control Board or a licensed supplier. The total dollars wagered in the District is minimal, about \$4.4 million, the vast majority (\$3.8 million) of which is on bingo. The prize payout for bingo is 73 percent; for pull-tabs, 69 percent. Note that only \$605,081 was wagered on pull-tabs in 1994, less than 1/4 of the total bingo receipts.

Idaho is another example of limited activity. Only \$5 million was wagered on bingo in 1994, although 76 percent was returned in prizes. There is no percentage of gross requirement

Mr. Mark Higgins
March 25, 1996
Page three

in the Idaho law. Pull-tabs are illegal in Idaho, except if sold as a product by the state lottery. We have no data on those sales.

Iowa residents generated \$49.3 million in bingo gross receipts in 1994. The players retained 68 percent in the form of prizes. I can find no percentage of gross requirement in the Iowa law. Workers may be paid, but only on a limited basis (@ 1 per 25 players, no more than minimum wage). Not more than 25 percent of the net receipts (adjusted gross) may be used for expenses. Seventy-five percent of the adjusted gross receipts must be disbursed for lawful purposes. Pull-tabs are illegal except when sold by the state lottery. We have no data on those sales.

In Michigan, bingo gross receipts were \$205 million in 1994, with 72 percent returned in prizes. I could not find a percentage of gross requirement. Workers' compensation is limited to \$10.00 per occasion. Pull-tabs are purchased by the lottery and sold to organizations. The tickets are produced by one vendor; the percentage payback specified in the contract. Only \$62 million was wagered on pull-tabs in 1994; 74 percent of which was returned to the players in prizes.

Thus, each state included in the NAFTM report with more than 20 percent of gross receipts retained by the charity is vastly different than Alaska. The method of operation is different, and the volume of activity is lower. Interestingly, not one of those states has a percentage of gross requirement.

I understand that the proposal contemplates the imposition of a flat 25 percent requirement; 20 percent of the gross to be retained by the charity 5 percent to the state. I suggest that you ask legislators to look more closely at what other states have done, noting especially the general lack of percentage of gross requirements around the country. Even Washington, which has such a requirement incorporates a sliding scale into its rule to account for differences in organization size and volume.

Some have suggested that charities can compensate for a "percentage of gross" requirement by drastically reducing the amount of money awarded in prizes. While such a suggestion seems plausible in theory, it will likely fail in practice. For example, in 1993 the State of North Dakota increased its tax on pull-tabs by 2.5 percent of the gross. In response, the charities reduced the amount of money awarded in prizes by 3 percent. In the first quarter

Mr. Mark Higgins
March 25, 1996
Page four

the tax was in effect, total gross receipts decreased by 2.3 percent. By the end of 1994, the total gross receipts had decreased by 8 percent. Although the figures for 1995 are not yet complete, the preliminary figures show no improvement from 1994.

Please call if you have any questions.

Very truly yours,


Mary B. Magnuson

MBM/mc
Enclosures

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April 4, 1994

Connie Stewart
 Oklahoma Tax Commission
 M.C. Connor Building
 2501 Lincoln Boulevard
 Oklahoma City, Oklahoma 73152-3248

Dear Connie:

You requested some information regarding the effect a decrease in the tax on breakopen tickets would have on total breakopen ticket sales in Oklahoma. As I understand it, your charge is to attempt to project the increase in breakopen sales, if any, that will result from a decrease in the tax rate from 10% to 5% to 2.5% to 1%. As you might expect, it is not possible to predict the actual increase in sales from any such tax reduction, but the following are some reasons why such an increase is likely to occur.

First, it is important to reiterate that the volume of breakopen sales in Oklahoma, measured by gross receipts, is very low. Please refer to the attached chart for a direct comparison. You will notice that the chart now includes data from Kansas. After our meeting, I gathered statistical data from Kansas and discovered, contrary to what I had been told, that Kansas "instant bingo" sales were slightly below that of Oklahoma. However, I also discovered that so were the general bingo gross receipts.¹ When I compared the instant bingo sales to the general bingo receipts for Kansas, I found that the Kansas instant bingo sales were not unusually low, given the low volume of bingo activity. In Kansas (with a 6.9% effective tax rate), instant bingo sales were 41% of the bingo gross receipts. In Missouri (with about a 3.1% effective tax) and Illinois (5% tax), the only other states on the chart with breakopen sales below bingo gross receipts, breakopen sales were 57% of the bingo sales. By comparison, in Oklahoma breakopen sales were slightly less than 20% of gross receipts, considerably lower than these other states.² When one factors out all of the other variables (i.e. method of sale, competition from other games), the most plausible explanation for the low breakopen sales in Oklahoma

¹ Once I received the actual data from Kansas, I discovered that the projections I had previously received were high. In addition, the tax information I had been given apparently factored in a 5.9% sales tax in addition to the 1% instant bingo tax.

² You can make other comparisons by using the NAFTM survey data I left with you, but I would caution against using the data without considering how breakopen tickets are sold in a particular state. For example, Michigan, Connecticut, Massachusetts, three states with breakopen sales below bingo gross receipts, sell breakopens through a distribution system far different than Oklahoma or the states included on the chart I provided. The distribution system in those states (which is through the lottery) will keep breakopen sales far below what they should be under a "free market" system like that in Oklahoma. I chose the states on the chart because the method of sale of breakopens approximates that of Oklahoma, thereby making for a more valid comparison.

Connie Stewart
April 4, 1994
Page 2

Is the 10% tax rate.

I think it is fair to assume that the level of breakopen activity in Oklahoma should approximate that of other comparable states. One way to factor out differences in population in making such a comparison, is to simply look at the level of breakopen sales as a percentage of bingo gross receipts. In most states, breakopen sales exceed bingo gross receipts. The percentages are included on the chart under the first % heading. Three states, however (other than Oklahoma) have breakopen sales below bingo gross receipts: Kansas, Missouri and Illinois. Thus, a simple method for projecting sales based on data from Kansas, Illinois and Missouri, may be to assume that at a minimum, the percentage of breakopen sales in Oklahoma should be between 41% of bingo receipts (Kansas) and 57% of bingo gross receipts (Illinois and Missouri). In Oklahoma, that would translate into breakopen receipts of between \$31,012,889 and \$43,115,480. At various tax rates, the projected tax revenue would be:

<u>Gross Receipts</u>	<u>5% tax</u>	<u>3% tax</u>	<u>2.5% tax</u>	<u>1% tax</u>
\$31,012,889	\$1,550,644	\$930,386	\$775,322	\$310,128
\$43,115,480	\$2,155,774	\$1,293,464	\$1,077,887	\$431,154

Any increase in sales volume will in all likelihood be at least partially attributable to an increase in the number of sites at which breakopen tickets are sold.³ The number of sites for breakopen sales in Oklahoma has decreased by 52 since the tax rates went into effect. This decrease may be due at least in part to regulation, but according to representatives of the organizations, the tax rate has made it unprofitable to sponsor bingo or breakopens. Thus, I think it is fair to assume that at least a significant portion of those organizations will resume bingo and breakopen ticket sales if the tax rate is reduced, thereby making projected sales of \$31-\$43 million rather easily obtainable.

Another reason breakopen sales will increase if the tax rate is reduced is that a lower tax will allow the sponsoring organizations to offer games that return a higher percentage of money to the player in the form of prizes. More prizes will stimulate more play, and hence more sales. An example of this, albeit in reverse, can be found in the attached newspaper article from North Dakota. Last July, the State of North Dakota imposed a tax increase of 2.5% on breakopen tickets (a total of 4.5%), and detected a decrease in pull-tab gross receipts of 2.3% for the first quarter the tax was in effect. As Attorney General Heidi Heitkamp notes in the article, "[c]haritable gambling groups intended to pass the savings on through reduced prizes, but that may have led to lower wagers by players..." While it may be coincidence, it is interesting that the decrease in breakopen ticket sales is almost directly proportional to the increase in the tax rate.

Let me try to explain how this concept works. The frequency of win in a game is important. A game returning only 65% of the proceeds to the players (as in Oklahoma) has far fewer winners than a game returning 75% or more to the player. A 75% game may have more high tier prizes, but it will also have more small tier winning tickets. In most instances, players redeem low winning tickets (i.e. \$2.00, \$5.00 and \$10.00) for more tickets. Thus, if a player frequently wins, even small amounts, the player also frequently buys using his or her winnings. Obviously, such a practice stimulates sales.

³ I believe this is a rather conservative estimate. If the prohibition against selling breakopens in club bars were repealed, I believe you would see breakopen sales equal to or in excess of the total bingo gross receipts. Look for example, at North Dakota and Nebraska sales volume on the enclosed chart.

