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STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

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April 23, 2003

The Honorable Jim Whitaker
Co-Chair, House Ways and Means Committee

The Honorable Mike Hawker
Co-Chair, House Ways and Means Committee
Alaska State Legislature
State Capitol
Juneau, Alaska

Dear Representatives Whitaker and Hawker,

In working up our estimates on revenue to the state at various prize payout rates for video gaming terminals, we put together the following research.

General Payout Percentages

We asked Montana, Oregon and South Dakota and two video terminal manufacturers if they know of any studies done on players' sensitivity to prize payout percentages. Unfortunately, the answer is no. However, all parties seem to agree that electronic gaming machine (EGM) players are sensitive to payout rates. If the payout percentage is too low, they say, players become discouraged and the amount of credits played decreases. The lowest recommended range for prize payouts we found came from WMS Gaming Inc., at 88% to 92%. (WMS is an international gaming machine supplier, with offices in Illinois, Mississippi, Colorado, California, Florida, Oregon, Michigan, Missouri, New Jersey, Canada, South Africa, Spain and Australia.)

What seems to support the argument that players are sensitive to payout rates is that all states and provinces that have video gaming terminals (not including those that are confined to only racetracks or casinos) have actual payout rates greater than 90%. At the upper limit, none have a payout rate greater than 94%. (Oregon's payout rate is now 93.8%.) One of the manufacturers said the reason for Oregon's high payout rate is the amount of choice and sophistication of players in Oregon. The average payout rate for jurisdictions reported by La Fleur's World Lottery Almanac for the United States is 92.2%, and for Canada it is 92.7%.

Setting an Exact Credit Payout Percentage

According to WMS Gaming Inc., New York recently set the payout percentage for its EGMs in Indian casinos and race tracks. Apparently this has resulted in problems

because it restricts the type of games played; the argument against setting the EGM payout rate is that it makes the machines more like scratch tickets. Please see discussion below

The Odds of Winning

Unlike pull-tabs, the payout rate for EGMs is going to depend on the number of times the game is played. That is, you only reach the actual odds when the game is played a large enough number of times. The odds of winning in pull-tabs are predetermined when the charity buys the box of tabs; for example there will always be 78% prizes in a box of 1,000 tabs with a 78% payout rate. But for video gaming, it's more like a coin toss. You may win the toss six times in a row, but if you play the game enough, eventually you will win 50% of the time. Video gaming would be the same, in that it could take a lot of play on the machine for the odds to eventually true up.

This explanation is from the Alberta provincial gaming web site: "On average, the payout rate for video terminals and slot machines is 92% of money wagered. Payout is determined by the frequency and prize value of winning combinations. Millions of plays are required to converge to 92% payout. Individual play experiences will vary."

Additionally, if choice is involved, such as your hold hand in video poker, then calculating the odds becomes more difficult (see how South Dakota resolves this problem below). Apparently, the machine shows you the "optimum" hold hand but a player can choose to ignore the machine.

South Dakota Payout Rate

Each video machine must meet the following maximum and minimum theoretical percentage payout during the expected lifetime of the machine:

- Video games that are not affected by player skill shall pay out a minimum of 80% and no more than 95% of the amount wagered. (Note: Although the law sets 80% as the minimum, we're told no game pays out less than 90%.) The theoretical payout percentage will be determined using standard methods of probability theory. For the video game of keno, the theoretical payout percentage requirements apply to each number of spots marked.
- Video games that are affected by player skill, such as video draw poker and blackjack, shall pay out a minimum of 83% and no more than 96% of the amount wagered. This standard is met when using a method of play that will provide the greatest return to the player over a period of continuous play (our guess is that this is when the player always chooses the "optimum" choice offered to him by the machine).
- Manufacturers must file a request and receive approval by the commission before manufacturing machines for placement in the state programmed for a payout greater than 92% of the amount wagered.

Oregon Payout Rate

Don Robison from the State of Oregon said that they have never decreased the payout rate for a given game because players will not stand for it. Each of their machines has 10 games on it and the game that has a payout of 95% accounts for 60% of play. They are also introducing two games with payout rates of 93% and the remainder are at 91.25%. Their experience is that as they increase payout rates, the amount of playing actually increases.

Interestingly, he said that payout percentages are more important for players of poker-type games than for players of line games (e.g., three bells in a row). Although Oregon has a minimum of 84%, the lottery commission sets the maximum. They are looking at changing this to a specific maximum.

I know this may be more than you were looking for on the issue, but we wanted to share all of the information we have learned with the committee. Please let me know if we can be of any further assistance.

Sincerely,

A handwritten signature in cursive script, appearing to read "Larry Persily".

Larry Persily
Deputy Commissioner

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

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April 24, 2003

The Honorable Jim Whitaker
Co-Chair, House Ways and Means Committee

The Honorable Mike Hawker
Co-Chair, House Ways and Means Committee
Alaska State Legislature
State Capitol
Juneau, Alaska

Dear Representatives Whitaker and Hawker,

As we continue to research video gaming payout rates in other states and provinces, I thought it might be a good idea to explain to committee members the difference between the payout rate on the machines and a player's actual cash-out rate when he or she stops playing.