Connie Stewart
April 9, 1994
Page 3

I was concerned by the comment made at our meeting that a 65% prize pay-out percentage coupled with a 10% tax is equal to a 75% prize pay-out; an amount comparable to the prize pay-outs in several other states. That kind of calculation does not work for one simple reason. It does not take into consideration the increased sales volume resulting from a greater frequency of win. Organizations in Minnesota (81%), North Dakota (80%), Louisiana (79%) and Ohio (75%) can afford to devote more money to prizes and pay taxes because the volume of activity is so high.

A tax of 5% would allow Oklahoma organizations to sell breakopen tickets with about 72-75% returned to the player in the form of prizes (note that the percentage is higher than just adding 5% to the 65% current payback figure because of anticipated increases in sales volume). A tax of 2.5% would allow games of 75-79% to be played and a 1% tax would allow games of 80% to be available to the players. Even in a state like North Dakota with only 335 sites and a population of less than one million people, breakopens generated nearly \$165 million in gross receipts last year at an 80% payback rate. Granted this is due in part to bar sales, but the high volume is also due the high rate of money returned in prizes.

The payback on breakopens will be especially important if the lottery petition is approved in Oklahoma on May 10, 1994. Lotteries typically offer two types of games, on-line numbers drawings and instant (scratch-off) ticket games. With only a few exceptions, instant ticket sales make up only a small portion of total lottery sales in most states. This is largely because the amount of money typically returned to the player is abysmally low, 50-60%. Thus, little interest is expressed in the games.

In order for Oklahoma charities to effectively compete against the lottery they will need to have a product that gives the player a better bet for a \$1.00 wager. Currently, breakopens in Oklahoma (with only a 65% payback) do not offer much to the player. A lower tax, coupled with a higher prize payback, will allow charities to minimize the effects of the lottery on their fundraising efforts.

In sum, a reduction in the tax will increase sales volume for two reasons:

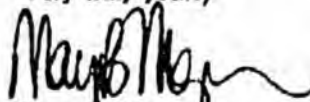
- (1) more organizations will sell breakopens; and
- (2) more breakopens will be sold because the organizations would be able to afford to return more prize money to the players, thereby stimulating sales.

While it is impossible to pin-point the actual increase in sales volume by dollar amount, based on the level of breakopen sales activity in the other states with significantly lower tax rates, I think it is fair to suggest that gross receipts will increase significantly, depending on the tax rate chosen.

Connie Stewart
April 1, 1991
Page 4

I wish I could give you more concrete data, but I can only provide comparisons with other states, from which conclusions can be drawn. I hope I have adequately explained the conclusions I have reached. I would be happy to discuss any of this further, either by phone or in person if you think it would be helpful.

Very truly yours,



Mary E. Magnuson

MBM/clis
Enclosure

ACE NOVELTY CO., INC.
ARROW INTERNATIONAL/CAPITAL GAME
BONANZA PRESS, INC.
DOUGLAS PRESS, INC.
STUART ENTERTAINMENT, DYBA DINGO KING
TRADE PRODUCTS, INC



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March 6, 1996

Mr. Dennis Poshard
Alaska Department of Revenue
Charitable Gaming Division
P.O. Box 110440
Juneau, AK 99801

Dear Dennis:

I am writing to follow-up our last phone conversation concerning your "percentage of gross" proposal. What follows is some preliminary information. I will send you more detailed data when I get my hands on it.

First of all, I took a look at the laws and rules of the more prominent charity gaming states to determine if any had a percentage of gross requirement. Washington was the one state I found with any such requirement, although the applicable percentage varies depending on the size of the organization and whether the activity is bingo, bingo and pull-tabs, or just pull-tabs. I have attached the pertinent Washington rules for your review. Please note that the maximum requirement is 14 percent for bingo and 17 percent for bingo and pull-tab activity, and those percentages apply only for games that gross in excess of \$4 million annually.

For pull-tabs, the maximum percentage of gross requirement is 7 percent. Neither percentage requirement includes taxes, which are imposed by and paid to local government. The tax on bingo may not exceed 10 percent of the adjusted gross (which calculates to about 2 percent of the gross) and the tax on pull-tabs can not exceed 5 percent of the gross.

You will note in the NAFTM survey, that the average percentage of gross for bingo and pull-tab activity in Washington is 11.55 percent. This means that the vast number of charities/pull-tab operators are actually operating at levels well below the maximum requirement thresholds. As a result, it does not appear that an across-the-board percentage requirement in Washington could not be met by the majority of charities.

Mr. Dennis Poshard
March 6, 1996
Page Two

It is also important to note that the average prize payout for bingo in Washington is 73 percent. Again, this tells me that the vast majority of games are not operating at or near the 17 percent maximum retainage requirement for bingo.

Minnesota has no percentage of gross requirement. In Minnesota, a charity may not expend more than 60 percent of its bingo gross profit (adjusted gross) less taxes (10 percent of net) on expenses. For pull-tabs, not more than 50 percent of the gross profit may be expended on expenses. A copy of the statute is attached. The average prize payout for bingo is 77 percent; for pull-tabs 82 percent. The average net to charity is 5.73 percent, largely due to the tax rate and compensation levels.

In Nebraska, a charity may expend no more than 6 percent of the definite profit of a pull-tab game (adjusted gross) on expenses. The average prize payout is 75 percent. For bingo, a charity may expend up to 12 percent of the gross receipts for expenses. For purposes of calculating the percentage amount, the costs of license and permit fees, taxes, prizes, equipment, and rent are not considered expenses. A copy of the relevant statutory provisions are attached. Nebraska averages 75 percent prize payout for bingo. The average net to charity is 11.80 percent.

In Texas, a charity is required to disburse for charitable purposes not less than 35 percent of its adjusted gross receipts, less certain credits allowed by rule for taxes and authorized expenses. Texas, like Alaska, allows commercial operators for bingo, whereas the states described above do not. A copy of the relevant statute is attached.

The average prize payout in Texas for bingo is 76 percent. For instant bingo (pull-tabs) it is 68 percent. Please remember that in Texas pull-tabs are restricted to a B-I-N-G-O ticket format and sold only at bingo games. The total volume of sales is only 1/4 of the total bingo volume, whereas in most states, pull-tab volume usually surpasses that of bingo. The average net to charities in Texas is only 7.72 percent.

Those states reflected in the NAFTM survey with the highest percentage of gross retained by the charity are:

Connecticut	31.49 percent
District of Columbia	34.50 percent
Idaho	23.45 percent
Iowa	21.67 percent
Michigan	20.18 percent

Mr. Dennis Poshard
March 6, 1996
Page Three

The rest, basically, fall close to the national average of 14 percent.

Connecticut reported gross receipts for bingo of only \$34.6 million. The average prize payback is 72 percent. For pull-tabs, only \$12.8 million was wagered; 65 percent returned to the player in the form of prizes. I can find no percentage of gross requirement. The rules prohibit the paying of compensation to workers, thereby eliminating a considerable amount of expenses. Pull-tabs are purchased by the state pursuant to a contract with a single vendor. The payout is part of the contract specifications. The very low payback in Connecticut seems to be reflective of the extremely low amount wagered, and vice versa.

In D.C., I can find no percentage of gross requirement. Charities may pay only \$15.00 per occasion for compensation per worker. Pull-tabs are sold only at bingo and raffle occasions and must be purchased from the Charitable Games Control Board or a licensed supplier. The total dollars wagered in the District is minimal, about \$4.4 million, the vast majority (\$3.8 million) of which is on bingo. The prize payout for bingo is 73 percent; for pull-tabs, 69 percent. Note that only \$605,081 was wagered on pull-tabs in 1994, less than 1/4 of the total bingo receipts.

Idaho is another example of limited activity. Only \$5 million was wagered on bingo in 1994, although 76 percent was returned in prizes. There is no percentage of gross requirement in the Idaho law. Pull-tabs are illegal in Idaho, except if sold as a product by the state lottery. We have no data on those sales.

Iowa residents generated \$49.3 million in bingo gross receipts in 1994. The players retained 68 percent in the form of prizes. I can find no percentage of gross requirement in the Iowa law. Workers may be paid, but only on a limited basis (@ 1 per 25 players, no more than minimum wage). Not more than 25 percent of the net receipts (adjusted gross) may be used for expenses. Seventy-five percent of the adjusted gross receipts must be disbursed for lawful purposes. Pull-tabs are illegal except when sold by the state lottery. We have no data on those sales.

In Michigan, bingo gross receipts were \$205 million in 1994, with 72 percent returned in prizes. I could not find a percentage of gross requirement. Workers' compensation is limited to \$10.00 per occasion. Pull-tabs are purchased by the lottery and sold to organizations. The tickets are produced by one vendor; the percentage payback specified in the contract. Only \$62 million was wagered on pull-tabs in 1994; 74 percent of which was returned to the players in prizes.

Mr. Dennis Poshard
March 6, 1996
Page Four

Thus, each state included in the NAFTM report with more than 20 percent of gross receipts retained by the charity is vastly different than Alaska. The method of operation is different, the volume of activity is drastically lower and, for the most part, pull-tabs are a non-event. Interestingly, not one of those states has a percentage of gross requirement.

I am told you are considering the imposition of a flat 25 percent requirement; 20 percent of the gross to be retained by the charity, 5 percent to the state. I would ask you to look more closely at what other states have done, noting especially the general lack of percentage of gross requirements around the country. Even Washington, which has such a requirement incorporates a sliding scale into its rule to account for differences in organization size and volume.

I will continue to try to gather information on the "elasticity" of the pull-tab dollar. I believe the numbers will bear out my theory that a low percentage payout will result in less overall volume and, accordingly, less dollars to charity. While the "percentage of gross" may increase, I believe the overall dollar figure will decrease.

Please call if you have any questions. I will give you a call next week.

Very truly yours,



Mary B. Magauson

MBM/nld
Enclosures

WASHINGTON

penalties imposed under this section. If the board relieves the manager of responsibility for prizes, the commission shall consider the organization fully responsible for compliance with this section. In this case, prize payouts will be considered when reviewing violations of this section. The primary manager shall not be compensated in any manner during periods of license suspension imposed under this section. Any primary bingo manager who fails to achieve the annual limit for the class of license issued to the organization, as set out in Table 1. below, shall:

- (i) First violation - receive a written warning and be required to demonstrate in-depth knowledge of factors affecting prize payouts including, but not limited to, bingo game prize probabilities, expected payouts for each type of game, factors included in the computation, and methods for analysis of games. The scope and depth of their bingo management knowledge shall be demonstrated by requiring the manager to prepare and submit their current game schedules, records used to analyze games, and the expected payout for each game. The manager will be required to meet with commission staff to discuss the evaluation and other aspects of their game;
- (ii) Second violation - three day suspension that includes at least one operating day;
- (iii) Third violation - ten day suspension that includes at least four operating days;
- (iv) Fourth violation - thirty-day suspension;
- (v) Fifth violation - revocation of manager's license for at least one year.

Table 1.

Group	License Class	Annual Gross Receipts	Annual Prize Payout Limits	Calendar Quarter Prize Payout Limits	Annual Minimum Net Income Requirements - Bingo *	Annual Minimum Net Income Requirements - Bingo & Punchboards/Pull Tabs **
I	A	Up to \$ 15,000	No Limits	No Limits	No Limits ***	No Limits ***
	B	\$ 15,000- 50,000	No Limits	No Limits	No Limits ***	No Limits ***
	C	50,001- 100,000	No Limits	No Limits	No Limits ***	No Limits ***
	D	100,001- 300,000	Max of 85.0%	Max of 85.0%	At least 1.0%	At least 2.0%
	E	300,001- 500,000	Max of 84.0%	Max of 84.0%	At least 2.0%	At least 3.0%
II	F	500,001- 1,000,000	Max of 83.0%	Max of 84.0%	At least 3.5%	At least 4.5%
	G	1,000,001- 1,500,000	Max of 80.0%	Max of 81.0%	At least 5.0%	At least 7.0%
	H	1,500,001- 2,000,000	Max of 78.0%	Max of 79.0%	At least 7.0%	At least 9.0%
	I	2,000,001- 2,500,000	Max of 76.0%	Max of 77.0%	At least 9.0%	At least 11.0%
	J	2,500,001- 3,000,000	Max of 74.0%	Max of 75.0%	At least 11.0%	At least 13.0%
III	K	3,000,001- 3,500,000	Max of 72.0%	Max of 73.0%	At least 12.5%	At least 15.0%
	L	3,500,001- 4,000,000	Max of 70.0%	Max of 71.0%	At least 13.5%	At least 16.0%
	M	Over 4,000,000	Max of 70.0%	Max of 71.0%	At least 14.5%	At least 17.0%

* = Combined net income from bingo games and sales of food, drink, or other retail items, if applicable, as a percent of bingo gross receipts. Local gambling taxes are not considered an expense for computing net income.

** = Combined net income from punchboards/pull tabs, bingo games and sales of food, drink, or other retail items, if applicable, as a percent of bingo gross receipts. Local gambling taxes are not considered an expense for computing net income.

*** = Combined net income must be equal to or greater than zero (0) if wages or rent is paid to operate the activity. Local gambling taxes are not considered an expense for computing net income.

[Statutory Authority: Chapter 9.46 RCW, 94-24-036 (Order 262), § 230-20-064, filed 12/5/94, effective 1/5/95. Statutory Authority: RCW 9.46.070, 94-07-084 (Order 250), § 230-20-064, filed 3/16/94, effective 4/16/94; 93-13-062 (Order 240), § 230-20-064, filed 6/17/93, effective

7/1/89]. Statutory Authority: RCW 9.46.070 (1)(16), 90-10-007, § 230-20-064, filed 4/19/90, effective 7/1/90. Statutory Authority: RCW 9.46.070 (7), (8), (9), (10), (14), (19) and (20), 89-09-047 (Order 190), § 230-20-064, filed 4/18/89, effective 7/1/89. Statutory Authority: RCW 9.46.070 (8), (11) and (14), 88-07-059 (Order 175), § 230-20-064, filed 3/13/88. Statutory Authority: Chapter 9.46 RCW, 87-13-045 (Order 168), § 230-20-064, filed 6/16/87. Statutory Authority: RCW 9.46.070 (7), (13) and (18), 85-13-041 (Order 151), § 230-20-064, filed 6/14/85.]

WAC 230-20-065 Licensed bingo manager on premises. No bona fide charitable or nonprofit organization, except when operating at an authorized agricultural fair, or other special event as authorized by the commission, or under RCW 9.46.030(3), as now enacted or hereafter amended, or under a Class A or Class B or Class C license, shall operate a bingo game unless it is under the supervision

11/15/90. Statutory Authority: RCW 9.46.070 (4), (8), (11) and (14), 86-07-037 (Order 155), § 230-30-050, filed 3/14/86. Statutory Authority: RCW 9.46.020 (1) and (23) and 9.46.070(1), 85-11-023 (Order 150), § 230-30-050, filed 5/13/85. Statutory Authority: RCW 9.46.070(8), 81-21-033 (Order 114), § 230-30-050, filed 10/15/81; (Order 5, § 230-30-050, filed 12/19/73.)

WAC 230-30-052 Punchboards and pull tabs operated by charitable or nonprofit organizations—Net income required. Charitable or nonprofit organizations operating punchboards and pull tabs shall not pay excessive expenses. To ensure that licensees meet the intent of RCW 9.46.010 and to prevent the payment of excessive expenses, net income, as a percentage of gross receipts, shall not be less than the limits set out in subsections (1) and (2) below when measured over the annual license period. The limits set out in Table 1, of WAC 230-20-064 shall apply to organizations operating punchboards and pull tabs in conjunction with a bingo game. Net income limits:

- (1) Class A and B licensees - Net income of at least 5.5%, before deduction of local taxes; and
- (2) Class C and above licensees - Net income of at least 7.0%, before deduction of local taxes.

[Statutory Authority: RCW 9.46.070 (1)(16), 90-10-007, § 230-30-052, filed 4/19/90, effective 7/1/90.]

WAC 230-30-055 Standards for construction of punchboards. All punchboards sold for use in the state of Washington must comply with the following standards:

(1) **Patterns:** The punchboard shall be manufactured with special care so as to eliminate any patterns between punchboards, or portions of punchboards, from which the location or approximate location of winning punches may be determined. Manufacturers shall employ at least the following steps to insure that no pattern exists.

(a) The form or permanent number sheets shall be mixed prior to cutting;

(b) After the strips (straws) have been crimped, all strips shall be thoroughly mixed prior to insertion in punchboards;

(c) When filling punchboards, workers shall alter the procedures for filling sets of punchboards; and

(d) No more than eight punchboards from any one set of boards shall be included in any case of punchboards for shipment to Washington.

(2) **Serial numbers:** Effective July 1, 1988, serial numbers set forth on the form or permanent number sheets shall be nonsequential so as to ensure that no pattern is created which would permit the tracking of boards through the serial number.

(3) **Guaranteed numbers:** All numbers or symbols designated as winners on the flare must be guaranteed by the manufacturer as being present in the board. The manufacturer may at their option place a sticker or equivalent on the back of each punchboard setting forth additional numbers or symbols that are guaranteed to be in the board. The additional numbers or symbols on the back of the board shall not exceed 5% of the total punches in the board without the written permission of the commission.