The payout rate and the cash-out rate are two distinct elements that should not be confused with one another. The first is determined by electronic regulation of the machine, often dictated in statute; the second is determined by the player.

For example, several jurisdictions set the payout rate for players at about 92%. That means that for every dollar played, the player will win, on average, about \$0.92. This average is based on millions of games played, taking into account not only the element of chance but the number of games played and the variety of jackpots. Although states usually specify a range or a minimum payout in statute, in practice they usually target a higher payout rate to remain competitive and to attract players. This also allows them the flexibility to pay out different rates for different games and to change the payout rate as market conditions change.

The cash-out rate is not a fixed amount, however, and is not pre-determined because it is up to the player whether or not to cash out his or her winnings at any given time. Players, not the electronic gaming machines, determine the cash-out rate.

For example, if a player starts with \$1.00, he or she will win, on average, 92% of that amount, or \$0.92. If the player decides to cash out that amount, then the cash-out rate also is 92% (\$0.92 on \$1.00). If the player does not cash out that amount and decides to bet again, he or she will again win, on average, 92% of the \$0.92, which is \$0.85. If the player decides to cash out that amount, the cash-out rate is 85% (\$0.85 on the

original \$1.00 played). But the cash-out rate does not change the payout rate, which remains at 92%.

If the player does not cash out that amount and decides to bet again, he or she will win, once again, on average, 92% of the \$0.85, which would be \$0.78. This would continue until the player stops playing the game.

We prepared the following table to illustrate the declining cash-out rate vs. the constant payout rate.

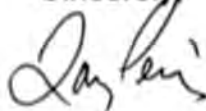
	Bet	Payout Rate	Average Win	Cash-out Rate (If winnings cashed out)
Initial bet	\$1.00	92%	\$0.92	92%
Credits won and replayed	\$0.92	92%	\$0.85	85%
Credits won and replayed	\$0.85	92%	\$0.78	78%
Credits won and replayed	\$0.78	92%	\$0.72	72%

TOTAL \$1.00 in cash resulted in \$3.55 credits played.
 Of the \$3.55 played, the player "won" \$3.27, for a 92% payout rate.
 If the player stops playing after four tries, as shown above, the
 actual cash-out rate would be 72% of the original \$1.00.

The result of the hypothetical player above is similar to that of a pull-tab player in Alaska. The calendar 2001 pull-tab gross receipts of \$274 million reported by charitable organizations represent not \$274 million of actual cash put on the counter by players but the total amount of pull-tabs played as people play their winning credits multiple times. The \$274 million in pull-tab receipts is similar to the \$3.55 in the table above, in that it doesn't represent real cash but rather the total of the same recirculating cash brought to the game.

I hope this information helps in your discussion of any video gaming or other gaming legislation. Please let me know if we can provide any additional information for the committee as you continue your work this session and during the interim.

Sincerely,



Larry Persily
Deputy Commissioner

STATE OF ALASKA

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April 15, 2003

The Honorable Pete Kott
Speaker of the House
Alaska State Legislature

The Honorable Jim Whitaker
Co-Chair, House Ways and Means Committee

The Honorable Mike Hawker
Co-Chair, House Ways and Means Committee

The Honorable Tom Anderson
Sponsor, Committee Substitute for HB240

The Honorable Cheryll Heinze
Chair, House Economic Development Committee

Re: CSHB240(ED)

Dear Representatives,

I apologize for the tardiness of this letter, but we wanted to take as much time as possible (in hindsight, too much time) to review all of the issues of this legislation. I appreciate all the work that has gone into this bill, and our comments are intended to assist you in your efforts, not to diminish your work.

The Department of Revenue believes CSHB240(ED) raises a number of important issues that we are confident will be addressed in the legislative process. This letter, which addresses only the issues raised by electronic gaming machines, is offered to help you in that endeavor.

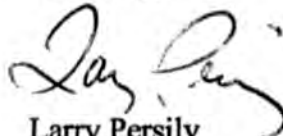
- HB240, as amended last week by the House Economic Development Committee, has two separate components:
 1. The original bill would allow for one drawing twice a year administered by a newly created Alaska State Lottery Commission (essentially a 50-50 cash drawing).
 2. The committee substitute expanded the bill to allow for electronic gaming (video gaming terminals) administered by the Department of Revenue.

- Whereas there may be advantages (or disadvantages) of placing these two separate functions under a new Lottery Commission in one case and the Department of Revenue in the other case, it does appear to be a duplicate of administrative effort, and we believe consideration should be given to merging the two operations.
- Electronic gaming machines (video terminals) will most likely attract patrons to bars, and critics could argue this would have the unwanted effect of indirectly promoting alcohol consumption. However, it actually is possible that some patrons may drink less because they would have less discretionary money in their pockets after playing the video terminals, but that argument could be outweighed by the possibility of an increased amount of interest in going to bars and staying there a longer time to play the games.
- There have always been concerns among some about the failure in state law to restrict charitable gaming permit holders to only those organizations that qualify for IRS non-profit status under 501(c)(3) of the Internal Revenue Code. Such a restriction would avoid many of the alleged abuses that result from trade and other organizations holding permits where the gaming proceeds are used to benefit and promote the interests of individual group members of for-profit businesses.
- There are many more potential permit holders in the state than there are vendors (bars and private clubs, under this legislation) that would be allowed to operate the games for charitable organizations. As a result of demand exceeding supply, the permit holders would have little, if any, bargaining power in signing up vendors to play their games. The more traditional type charities already are finding it difficult to take advantage of the existing gaming option of pull-tabs because of the large number of competing non-charity organizations. This legislation would continue to foster the segregation into the "haves" and "have-nots," as the organizations that cannot find a vendor to play their game would be at a fund-raising disadvantage. This supply-and-demand imbalance could be remedied if the bill allowed only IRS 501(c)(3) organizations to engage in video gaming.
- This bill would require the department to review contracts between permit holders and vendors, but fails to set any standards for what the contracts may or should contain. Without standards in statute, there will be no basis to disapprove a contract unless it was obviously illegal. Given the unequal bargaining position of the charities, we would expect the contracts to favor vendors by perhaps charging space rental for the machines, allocating a portion of employee salaries and general overhead to the permit holders, and requiring the permit holders to pay these expenses out of their 30% take from the machine's net income (net income would be after prizes).
- It is not clear from this legislation whether the restrictions that generally apply to net proceeds under existing law are intended to also apply to the use of net income from the video gaming machines. That should be addressed if there is to be any limitation on how a permit holder may use its net income. For example, there does not appear to be a limit on expenses in this legislation and, consequently, as stated above, permit holders could see much of their 30% net income taken away for expenses charged by the vendor.

- Whether permitting video blackjack, keno and other games for charitable organizations opens the door to these games at the table in Native casino operations is a legal question that arises from this legislation. We will defer to the Department of Law to address this issue.
- It also may be useful, before expanding gaming in Alaska, to review the findings from the National Gaming Impact Study Commission as they relate to the overall context of charitable gaming in Alaska.
- Finally, there is no bonding requirement in this bill. Consequently, there is the risk that the state would not have any recourse if a permit holder failed to pay the required percentage of net income to the state. There also would be no recourse for the state if a vendor failed to pay either the permit holder or the state.

I hope these comments are of help as you consider this legislation. Please let me know if you have any questions, or if we can provide any additional information on these topics.

Sincerely,



Larry Persily
Deputy Commissioner

c: Mike Tibbles, Office of the Governor

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GAMING23-LS0914\U
Luckhaupt
4/15/03

CS FOR HOUSE BILL NO. 240()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:

Referred:

Sponsor(s): HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, INTERNATIONAL
TRADE, AND TOURISM

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to establishing a state lottery; and providing for an effective date."

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

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

4 Chapter 18. Lottery.

5 Article 1. Administration.

6 Sec. 05.18.010. Creation of commission. (a) The Alaska State Lottery
7 Commission is established for the purpose of generating revenue for the state. The
8 commission is established in the Department of Revenue. The commission consists of
9 five members appointed by the governor, subject to confirmation by the legislature.
10 One member shall be appointed from each of the four judicial districts of the state.
11 The fifth member shall be an at-large member. Not more than three of the five
12 members may be members of the same political party. The governor shall appoint one
13 member to serve as chair of the commission.

14 (b) Members serve staggered terms of five years. A member may be
15 reappointed but may not serve for more than 10 years.

1 (c) A member of the commission does not receive a salary for service on the
2 commission but is entitled to per diem and travel expenses authorized for members of
3 boards and commissions under AS 39.20.180.

4 (d) A member of the commission may not have a pecuniary interest in a
5 contract or agreement entered into by the commission.

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

7 (1) has been convicted of

8 (A) a felony; or

9 (B) an offense under this chapter, AS 11.66.200 - 11.66.280, or a
10 comparable provision of municipal, state, or federal law;

11 (2) holds a license, permit, or registration under AS 05.15; or

12 (3) is an elected official of the state or of a political subdivision of the
13 state.

14 (f) A person may not serve as a member of the commission until the
15 investigation required under AS 18.65.080(b) is completed.

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

18 (h) The governor may remove a member for cause, including incompetence,
19 neglect of duty, or misconduct in office. A member being removed for cause shall be
20 given a copy of the charges and afforded an opportunity to publicly present a defense in
21 person or by counsel upon not less than 10 days' notice. If a member is removed for
22 cause, the governor shall file with the lieutenant governor a complete statement of all
23 charges made against the member and the governor's findings based on the charges,
24 together with a complete record of the proceedings.

25 (i) The governor may immediately suspend a member for a violation of law or
26 for misconduct in office pending removal from office under (a) of this section.