(4) **Security:** All punchboards must be sealed so it is impossible to determine the number or symbol of any punch prior to being punched out of the board by any method or

device including but not limited to the use of markings or light.

(5) Step-up boards:

(a) All cards, straws, or punches that contain the winners in the step-up portion of any punchboard shall be completely sealed so as to prevent premature winner identification and such items shall be thoroughly mixed so as to ensure that no pattern of winners exists.

(b) Step-up boards that contain winners covered by seals must have at least twenty-five different face sheets for use on that specific step-up board. Face sheets shall be utilized in such a manner so as to ensure random distribution during the manufacturing process.

[Statutory Authority: RCW 9.46.070 (11) and (14), 87-24-016 (Order 173), § 230-30-055, filed 11/23/87.]

WAC 230-30-060 Punchboard restrictions. No operator shall put out for play, and no manufacturer shall sell or furnish to any person, any punchboard:

(1) To which any key to any winning number, or symbol, exists other than a key which is furnished to the operator, which key designates the color codes for all chances on that board without regard to whether or not such chances are designated winners.

(2) Which has tapered sides, corners, or edges.

(3) Wherein the winning punches or approximate location of any winning punches can be determined in advance of punching the punchboard in any manner or by any device, including, but not limited to, any patterns in manufacture, assembly, packaging or programming. Winning punches shall be randomly distributed and mixed among all other punches in the punchboard. The punchboard shall be manufactured or programmed with special care so as to eliminate any pattern as between punchboards, or portions of punchboards, from which the location or approximate location of the winning punches may be determined.

[Statutory Authority: RCW 9.46.070, 94-07-084 (Order 250), § 230-30-060, filed 3/16/94, effective 4/16/94; 93-12-082, § 230-30-060, filed 3/28/93, effective 7/1/93. Statutory Authority: Chapter 9.46 RCW, 87-03-023 (Order 164), § 230-30-060, filed 1/13/87. Statutory Authority: RCW 9.46.070 (1), (2) and (11) and 9.46.110, 85-21-046 (Order 154), § 230-30-060, filed 10/14/85. Statutory Authority: RCW 9.46.070 (5), (7), (8), (9), (11), (14) and (19), 84-13-038 (Order 140), § 230-30-060, filed 6/15/84; Order 5, § 230-30-060, filed 12/19/73.)

WAC 230-30-065 Punchboard/pull tab price per play to be posted. (1) No punchboard or pull tab series shall be placed out for public play unless the cost to the player for each punch or pull tab is clearly posted on the flare.

(2) Once placed out for public play, a punchboard or pull tab series flare may not be modified or otherwise changed, except for the deletion of those prizes valued at five dollars or more as required by WAC 230-30-070.

[Statutory Authority: RCW 9.46.070(11), 82-13-054 (Order 121), § 230-30-065, filed 6/14/82.]

WAC 230-30-070 Control of prizes. All prizes from the operation of punchboards and pull tabs shall be awarded in cash or in merchandise.

(1) Prizes may not involve the opportunity of taking an additional chance or chances on another punchboard or of

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12 s 2-13, 51;
c 233 s 100;

1 s 1-20

349.13 LAWFUL GAMBLING.

Lawful gambling is not a lottery or gambling within the meaning of sections 609.75 to 609.76 if it is conducted under this chapter. A pull-tab dispensing device permitted by board rule is not a gambling device within the meaning of sections 609.75 to 609.76 and chapter 299L.

History: 1976 c 261 s 3; 1984 c 502 art 12 s 4; 1994 c 633 art 5 s 21

349.14 [Repealed, 1990 c 590 art 1 s 55]

349.15 USE OF GROSS PROFITS.

Subdivision 1. **Expenditure restrictions.** Gross profits from lawful gambling may be expended only for lawful purposes or allowable expenses as authorized by the membership of the conducting organization at a monthly meeting of the organization's membership. Provided that no more than 60 percent of the gross profit less the tax imposed under section 297E.02, subdivision 1, from bingo, and no more than 50 percent of the gross profit from other forms of lawful gambling, may be expended for allowable expenses related to lawful gambling.

Subd. 2. **Cash shortages.** In computing gross profit to determine maximum amounts which may be expended for allowable expenses under subdivision 1, an organization may not reduce its gross receipts by any cash shortages. An organization may report cash shortages to the board only as an allowable expense. An organization may not report cash shortages in any reporting period that in total exceed the following percentages of the organization's gross receipts from lawful gambling for that period: until August 1, 1995, four-tenths of one percent; and on and after August 1, 1995, three-tenths of one percent.

History: 1976 c 261 s 5; 1984 c 502 art 12 s 6; 1986 c 467 s 7; 1Sp1986 c 3 art 2 s 16; 1987 c 327 s 7; 1989 c 203 s 2; 1989 c 334 art 2 s 16; 1Sp1989 c 1 art 13 s 7; 1990 c 590 art 1 s 10; 1991 c 336 art 2 s 13; 1994 c 633 art 2 s 19; art 5 s 22

349.151 GAMBLING CONTROL BOARD.

Subdivision 1. **Board created.** The gambling control board is created with the powers and duties established by subdivision 4.

Subd. 2. **Membership.** (a) On and after July 1, 1991, the board consists of seven members, as follows: (1) those members appointed by the governor before July 1, 1991, whose terms expire June 30, 1992, June 30, 1993, and June 30, 1994; (2) one member appointed by the governor for a term expiring June 30, 1994; (3) one member appointed by the commissioner of public safety for a term expiring June 30, 1995; and (4) one member appointed by the attorney general for a term expiring June 30, 1995.

(b) All appointments under this subdivision are with the advice and consent of the senate.

(c) After expiration of the initial terms, appointments are for four years.

(d) The board shall select one of its members to serve as chair. No more than three members appointed by the governor under this subdivision may belong to the same political party.

Subd. 3. [Repealed, 1989 c 334 art 2 s 52]

Subd. 3a. **Compensation.** The compensation of board members is as provided in section 15.0575, subdivision 3.

Subd. 4. **Powers and duties.** (a) The board has the following powers and duties:

(1) to regulate lawful gambling to ensure it is conducted in the public interest;

(2) to issue licenses to organizations, distributors, bingo halls, manufacturers, and gambling managers;

(3) to collect and deposit license, permit, and registration fees due under this chapter;

(4) to receive reports required by this chapter and inspect all premises, records,

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9-255.02. Prizes; limitations. (1) Irrespective of whether a bingo game or a bingo occasion is conducted jointly by two or more licensed organizations, no prize for a single bingo game shall exceed one thousand dollars in value and the aggregate value of all bingo prizes at any bingo occasion shall not exceed four thousand dollars.

(2) A winner shall be determined for each bingo game, and each winner shall be awarded and delivered the prize on the same day that the bingo occasion is conducted.

(3) At least fifty percent of the gross receipts derived from the conduct of bingo shall be awarded in bingo prizes during each quarterly reporting period. The licensed organization shall clearly post at each bingo occasion the percentage of gross receipts paid out in prizes for the last preceding quarter.

(4) In addition to the prizes permitted by subsection (1) of this section, a licensed organization may award promotional prizes in cash or merchandise to players at a bingo occasion if:

(a) No consideration is charged in order to be eligible to win a promotional prize except that given to participate as a player in the bingo occasion;

(b) The total fair market value of all promotional prizes awarded at a bingo occasion does not exceed one hundred dollars in value or, in the case of a limited period bingo, does not exceed two hundred fifty dollars in value;

(c) The winner of any promotional prize is a bingo player who is present at the bingo occasion;

(d) The winners are determined by an element of chance or some other factor which does not involve any scheme which utilizes any type of pickle card, the game of keno, a scratch-off or rub-off ticket, any promotional game tickets authorized by section 9-701, any non-telecommunication-related, player-activated electronic or electromechanical facsimile of any game of chance, or any slot machine of any kind; and

(e) The total fair market value of all promotional prizes awarded at a bingo occasion shall be excluded from determination of the fifty-percent prize payout requirement in subsection (3) of this section.

Source: Laws 1994, LB 694, § 50.

Operative date October 1, 1994.

9-255.03. Gross receipts; segregation; books and records; commingling of funds. (1) The gross receipts, less the amount awarded in prizes at each bingo occasion, shall be segregated from all other revenue of a licensed organization and placed in a separate bingo checking account of the licensed organization. All lawful purpose donations and all bingo expenses, including expenses for the management, operation, or conduct of bingo but excluding the payment of prizes, shall be paid by a check from such account. Prizes may be paid out in cash by the licensed organization if prize payments in cash of five hundred dollars or more are accepted in a manner prescribed by the department in rule and regulation.

(2) Separate books of the bingo operations shall be maintained by the licensed organization. Records, reports, lists, and all other information required by the Nebraska Bingo Act and any rules and regulations adopted pursuant to the act shall be preserved for at least three years.

(3) A licensed organization may commingle funds received from the conduct of bingo with any general operating funds of the licensed organization by means of a check or electronic funds transfer, but the burden of proof shall be on the licensed organization to demonstrate that such commingled funds are not used to make any payments associated with the conduct of bingo and are used for a lawful purpose.

Source: Laws 1994, LB 694, § 51.

Operative date October 1, 1994.

9-255.04. Expenses; limitations; allocation; payment of workers; expenses; how paid. (1) No expense shall be incurred or amounts paid in connection with the conduct of bingo by a licensed organization except those which are reasonable and necessary.

(2) A licensed organization shall not spend more than twelve percent of its bingo gross receipts to pay the expenses of conducting bingo. The actual cost of (a) license and local permit fees, (b) any taxes authorized by the Nebraska Bingo Act, (c) bingo prizes, (d) the purchase, rental, or lease of bingo equipment, and (e) the rental or lease of a premises for the conduct of bingo as prescribed by the department in rules and regulations shall not be included in determining compliance with the expense limitation contained in this section.

(3) A licensed organization which is also licensed to conduct a lottery by the sale of pickle cards pursuant to the Nebraska Pickle Card Lottery Act may allocate a portion of the expenses associated with the conduct of its bingo occasions to its lottery by the sale of pickle cards conducted at such bingo occasions. Such allocation shall be based upon the percentage that pickle card gross proceeds derived from the sale of pickle cards at the bingo occasions represents to the total of bingo gross receipts and pickle card gross proceeds derived from such bingo occasions for the previous annual period July 1 through June 30. An organization licensed to conduct bingo that has not been previously licensed shall determine such allocation based upon the percentage that pickle card gross proceeds derived from the sale of pickle cards at the bingo occasions represents to the total of bingo gross receipts and pickle card gross proceeds derived from such bingo occasions for the initial three consecutive calendar months of operation.

(4) The total amount of expenses that may be allocated to the organization's lottery by the sale of pickle cards shall be subject to the limitations on bingo expenses as provided for in the Nebraska Bingo Act with respect to the twelve-percent expense limitation and the fair-market-value limitation on the purchase, rental, or lease of bingo equipment and the rental or lease of a premises for the conduct of bingo. No portion of the six percent of the definite profit of a pickle card unit as allowed by section 9-347 to pay the

allowable expenses of operating a lottery by the sale of pickle cards shall be used to pay any expenses associated with the sale of pickle cards at a bingo occasion.

(5) All persons paid for working at a bingo occasion, including pickle card sellers but excluding concession workers, shall be paid only by a check written from the licensed organization's bingo checking account and shall not receive any other compensation or payment for working at a bingo occasion from any other source. Such wages shall be at an hourly or occasion rate and shall be included in the amount allowed by the expense limitation provided in subsection (2) of this section. No person shall receive any compensation or payment from a licensed organization based upon a percentage of the organization's bingo gross receipts or profit.

(6) No expenses associated with the conduct of bingo may be paid directly from the licensed organization's pickle card checking account. A licensed organization may transfer funds from its pickle card checking account to its bingo checking account as permitted by subsection (3) of this section by a check drawn on the pickle card checking account or by electronic funds transfer as provided only by section 9-347.

Source: Laws 1994, LB 694, § 52.

Operative date October 1, 1994.

Cross Reference:

Nebraska Pickle Card Lottery Act, see section 9-301.

9-255.05. Licensed organization; annual accounting of gross receipts; report. (1) A licensed organization shall report annually to the department, on a form supplied by the department, a complete and accurate accounting of its gross receipts. The annual report shall demonstrate that the gross receipts less cash prizes paid have been retained in the organization's bingo checking account or expended solely for authorized expenses pursuant to section 9-255.04 or lawful purpose donations. The annual report shall cover the organization's bingo activities from July 1 through June 30 of each year and shall be submitted to the department by August 15 of each year.

(2) A copy of the report shall be submitted to the membership of the licensed organization.

(3) In addition to the annual report required by subsection (1) of this section, the department may prescribe by rule or regulation additional periodic reporting as deemed necessary.

Source: Laws 1994, LB 694, § 53.

Operative date October 1, 1994.

9-255.06. Commercial lessor's license; when required; application; forms; contents; fee; bingo equipment; restrictions; conduct of bingo; restrictions; exemption. (1) An individual, partnership, limited liability company, corporation, or organization which will be leasing a premises to one or more organizations for the conduct of bingo and which will receive more than two hundred fifty dollars per month as aggregate total rent from leasing such premises for the conduct of bingo shall first obtain a commercial lessor's license from the department. The license shall be applied for on a form prescribed by the department and shall contain:

(a) The name and home address of the applicant;

(b) If the applicant is not a resident of this state or is not a corporation, the full name, business address, and home address of a natural person, at least nineteen years of age, who is a resident of and living in this state designated by the applicant as a resident agent for the purpose of receipt and acceptance of service of process and other communications on behalf of the applicant;

(c) A designated mailing address and legal description of the premises intended to be covered by the license sought;

(d) The lawful capacity of the premises for public assembly purposes;

(e) The names and mailing addresses of the officers of the organization which is to conduct bingo at the premises and the place and time the organization intends to conduct bingo;

(f) The amount of rent to be paid or other consideration to be given directly or indirectly for each bingo occasion to be conducted; and

(g) Any other information which the department deems necessary.

(2) An application for a commercial lessor's license shall be accompanied by a fee of one hundred dollars for each premises the applicant is seeking to lease pursuant to subsection (1) of this section. A commercial lessor who desires to lease more than one premises for the conduct of bingo shall file a separate application and pay a separate fee for each such premises.

(3) The information required by this section shall be kept current. The commercial lessor shall notify the department within thirty days of any changes to the information contained on or with the application.

(4) A commercial lessor who will be leasing or renting bingo equipment in conjunction with his or her premises shall obtain such equipment only from a licensed distributor, except that a commercial lessor shall not purchase or otherwise obtain disposable paper bingo cards from any source.

(5) A commercial lessor, the owner of a premises, and all parties who lease or sublease a premises which ultimately is leased to an organization for the conduct of bingo shall not be involved directly with the conduct of any bingo occasion regulated by the Nebraska Bingo Act which may include, but not be limited to, the managing, operating, promoting, advertising, or administering of bingo. Such persons shall not derive any financial gain from any gaming activities regulated by Chapter 9, except as provided in subsection (4) of section 9-347 if the individual is licensed as a pickle card operator, if the individual is licensed as a lottery operator or authorized sales outlet location pursuant to the Nebraska County and City Lottery Act, or if the individual is contracted with as a lottery game retailer pursuant to the State Lottery Act.

9-347. Gross proceeds; definite profit; use; restrictions; allocation of expenses. (1) The gross proceeds of any lottery by the sale of pickle cards shall be used solely for lawful purposes, awarding of prizes, payment of the unit cost, any commission paid to a pickle card operator, allowable expenses, and allocations for bingo expenses as provided by subsection (5) of this section.

(2) Not less than sixty-five percent or more than eighty percent of the gross proceeds of any lottery by the sale of pickle cards shall be used for the awarding of prizes.

(3) Not more than six percent of the definite profit of a pickle card unit shall be used by the licensed organization to pay the allowable expenses of operating a lottery by the sale of pickle cards, except that license fees paid to the department to license the organization, each utilization-of-funds member, and any sales agent and pickle card dispensing device registration fees shall not be included in determining the six-percent limitation on expenses and no portion of such six percent shall be used to pay any expenses associated with the sale of pickle cards at a bingo occasion conducted pursuant to the Nebraska Bingo Act, and of such six percent not more than four percent of the definite profit may be used by the licensed organization for the payment of any commission, salary, or fee to a sales agent in connection with the marketing of a pickle card unit. When determining the six percent of definite profit that is permitted to pay the allowable expenses of operating a lottery by the sale of pickle cards, the definite profit from the sale of pickle cards at the organization's bingo occasions shall not be included.

(4) Not more than thirty percent of the definite profit of a pickle card unit shall be used by a licensed organization to pay a pickle card operator a commission, fee, or salary for selling individual pickle cards as opportunities for participation in a lottery by the sale of pickle cards on behalf of the licensed organization.