27 **Sec. 05.18.020. Meetings.** (a) The commission shall meet at least quarterly at
28 the call of the chair, at the request of a majority of the members, or at a regularly
29 scheduled time set by the commission.

30 (b) An action of the commission is not binding unless taken at a meeting
31 where three or more of the members are present and vote in favor of the action.

1 **Sec. 05.18.030. Duties and powers of commission.** The commission shall

2 (1) enter into contracts and agreements necessary to carry out the
3 provisions of this chapter, including contracts with other jurisdictions for the conduct
4 of multi-jurisdictional lotteries;

5 (2) adopt regulations necessary to carry out the provisions of this
6 chapter;

7 (3) determine policy direction for the operation and administration of
8 the lottery;

9 (4) report to the governor and the legislature each year; the report must
10 include a full and complete statement of lottery revenue, lottery prize disbursement,
11 and other expenses, and recommendations for changes in this chapter;

12 (5) report to the governor and the legislature as frequently as the
13 commission determines necessary on conclusions from the analysis of the reaction of
14 state residents to the lottery and on matters that require changes in the law to prevent
15 violations or evasions of this chapter or to correct undesirable conditions in connection
16 with the operation or administration of the lottery;

17 (6) monitor the operation of the lottery throughout the state;

18 (7) study and investigate the operation and administration of the lottery
19 laws of other states and of federal laws that affect the lottery; and

20 (8) conduct the lotteries that the commission determines are
21 appropriate.

22 **Sec. 05.18.040. Regulations.** The commission shall adopt regulations under
23 AS 44.62 (Administrative Procedure Act) to establish

24 (1) the types of lotteries to be conducted, the prices for the tickets, the
25 manner of conducting the lotteries, and the calculation and awarding of lottery prizes;

26 (2) the procedures for contracting with persons to be agents and the
27 manner and amount of compensation to be paid agents; the amount of compensation
28 paid to an agent may not exceed five percent of the retail price of the ticket sales by
29 the agent; a contract may provide for up to an additional one percent bonus for
30 attaining sales volumes or other incentives as are appropriate for the lottery games;

31 (3) other matters necessary or desirable to carry out this chapter, to

1 operate the lottery efficiently and economically, and to make the purchase of lottery
2 tickets, and the distribution of lottery prizes convenient.

3 **Sec. 05.18.050. Executive director and employees.** (a) The commission
4 shall employ an executive director who is qualified by training and experience to
5 conduct the day-to-day work of the commission. The director may not engage in
6 another profession or occupation.

7 (b) Subject to the approval of the commission, the director may appoint
8 deputies required to carry out the functions and duties of the commission. The
9 director may appoint professional, technical, and clerical employees necessary to
10 perform the duties of the commission.

11 (c) The director and other employees of the commission are in the exempt
12 service under AS 39.25.110.

13 (d) The commission may not employ a person who has been convicted,
14 including conviction based on a guilty plea or plea of nolo contendere, of an offense
15 that disqualifies a person from being a member of the commission.

16 **Sec. 05.18.060. Duties of director.** The director shall

- 17 (1) supervise the operation and administration of the lottery;
18 (2) act as secretary to the commission;
19 (3) contract with agents to sell lottery tickets;
20 (4) provide for the security of the lottery including by employment of a
21 deputy director for security and through agreements with the Department of Public
22 Safety; the deputy director must be eligible for certification as a peace officer under
23 AS 18.65.130 - 18.65.290, and shall be responsible for obtaining background
24 investigations of employees, retail sales agents, and contractors, and shall develop a
25 security plan;
26 (5) meet at least quarterly with the commission on the operation and
27 administration of the lottery;
28 (6) make available for inspection by the commission, on request, all
29 books, records, files, and other information and documents of the commission;
30 (7) advise the commission and make recommendations to improve the
31 operation and administration of the lottery;

(8) suspend or revoke a contract issued under this chapter for a violation of this chapter or the regulations adopted under this chapter;

(9) subject to the approval of the commission, enter into contracts for the operation and administration of the lottery, except that agent contracts are not subject to the approval of the commission; and

(10) provide each month to the commission a full and complete statement of lottery revenue, lottery prize disbursements, and other expenses for the preceding month.

Sec. 05.18.070. Subpoenas. (a) The director or the commission may subpoena witnesses and documents in a matter over which the commission has jurisdiction, control, or supervision. The director or the commission may administer oaths and affirmations to persons whose testimony is required.

(b) If a person fails to obey a subpoena or refuses to answer a relevant question or to exhibit a document when ordered to do so by the director or the commission, the director or the commission may apply to the superior court for an order directing the person to comply with the subpoena or the order. The court may order the person to comply.

Article 2. Lottery Retail Sales Agents.

Sec. 05.18.100. Lottery retail sales agents. (a) The director may contract with persons on behalf of the commission to be lottery retail sales agents.

(b) A lottery retail sales agent may

(1) sell lottery tickets;

(2) hire employees to perform the services under (1) of this subsection.

(c) An agent shall supervise each employee of the agent in the employee's performance of the services under (b)(1) of this section.

Sec. 05.18.110. Qualifications for agent contracts. (a) A person who wishes to contract with the commission to be an agent shall apply on a form provided by the commission. The director shall charge the applicant a fee to cover the costs of processing the application and checking the background of the applicant.

(b) Before contracting with an applicant, the director shall require a prospective agent to disclose to the commission the applicant's name and address and

1 the following:

2 (1) if the prospective lottery retail sales agent is a corporation, names
3 and addresses of the officers, directors, and each stockholder in the corporation;
4 except that, in the case of stockholders of publicly held equity securities of a publicly
5 traded corporation, only the names and addresses of those known to the corporation to
6 own five percent or more of the securities need be disclosed;

7 (2) if the prospective lottery retail sales agent is a trust, names and
8 addresses of the trustees and all persons entitled to receive income or benefit from the
9 trust;

10 (3) if the prospective lottery retail sales agent is an association, the
11 names and addresses of the members, officers, and directors;

12 (4) if the prospective lottery retail sales agent is a subsidiary, the
13 names and addresses of the officers, directors and each stockholder of the parent
14 corporation of the subsidiary; except that, in the case of stockholders of a publicly
15 traded corporation, only the names and addresses of those known to the corporation to
16 own five percent or more of such securities need be disclosed;

17 (5) if the prospective lottery retail sales agent is a partnership or joint
18 venture, the names and addresses of all the general partners, limited partners, or joint
19 venturers;

20 (6) if the parent company, general partner, limited partner, or joint
21 venturer of any prospective lottery retail sales agent is itself a corporation, trust,
22 association, subsidiary, partnership, or joint venture, the names and addresses required
23 under (1) - (5) if this subsection shall be disclosed for the other entity as of it were
24 itself a prospective lottery retail sales agent to the end that full disclosure of ultimate
25 ownership be achieved;

26 (7) if any member of the immediate family of any prospective lottery
27 retail sales agent is involved in the lottery retail sales agent's business in any capacity,
28 then the names and addresses of the immediate family member shall be disclosed as if
29 the immediate family member were a prospective lottery retail sales agent;

30 (8) the details of any felony conviction of a criminal offense, state or
31 federal, of the retail sales agent or any person whose name and address are required by

1 the disclosure requirements of this subsection; and

2 (9) the details of any disciplinary action of a judicial nature taken by
3 any state against the retail sales agent or any person whose name and address are
4 required by this subsection regarding any matter related to the selling, leasing, offering
5 for sale or lease, buying, or servicing of gaming materials or equipment.

6 (c) Before contracting with an applicant to be an agent, the director shall
7 consider

8 (1) the financial responsibility and security of the applicant and the
9 applicant's business or activity;

10 (2) the accessibility of the applicant's place of business or activity to
11 the public;

12 (3) the ability of the applicant to promote the retail sale of lottery
13 tickets;

14 (4) the sufficiency of existing agent contracts to serve the public
15 convenience;

16 (5) the volume of expected sales; and

17 (6) other factors the director determines are relevant.

18 (d) The director may not contract with an applicant to be an agent if the
19 applicant

20 (1) would be engaged in business exclusively as an agent;

21 (2) is an individual under 18 years of age;

22 (3) has a contract with the commission regarding the operation and
23 administration of the lottery; or

24 (4) has been convicted of a felony or a gambling or gaming
25 misdemeanor, including conviction based on a guilty plea or plea of nolo contendere.

26 **Sec. 05.18.120. Duration of agent contracts.** The director may contract with
27 an agent for a term of not more than two years but may renew the contract.

28 **Sec. 05.18.130. Revocation or suspension of agent contracts.** (a) The
29 director shall suspend or cancel the contract of an agent who violates AS 05.18.470.

30 (b) The director may suspend or cancel the contract of an agent who violates a
31 regulation adopted under this chapter or a provision of this chapter other than

1 AS 05.18.470.

2 (c) The director shall conduct proceedings to suspend or cancel an agent
3 contract under AS 44.62 (Administrative Procedure Act).

4 **Sec. 05.18.140. Compensation of agents.** (a) The director shall establish the
5 levels of compensation for agents consistent with AS 05.18.040(3). The director may
6 establish bonus or incentive awards as permitted by AS 05.18.040(3).

7 (b) When establishing the compensation for agents, the director shall consider

8 (1) the time and the cost of overhead necessary to make the lottery
9 tickets available at convenient times and for sufficient hours to accommodate the
10 public;

11 (2) the time necessary for an agent to keep adequate records of the
12 sales of lottery tickets and to prepare the deposits and reports required under
13 AS 05.18.150;

14 (3) other criteria the director considers relevant.

15 **Sec. 05.18.150. Deposit of receipts and reports.** (a) Each agent shall
16 deposit to the credit of the state in a bank designated by the director all money
17 received by the agent from the sale of lottery tickets. The director shall provide for
18 periodic automatic withdrawals from the bank of the funds due the lottery.