(5) An organization licensed to conduct bingo pursuant to the Nebraska Bingo Act may allocate a portion of the expenses associated with the conduct of its bingo occasions to its lottery by the sale of pickle cards conducted at such bingo occasions. Such allocation shall be based upon the percentage that pickle card gross proceeds derived from the sale of pickle cards at the bingo occasions represents to the total of bingo gross receipts and pickle card gross proceeds derived from such bingo occasions for the previous annual period July 1 through June 30. An organization licensed to conduct bingo that has not been previously licensed shall determine such allocation based upon the percentage that pickle card gross proceeds derived from the sale of pickle cards at the bingo occasions represents to the total of bingo gross receipts and pickle card gross proceeds derived from such bingo occasions for the initial three consecutive calendar months of operation. The total amount of expenses that may be allocated to the organization's lottery by the sale of pickle cards shall be subject to the limitations on bingo expenses as provided for in the Nebraska Bingo Act with respect to the twelve-percent expense limitation and the fair-market-value limitation on the purchase, rental, or lease of bingo equipment and the rental or lease of a premises for the conduct of bingo. No expenses associated with the conduct of bingo may be paid directly from the pickle card checking account. A licensed organization which needs to allocate a portion of the expenses associated with the conduct of its bingo occasions to its lottery by the sale of pickle cards conducted at such bingo occasions to pay bingo expenses as provided by this section shall transfer funds from the pickle card checking account to the bingo checking account by a check drawn on the pickle card checking account or by electronic funds transfer.

Source: Laws 1986, LB 1027, § 113; Laws 1988, LB 1232, § 43; Laws 1989, LB 767, § 43; Laws 1994, LB 694, § 89.

Effective date: October 1, 1994.

Cross Reference:

Nebraska Bingo Act, see section 9-201.

9-347.01. Definite profit; distribution; net profit; use. (1) For each type of pickle card unit marketed in this state, the department shall determine the following: (a) When a licensed organization sells pickle cards through pickle card operators, the portion of the definite profit from that pickle card unit which shall go to the licensed organization, such amount to be not less than seventy percent of the definite profit from such pickle card unit; (b) the maximum amount of the definite profit from the sale of a pickle card unit that a licensed organization may pay a pickle card operator as a commission, fee, or salary to sell its pickle cards, such amount not to exceed thirty percent of the definite profit from such pickle card unit; (c) the portion of the definite profit from the sale of a pickle card unit which may be expended by a licensed organization for allowable expenses, such amount not to exceed six percent of the definite profit from such pickle card unit; and (d) the portion of the definite profit from the sale of a pickle card unit which may be utilized by a licensed organization for payment of a sales agent selling pickle cards on behalf of the licensed organization, such amount to be a portion of the allowable expenses and not to exceed four percent of the definite profit from such pickle card unit.

(2) The licensed organization's net profit from the sale of a pickle card unit shall be used exclusively for a lawful purpose. A licensed organization shall not donate or promise to donate its net profit or any portion of the net profit to a recipient outside of its organization as an inducement for or in exchange for (a) a payment, gift, or other thing of value from the recipient to any person, organization, or corporation, including, but not limited to, the licensed organization or any of its members, employees, or agents, or (b) a pickle card operator's agreement to sell pickle cards on behalf of the licensed organization.

Source: Laws 1988, LB 1232, § 46; Laws 1989, LB 767, § 44.

9-348. Segregation of definite profit; manner of payment; records; requirements. (1) The definite profit, less not more than thirty percent of the definite profit as allowed by subsection (4) of section 9-347, of any lottery by the sale of pickle cards shall be segregated from other revenue of any licensed organization conducting the lottery and placed in a separate checking account. All lawful purpose donations and expenses relating to the licensed organization's lottery by the sale of pickle cards, including the allowable expenses, any license fees paid to the department to license the organization, each utilization-of-funds member, and any

PICKLE CARD REGULATIONS

Title 316, Chapter 35

REG-35-300 SCOPE AND DEFINITIONS

300.01 Bingo, Lottery, Raffle, and Lottery by Pickle Card Regulations 35-300 through 35-318 are adopted to carry out the provisions of the Nebraska Pickle Card Lottery Act.

300.02 Definite profit shall mean the gross proceeds or total possible receipts of a pickle card unit or punchboard less all of the possible prizes from that pickle card unit or punchboard. For example:

Gross proceeds (3,600 \$1.00 pickle cards)	\$3,600.00
Less prizes	(2,600.00)
Definite profit	\$1,000.00

300.03 Department shall mean the Nebraska Department of Revenue.

300.04 Dispensing device shall mean any machine or device into which a person inserts money, a token, or something of value in exchange for one or more pickle cards. The definition of dispensing device shall not include any machine or device that awards or dispenses any other type of prize including, but not limited to, free plays or any other item of value.

300.05 Flare card shall mean a card, board, poster, flyer, or paper prepared by the manufacturer of a unit of pickle cards which is enclosed with each pickle card unit. The flare card shall identify the serial number for the unit; the state identification stamp; the numbers, letters, symbols, or configurations which, when revealed by opening the tabs on a pickle card, represent the winning combination(s); the number of cards in the pickle card unit which contain the winning combinations and their values; the form number of the game and the name, logo, symbol, design, or trademark of the manufacturer of the pickle card unit.

300.06 Gross profit shall mean the definite profit from a unit of pickle cards or a punchboard less any commission paid to a pickle card operator for the sale of a pickle card unit or punchboard. For example:

Gross proceeds (3,600 \$1.00 pickle cards)	\$3,600.00
Less prizes	(2,600.00)
Definite profit	\$1,000.00
Less pickle card operator's commission (30%)	(300.00)
Gross profit	\$700.00

300.07 Member shall mean an active and bona fide member who meets the written membership requirements of a licensed organization conducting a lottery by the sale of pickle cards contained in the organization's articles of incorporation, bylaws, charter, statement of purpose, or other written rules or statement governing membership of the organization, and who participates in meetings and activities of the organization. In the case of churches, an active and bona fide member may be an individual who is regarded as such by the church according to the church's rules or other

written statement governing membership. In the case of parochial or private schools, parents of students, administrators, alumni, and faculty may be deemed members. One whose only participation in the activities of the licensed organization involves the conduct of gaming activities shall not be considered an active and bona fide member.

300.08 Net profit shall mean the gross profit from a unit of pickle cards or a punchboard less the unit cost for that unit of pickle cards or punchboard and the allowable expenses for marketing that unit of pickle cards or punchboard. For example:

Gross proceeds (3,600 \$1.00 pickle cards)	\$3,600.00	
Less prizes	(2,600.00)	
Definite profit	\$1,000.00	
Less pickle card operator's commission (30%)*	(300.00)	
Gross profit	\$700.00	
Less elements of unit cost		
Cost of unit	\$38.00	
Imprinting fee	2.00	
Pickle card tax (10%)*	100.00	
Sales Tax (5%)**	7.00	
Federal tax (.0025)*** if applicable	9.00	
	\$156.00	
Allowable expenses (6%)*		
4% sales agents' commission	\$40.00	
Pro rata license fee	2.00	
Pro rata bookkeeping fees	18.00	
	\$60.00	
Total unit cost and allowable expenses	\$216.00	(216.00)
Net profit		\$484.00

*calculated on definite profit
 **calculated on total unit cost
 ***calculated on gross proceeds

300.09 Substantial interest shall mean connected, interested in, or otherwise concerned directly or indirectly with a person, organization, firm, or corporation as follows:

300.09A With respect to a sole proprietorship, an individual or his or her spouse who owns, operates, manages, or conducts, directly or indirectly, a part of the sole proprietorship;

300.09B With respect to a partnership, an individual or his or her spouse who owns, operates, manages or conducts, directly or indirectly, a part of the partnership activity, or shares in any of the profits or potential profits of the partnership activities;

TEXAS

- transferring the intended disbursement back into the bingo account and then withdrawing the amount by a check drawn on that account as prescribed in this section.
- (f) Proceeds given to a person or an organization for a charitable purpose may not be used by the donee:
 - (1) to pay for services rendered or materials purchased in connection with the conducting of bingo by the donor organization; or
 - (2) for a cause, a deed, or an activity that would not constitute a charitable purpose if the activity were conducted by the donor organization.
 - (g) Gross receipts derived from the conduct of bingo may not be commingled with other funds of the licensed organization. Except as permitted by Subdivisions (3) and (4) of Subsection (c) of this section, gross receipts may not be transferred to another account maintained by the licensed organization.
 - (h) A licensed organization that has ceased to conduct bingo for any reason and has unexpended bingo funds shall disburse those funds to charitable purposes before the end of the next calendar quarter following the calendar quarter in which the organization ceases to conduct bingo.
 - (i) Net proceeds may not be used directly or indirectly by a licensed authorized organization to support or oppose a candidate or slate of candidates for public office, to support or oppose a measure submitted to a vote of the people, or to influence or attempt to influence legislation.
 - (j) The commission by rule may provide for different record-keeping procedures for licensees by class based on the amount of gross receipts of licensees.
 - (k) Before the end of each quarter, each licensed authorized organization shall disburse for charitable purposes an amount not less than 35 percent of the organization's adjusted gross receipts from the last preceding quarter, less the amount of any credits allowed by rule for bingo gross receipts taxes and authorized expenses. For purposes of this subsection, adjusted gross receipts means gross receipts plus any consideration received from the rental of premises for bingo by the authorized organization, less the amount of prizes paid in the preceding quarter. If a licensed authorized organization fails to meet the requirements of this subsection for a quarter, the commission in applying appropriate sanctions may consider whether, taking into account the amount required to be distributed during that quarter and the three preceding quarters and the charitable distributions for each of those quarters, the organization has distributed a total amount sufficient to have met the 35 percent requirement for that quarter and the three preceding quarters combined.