19 (b) Each agent shall file with the director on a form provided by the
20 commission weekly reports of the receipts and transactions in the sale of lottery
21 tickets.

22 (c) The director shall impose a service charge on an agent if the payor bank
23 dishonors an electronic transfer of funds to the state lottery fund from the account of
24 the agent for money received from the sale of lottery tickets.

25 (d) The director may charge an agent interest on money that is not paid to the
26 state within 10 days after the due date and may impose an additional service charge in
27 an amount to cover administrative costs if the debt is referred for collection.

28 (e) The amount, including any interest or service charge, owed to the
29 commission by an agent is a lien on the property of the agent at the time that the
30 commission files a claim of lien in the recorder's office of the recording district of the
31 principal place of business of the agent.

1 **Sec. 05.18.160. Bond.** (a) Each applicant for an agent contract shall, at the
2 time of application under AS 05.18.110, file with the commission and maintain during
3 the term of an agent contract a bond running to the state with a corporate surety
4 qualified to do business in the state. The amount of the bond shall be determined by
5 the commission.

6 (b) The bond required by this section remains in effect until cancelled by
7 action of the surety, the principal, or the commission.

8 (c) The state or another person may not bring an action on the bond more than
9 three years after its cancellation.

10 **Article 3. Lottery Prizes.**

11 **Sec. 05.18.200. Assignment of lottery prizes.** A person may not assign a
12 right to a lottery prize. However, a lottery prize may be paid to a person other than the
13 prize winner under a court order or to the estate of a deceased prize winner. The state
14 is discharged of all further liability when a lottery prize has been paid under this
15 section.

16 **Sec. 05.18.210. Payment of lottery prizes to persons under 18 years.** (a)
17 If a person entitled to a lottery prize is under 18 years of age, the director may deliver
18 the prize by depositing the amount of the prize in a bank to the credit of an adult
19 member of the minor's family, or a guardian of the minor, as custodian for the minor.
20 The person named as custodian shall have the same duties and powers as a person
21 designated as a custodian under AS 13.46.

22 (b) The state is discharged of all further liability after payment of a lottery
23 prize to a minor under this section.

24 (c) In this section,

25 (1) "bank" has the meaning given in AS 45.14.105;

26 (2) "guardian" has the meaning given in AS 13.06.050;

27 (3) "member of the minor's family" has the meaning given in
28 AS 13.46.990.

29 **Sec. 05.18.220. Unclaimed prize money.** The director shall retain unclaimed
30 lottery prize money for the person entitled to it for one year after the prize is awarded.
31 If the winner does not claim the lottery prize money within the year, the commission

1 shall return the money and accrued interest to the state lottery fund.

2 **Article 4. Miscellaneous Provisions.**

3 **Sec. 05.18.300. State lottery fund and appropriations.** There is created in
4 the general fund the state lottery fund. The state lottery fund consists of all revenue
5 received from the sale of lottery tickets and all other money credited or transferred to
6 the fund from another fund or source.

7 **Sec. 05.18.310. Audit.** The commission shall have an audit of the books and
8 accounts of the commission performed at least once in each year by certified public
9 accountants. The commission may have special audits performed at any time on its
10 own motion or at the request of the director. The commission shall file a copy of each
11 audit with the commissioner of revenue and the legislature.

12 **Sec. 05.18.320. Prohibited acts.** (a) A person may not

13 (1) knowingly act as an agent or sell a lottery ticket unless the person
14 has a contract with the commission to be an agent, or is an employee of an agent and
15 sells lottery tickets under the supervision of the agent;

16 (2) knowingly sell a lottery ticket at a price greater than that fixed by
17 the commission;

18 (3) knowingly sell or offer to sell a lottery ticket to a person under 18
19 years of age;

20 (4) knowingly present a counterfeit or altered lottery ticket for
21 payment or transfer a counterfeit or altered lottery ticket to another person to present
22 for payment;

23 (5) with intent to defraud, falsely make, alter, forge, utter, pass, or
24 counterfeit a lottery ticket;

25 (6) impersonate an employee or contractor of the commission.

26 (b) A lottery retail sales agent, the governor, or an officer, employee, or
27 contractor of the commission or the Office of the Governor may not purchase a lottery
28 ticket or receive a lottery prize.

29 (c) An agent may not knowingly withhold funds owed to the commission.

30 (d) This section does not prohibit a person from giving a lottery ticket to
31 another person of any age.

(e) In this section, "knowingly" has the meaning given in AS 11.81.900.

Sec. 05.18.330. Assignment of contracts. A person that enters into a contract under this chapter may not assign the contract without the approval of the commission.

Sec. 05.18.340. Penalty. A person that violates AS 05.18.150 - 05.18.200, 05.18.320, or 05.18.330 is guilty of a class C felony.

Sec. 05.18.350. Statement of odds. Each lottery ticket must indicate the odds of winning a lottery prize in the particular lottery game represented by the lottery ticket.