Juneau Montessori Center
Southeast Alaska Friends of Montessori
Juneau Dance Unlimited
c/o 750 St. Ann's Ave.
Douglas, AK 99824

05/13/03

Senate Finance Committee
State Capitol
Juneau, Alaska 99811

Dear Members of the Committee,

We would like to thank you for your time and understanding of the concerns we raised at last Friday's hearing regarding SBI02.

We cannot support the passage of this legislation in its current form without local sales tax prohibition!

We urge you to amend this legislation to incorporate local sales tax prohibition. If time does not allow for an adequate examination of this issue during the current legislative session, we urge you to hold this bill until next year. This will allow the newly formed Senate Labor and Commerce interim subcommittee (to be chaired by Senator Seekins) the time to closely examine all the issues concerning this legislation.

If you have any questions or would like to discuss these issues further, please feel free to call anyone of us. Thank you.

Sincerely,

David Sanden (364-2890 or pager 463-5327)

Lupita Alvarez (364-3535 or 364-2334)

Maria Moya (789-2947)

FRANK H. MURKOWSKI
GOVERNOR
GOVERNOR@GOV.STATE.AK.US



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

P.O. Box 110001
JUNEAU, ALASKA 99811-0001
(907) 465-3500
FAX (907) 465-3532
WWW.GOV.STATE.AK.US

March 5, 2003

The Honorable Gene Therriault
President of the Senate
Alaska State Legislature
State Capitol, Room 107
Juneau, AK 99801-1182

Dear President Therriault:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill designed to increase the amount of state revenue received from charitable gaming fees and taxes.

Large amounts of money are spent on bingo, pull-tabs, and other charitable gaming activities in Alaska. Gross receipts for calendar year 2001 alone exceeded \$351 million. Only \$2.4 million of this amount was paid to the state in taxes and fees. Charities only received \$30.6 million. The rest, over \$318 million went for prizes, rent, operator fees, and other expenses of gaming.

Because of the large sums involved in charitable gaming, state government must devote significant resources to monitoring gaming activity. Despite the state's best efforts, it is not enough. The state continues to find gaming enterprises where so much of the gaming receipts are used up paying rent and other expenses that charities receive less than the minimum amount required by law. This bill would reduce the strain on the state by increasing revenue. Additionally, the bill would assure the public that its money is going toward its intended purpose, through provisions requiring professional gaming operators and vendors to shoulder the burden of the enhanced tax imposed for their activities.

The tax on pull-tab sales has not been raised since 1988. This bill would increase the tax to five percent of the gross receipts of the games. The current rate is only three percent of the ideal net of the games. Ideal net is the amount left over after all prizes are paid, assuming that every pull-tab game is sold. The State of Alaska's current pull-tab tax rate is significantly lower than the rates imposed by many other states. Oklahoma and Massachusetts collect a tax of 10 percent of the gross pull-tab receipts. Michigan collects a tax equal to 40 percent of the net pull-tab profit.

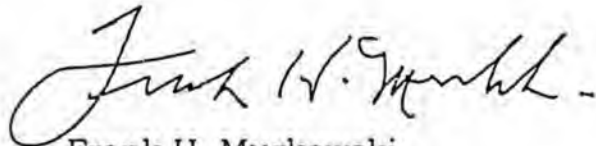
The Honorable Gene Merriault
March 5, 2003
Page 2

The bill would also discourage the professional gaming operators from passing on the cost of the tax increase to charity by reducing the expense cap on costs they can pass along to the charitable gaming permittees for whom they sell pull-tab games. The bill would place similar restrictions on vendors that sell pull-tabs in their liquor establishments for charitable gaming permittees.

It is estimated that in fiscal year 2004, the bill would raise an additional \$11.5 million in revenue. The bill would raise an additional \$12.5 million in each subsequent fiscal year.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in cursive script, reading "Frank H. Murkowski". The signature is written in dark ink and is positioned above the printed name and title.

Frank H. Murkowski
Governor

SENATE COMMITTEE REPORT

First Committee of Referral

DATE: 3/6/03

FURTHER: Finance

Date of 5-Day Notice: 3/6/03
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 5/6/03

Labor and Commerce Committee considered SENATE BILL NO. 102

SB 102 CHARITABLE GAMING REVENUE

"An Act increasing the amount of revenue received by the state from charitable gaming activities; and providing for an effective date."

and recommends:

- be replaced with _____ CS SB 102 (LEC)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

- Senate Bill:**
 same title
 new title
House Bill:
 same title
 technical title
 new: SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#
REV	5/6/03	✓		2

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:		DO PASS	DO NOT PASS	NO REC	AMEND
Davis	<i>Bettye Davis</i>			X	
French	<i>[Signature]</i>		X		
Seekins	<i>Ralph Seekins</i>	✓			
G. Skvens	<i>[Signature]</i>			X	
Bunde	CHAIR: <i>[Signature]</i>	✓			

Maria C. Moya

14275 Otter Way, Juneau, Alaska 99801
Phone: 789-2947; E-mail: Maria@otterway.com

May 8, 2003

Senate Finance Committee
State Capitol
Juneau, Alaska 99801

RE: Urgently Needed Amendment to Senate Bill 102

Dear Members of the Senate Finance Committee:

I am writing to urge you to amend the current version of Senate Bill 102 so that it includes a statewide prohibition of local sales taxation of pull tab receipts.

The Juneau Montessori community has held a charitable gaming permit for many years which it uses to run pull tab operations that funds a wide variety of local educational programs, including:

- A high quality Montessori preschool that currently serves 60 children,
- Two elementary classrooms that serves 52 children and is slated for expansion, and
- A newly founded adolescent program which will serve 16 children next year and plans to expand to more than double that number within 3 years.

Should SB 102 pass without a local sales tax prohibition, the results would be catastrophic to our Montessori programs. Let me explain why.

Our pull tab operation currently pays a city sales tax that is equivalent to 25% of ideal net receipts. Adding an additional 15% would mean that our overall tax burden would be effectively 40%. Given overhead costs and prize payouts, there is just no way we could viably operate the business. Without this crucial source of funding we would have to dramatically scale back and/or discontinue the valued programs that we support. This would likely mean that our preschool, which has served over 1600 children over the past 18 years, would close its doors. As the foundation for all other Juneau Montessori classrooms, this would have a chilling ripple affect on both the elementary and adolescent programs. All summed, a total of 128 children would be affected by this loss in just one year. And this doesn't take into account all the other children who will no longer have the option to attend these unique education programs.

I recognize that the State is faced with a serious fiscal situation and can appreciate the legislature's and governor's desire to find new sources of revenue. I only ask that you do so in a manner that is fair and will not hurt small non-profit organizations like ours.

If you wish to proceed with this pull tab legislation, **PLEASE** amend it so that we are not penalized with a double tax.

Many Thanks,



Maria C. Moya



Tlingit and Haida Indians of the City and Borough of Juneau
 P.O. Box 020770
 Juneau AK 99802
 AT&H Community of the Central Council of Tlingit and Haida Indian Tribes of Alaska



FACSIMILE TRANSMITTAL SHEET

TO: <u>Bob Loescher</u>	FROM: <u>LAUNA JACK</u>
COMPANY:	DATE: <u>5/6/03</u>
FAX NUMBER:	TOTAL NO. OF PAGES INCLUDING COVER: <u>Three</u>
PHONE NUMBER:	SENDER'S REFERENCE NUMBER:
RE: <u>Pulltab SALES</u>	YOUR REFERENCE NUMBER:

URGENT FOR REVIEW PLEASE COMMENT PLEASE REPLY PLEASE RECYCLE

NOTES/COMMENTS:

Hi Bob;
 This is what I entered into excel - 2002 Pulltab numbers. Please call if I be of further help.