Sec. 05.18.510. Applicability of other laws. Other laws regarding the sale of lottery tickets or the administration of a lottery do not apply to the sale of lottery tickets under this chapter.

Article 5. General Provisions.

Sec. 05.18.900. Definitions. In this chapter, unless the context requires otherwise,

(1) "agent" means a person who has contracted with the commission to be a lottery retail sales agent under this chapter;

(2) "agent contract" means a contract under AS 05.18.100 between the commission and a person for the person to be an agent;

(3) "commission" means the Alaska State Lottery Commission;

(4) "department" means the Department of Revenue;

(5) "director" means the executive director of the commission;

(6) "lottery" or "state lottery" means the lottery established and operated under this chapter;

(7) "lottery ticket" means a ticket, receipt, card, or other item, received by a person from an agent or an employee of an agent as evidence of participation in the lottery;

(8) "operation and administration" includes accounting, sales, promotion, and security;

(9) "person" has the meaning given in AS 01.10.060 and also includes an estate, receiver, trustee, assignee, referee, or other person acting in a fiduciary or representative capacity, whether appointed by a court or otherwise, and a department,

1 commission, agency, or instrumentality of the state, including a municipality and an
2 agency or instrumentality of a municipality;

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

4 (2) "gambling" means that a person stakes or risks something of value
5 upon the outcome of a contest of chance or a future contingent event not under the
6 person's control or influence, upon an agreement or understanding that that person or
7 someone else will receive something of value in the event of a certain outcome;
8 "gambling" does not include

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

14 (B) playing an amusement device that

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

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

20 (C) an activity authorized by the Department of Revenue under

21 AS 05.15 or AS 05.18;

22 * **Sec. 3.** AS 18.65.080 is amended by adding a new subsection to read:

23 (b) The Department of Public Safety shall investigate and ascertain whether a
24 person appointed by the governor to serve as a member of the Alaska State Lottery
25 Commission has been convicted of a crime set out in AS 05.18.010(e) and shall perform
26 other services for the commission as may be required.

27 * **Sec. 4.** AS 18.65.290(6) is amended to read:

28 (6) "police officer" means

29 (A) a full-time employee of the state or a municipal police
30 department with the authority to arrest and issue citations; detain a person
31 taken into custody until that person can be arraigned before a judge or

1 magistrate; conduct investigations of violations of and enforce criminal laws,
2 regulations, and traffic laws; search with or without a warrant persons,
3 dwellings, and other forms of property for evidence of a crime; and take other
4 action consistent with exercise of these enumerated powers when necessary to
5 maintain the public peace;

6 (B) an officer or employee of the Department of Transportation
7 and Public Facilities who is stationed at an international airport and has been
8 designated to have the general police powers authorized under
9 AS 02.15.230(a);

10 (C) a University of Alaska public safety officer with general
11 police powers authorized under AS 14.40.043;

12 (D) the deputy director for security for the Alaska State

13 Lottery Commission;

14 * Sec. 5. AS 39.25.110(11) is amended to read:

15 (11) the officers and employees of the following boards, commissions,
16 and authorities:

17 (A) [REPEALED

18 (B)] Alaska Permanent Fund Corporation;

19 (B) [(C)] Alaska Industrial Development and Export Authority;

20 (C) [(D)] Alaska Commercial Fisheries Entry Commission;

21 (D) [(E)] Alaska Commission on Postsecondary Education;

22 (E) [(F)] Alaska Aerospace Development Corporation;

23 (F) [(G)] Alaska Natural Gas Development Authority;

24 (G) Alaska State Lottery Commission;

25 * Sec. 6. AS 39.50.200(b) is amended by adding a new paragraph to read:

26 (58) Alaska State Lottery Commission (AS 05.18).

27 * Sec. 7. The uncoded law of the State of Alaska is amended by adding a new section to
28 read:

29 REGULATIONS. Notwithstanding the effective date of this Act, the Department of
30 Revenue shall begin the process under AS 44.62 (Administrative Procedure Act) of adopting
31 regulations to implement those sections of this Act so that the regulations can take effect

- 1 January 1, 2004, or as soon thereafter as is possible.
- 2 * Sec. 8. Except as provided in sec. 9 of this Act, this Act takes effect January 1, 2004.
- 3 * Sec. 9. Section 7 of this Act takes effect immediately under AS 01.10.070(c).

*w/video gaming*23-LS0914/Q
Luckhaupt
4/14/03

CS FOR HOUSE BILL NO. 240()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:

Referred:

Sponsor(s): HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, INTERNATIONAL
TRADE, AND TOURISM

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to electronic gaming and to establishing a state lottery; and providing
2 for an effective date."