2002

THICBJ - Pulltab Gross Sales	\$252,802.29	
Minus 15%	\$37,920.34	
Total Expenses	\$27,062.55	
Net	\$10,857.79	Percent 23.283 *

30% mandatory return to charities
 we are now closed down
 By gaming Reg's:

ALBERT JUDSON
2225 meadow LANE
JUNEAU, AK. 99801

SB 102

TESTIMONY

MAY 9, 2003

I AM OPPOSED TO SB 102.
BECAUSE OF THE PREPONDERANCE
THAT IT IMPOSES ON PULL-TAB OPERATORS
AND SHACKLES THE BENEVOLENT EFFORTS
OF THOSE WHO WOULD GIVE
TO CHARITIES.

I AM OPPOSED TO SB 102 ALSO
BECAUSE IT IS PART OF A PANORAMA
OF EFFORTS AGAINST THE
LOW/INCOME POPULATION
WITHIN OUR BORDERS. FOR EXAMPLE,
THE PROPOSED SALES/TAX GOES AGAINST
LOW/INCOME PEOPLE, THE PROPOSED BILL
AGAINST PUBLIC-INTEREST LITIGANTS,
AND THE PROPOSED BILL CONCERNING
THE ALASKA PUBLIC OFFICES COMMISSION.

EVEN IF SB 102 IS LESS/THAN
THAT PROPOSED BY MURKOWSKI IT
SHOULD STILL BE DONE AWAY WITH.
CHARITABLE GAMING WILL BE STUDIED AFTER
THE LEGISLATURE ADJOURNS - SHOULD N'T IT
BE STUDIED BEFORE IT BECOMES LAW??

IF SB 102 PASSES IT WILL CREATE A
FISCAL EXPERIMENT. AID TO CHARITIES
SHOULD BE FREE FROM ANY KIND
OF ENCUMBRANCE. THE POOR
SHOULD NOT BE "TARGETED"
FOR THE BUDGETARY PROBLEMS
WITHIN OUR STATE.

SENATE FINANCE COMMITTEE

SIGN-IN

SB 102-CHARITABLE GAMING REVENUE

NAME: Lupita Alvarez Subject/Bill No: SB102
Co./Dept./Title: _____ Phone: 364-2334
Address: 401 F Street, Douglas Zip: 99804
Do you wish to testify? Yes No Respond To Questions

NAME: PATRICIA PALMER Subject/Bill No: SB102
Co./Dept./Title: _____ Phone: 364 2795
Address: PoB 240204 Douglas AK Zip: 99824
Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

SENATE FINANCE COMMITTEE

SIGN-IN

SB 102-CHARITABLE GAMING REVENUE

NAME: Maria Moya Subject/Bill No: SB102

Co./Dept./Title: _____ Phone: 789-2947

Address: 14275 Otter Way, Juneau, AK Zip: 99801

Do you wish to testify? Yes No Respond To Questions

NAME: ALBERT JUDSON Subject/Bill No: SB 102

Co./Dept./Title: _____ Phone: 789-3512

Address: 2225 Meadow Lane Zip: 99801

Do you wish to testify? Yes No Respond To Questions

NAME: Samuel Lee Subject/Bill No: SB102

Co./Dept./Title: _____ Phone: 523 9205

Address: 1651 Renninger Blvd Juneau Zip: 99801

Do you wish to testify? Yes No Respond To Questions

NAME: Bob Loescher Subject/Bill No: SB 102

Co./Dept./Title: Juneau Transit & Haida Phone: 586-2311
& ANB

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: George Wright Subject/Bill No: SB 102

Co./Dept./Title: Alaska Native Brotherhood Phone: 586-2049

Address: 320 W. Willoughby Ave Juneau Zip: 99801

Do you wish to testify? Yes No Respond To Questions

NAME: Agnes D'Alfano Subject/Bill No: SB 102

Co./Dept./Title: Multiple Charities Phone: 586-2049

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: David Katzeel Subject/Bill No: SB 102

Co./Dept./Title: Alaska Native Brotherhood Phone: 586-2049

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: Ellie Moritz Subject/Bill No: SB 102

Co./Dept./Title: Alaska Native Brotherhood Phone: 586-2049

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: Sam Lee Subject/Bill No: SB 102

Co./Dept./Title: ANB Camp 2 Phone: 586-2049

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: Sue Ann Preerly Subject/Bill No: SB 102
Co./Dept./Title: ANB Camp 2 Phone: 586-2049
Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: DAVID SANDEN Subject/Bill No: SB102
Co./Dept./Title: C/O JMC / STAFF / JUV Phone: 364-2090
Address: 750 St Anns Ave Douglas Zip: 99824

Do you wish to testify? Yes No Respond To Questions

NAME: Lash Kemp Subject/Bill No: SB102
Co./Dept./Title: _____ Phone: _____
Address: 2021 Blueberry Hills Zip: 99801

Do you wish to testify? Yes No Respond To Questions

NAME: CAROL MORRIS Subject/Bill No: SB 102
Co./Dept./Title: ANB Phone: 586-2049
Address: 9951 Stephen Richards #99 Zip: 99801

Do you wish to testify? Yes No Respond To Questions

NAME: Florence Perkins Subject/Bill No: SB102
Co./Dept./Title: ANB Camp 2 Phone: 5866859
Address: _____ Zip: 99801

Do you wish to testify? Yes No Respond To Questions

NAME: ART Sutch Subject/Bill No: 102

Co./Dept./Title: JANEAN MONTESSORI Phone: 586-6447

Address: 221 SEWARD ST. JANEAN Zip: 99801

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

SITE: Kenai LIO

COMMITTEE: Senate Finance

DATE: 050903

SUBJECT OF MEETING:

SB102: Charitable Gaming Revenue

UPDATE #:

PLEASE SIGN IN

P R I N T YOUR NAME

ADDRESS (MAILING & ZIP)

REPRESENTING

TESTIFYING?

Y or N

<u>P R I N T</u> YOUR NAME	ADDRESS (MAILING & ZIP)	REPRESENTING	TESTIFYING? Y or N
Len Malmquist	231 S Binkley St Soldotna AK 99669	Alaska Fire Chiefs	Y
Email address:		Assoc	SB 102
Email address:			
Email address:			
Email address:			
Email address:			
Email address:			

SITE: SITKA LIO

COMMITTEE: SFIN

DATE: 5/9/03, 9am

SUBJECT OF MEETING:

SB102

UPDATE #:1

PLEASE SIGN IN

P R I N T YOUR NAME

ADDRESS (MAILING & ZIP)

REPRESENTING

**DO YOU WANT
TO TESTIFY?
Y or N**

✓ Patty Mills	456 Katlian St., Sitka	Sitka Tribe of	Yes
Email address:		Alaska	SB 102
✓ Sandie Johnson	456 Katlian St., Sitka	Sitka Tribe of	Yes
Email address:		Alaska	SB 102
Email address:			
Email address:			
Email address:			
Email address:			
Email address:			

SITE: ANCHORAGE LIO

COMMITTEE: SFIN

DATE: 5-9-03

SUBJECT OF MEETING:

SB102

UPDATE #:

PLEASE SIGN IN

P R I N T YOUR NAME

ADDRESS (MAILING & ZIP)

REPRESENTING

**DO YOU WANT
TO TESTIFY?
Y or N**

✓ **Perry Green**

Email address:

Y-SB 102

✓ **John Lopez**

Email address:

Denali Gaming Supply

Y-SB 102

✓ **Lynn Reese**

Email address:

Lynn's Pulltabs

Y-SB 102

✓ **Ted Brown**

Email address:

AK Indoor Sports

Y-SB 102

✓ **Jim Peot**

Email address:

Whaler

Y-SB 102

✓ **Kent Hartzberg**

Email address:

Self

Y-SB 102

✓ **Steve Early**

Email address:

Rippie World

Y-SB 102

SITE: FAIRBANKS LIO

COMMITTEE: (S) FIN

DATE: 05/09/03

SUBJECT OF MEETING:

SB 102

UPDATE #: 4

PLEASE SIGN IN

P R I N T YOUR NAME

ADDRESS (MAILING & ZIP)

REPRESENTING

**DO YOU WANT
TO TESTIFY?
Y or N**

<u>P R I N T</u> YOUR NAME	ADDRESS (MAILING & ZIP)	REPRESENTING	DO YOU WANT TO TESTIFY? Y or N
Email address:			
✓ Gene Hansen		Eagles Lodge	Y SB 102
Email address:			
✓ David Lambert			Y SB 102
Email address:			
✓ June Rogers			Y SB 102
Email address:			
✓ Tom Rogers			Y SB 102
Email address:			
✓ Dan Thompson			Y SB 102
Email address:			
✓ Layne St. John			Y SB 102
Email address:			
✓ JoEllen Fox			Y SB 102
Email address:			