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

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

5 Chapter 18. Lottery and Gaming.

6 Article 1. Administration.

7 Sec. 05.18.010. Creation of commission. (a) The Alaska State Lottery and
8 Gaming Commission is established for the purpose of generating revenue for the state.
9 The commission is established in the Department of Revenue. The commission
10 consists of five members appointed by the governor, subject to confirmation by the
11 legislature. One member shall be appointed from each of the four judicial districts of
12 the state. The fifth member shall be an at-large member. Not more than three of the
13 five members may be members of the same political party. The governor shall appoint
14 one member to serve as chair of the commission.

1 (b) Members serve staggered terms of five years. A member may be
2 reappointed but may not serve for more than 10 years.

3 (c) A member of the commission does not receive a salary for service on the
4 commission but is entitled to per diem and travel expenses authorized for members of
5 boards and commissions under AS 39.20.180.

6 (d) A member of the commission may not have a pecuniary interest in a
7 contract or agreement entered into by the commission.

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

9 (1) has been convicted of

10 (A) a felony; or

11 (B) an offense under this chapter, AS 11.66.200 - 11.66.280, or a
12 comparable provision of municipal, state, or federal law;

13 (2) holds a license, permit, or registration under AS 05.15; or

14 (3) is an elected official of the state or of a political subdivision of the
15 state.

16 (f) A person may not serve as a member of the commission until the
17 investigation required under AS 18.65.080(b) is completed.

18 (g) Three members of the commission constitute a quorum for the transaction of
19 business.

20 (h) The governor may remove a member for cause, including incompetence,
21 neglect of duty, or misconduct in office. A member being removed for cause shall be
22 given a copy of the charges and afforded an opportunity to publicly present a defense in
23 person or by counsel upon not less than 10 days' notice. If a member is removed for
24 cause, the governor shall file with the lieutenant governor a complete statement of all
25 charges made against the member and the governor's findings based on the charges,
26 together with a complete record of the proceedings.

27 (i) The governor may immediately suspend a member for a violation of law or
28 for misconduct in office pending removal from office under (a) of this section.

29 **Sec. 05.18.020. Meetings.** (a) The commission shall meet at least quarterly at
30 the call of the chair, at the request of a majority of the members, or at a regularly
31 scheduled time set by the commission.

(b) An action of the commission is not binding unless taken at a meeting where three or more of the members are present and vote in favor of the action.

Sec. 05.18.030. Duties and powers of commission. The commission shall

(1) enter into contracts and agreements necessary to carry out the provisions of this chapter, including contracts with other jurisdictions for the conduct of multi-jurisdictional lotteries;

(2) adopt regulations necessary to carry out the provisions of this chapter;

(3) determine policy direction for the operation and administration of the lottery and electronic gaming;

(4) report to the governor and the legislature each year; the report must include a full and complete statement of lottery and electronic gaming revenue, lottery prize disbursement, and other expenses, and recommendations for changes in this chapter;

(5) report to the governor and the legislature as frequently as the commission determines necessary on conclusions from the analysis of the reaction of state residents to the lottery and electronic gaming, and on matters that require changes in the law to prevent violations or evasions of this chapter or to correct undesirable conditions in connection with the operation or administration of the lottery and electronic gaming;

(6) monitor the operation of the lottery and electronic gaming throughout the state;

(7) study and investigate the operation and administration of the lottery and gaming laws of other states and of federal laws that affect the lottery and electronic gaming; and

(8) conduct the lotteries and electronic gaming that the commission determines are appropriate.

Sec. 05.18.040. Regulations. The commission shall adopt regulations under AS 44.62 (Administrative Procedure Act) to establish

(1) the types of lotteries to be conducted, the prices for the tickets, the manner of conducting the lotteries, and the calculation and awarding of lottery prizes;

1 (2) the types of electronic games to be conducted, the prices to play
2 those games, the manner of conducting the games, and the calculation and award of
3 payoffs;

4 (3) the procedures for contracting with persons to be agents and the
5 manner and amount of compensation to be paid agents; the amount of compensation
6 paid to an agent may not exceed five percent of the retail price of the ticket sales by
7 the agent; a contract may provide for up to an additional one percent bonus for
8 attaining sales volumes or other incentives as are appropriate for the lottery games;

9 (4) the procedures for contracting with persons to be vendors and the
10 manner and amount of compensation to be paid vendors;

11 (5) other matters necessary or desirable to carry out this chapter, to
12 operate the lottery and electronic gaming efficiently and economically, and to make
13 the electronic gaming, the purchase of lottery tickets, and the distribution of lottery
14 prizes convenient.

15 **Sec. 05.18.050. Executive director and employees.** (a) The commission
16 shall employ an executive director who is qualified by training and experience to
17 conduct the day-to-day work of the commission. The director may not engage in
18 another profession or occupation.

19 (b) Subject to the approval of the commission, the director may appoint
20 deputies required to carry out the functions and duties of the commission. The
21 director may appoint professional, technical, and clerical employees necessary to
22 perform the duties of the commission.

23 (c) The director and other employees of the commission are in the exempt
24 service under AS 39.25.110.

25 (d) The commission may not employ a person who has been convicted,
26 including conviction based on a guilty plea or plea of nolo contendere, of an offense
27 that disqualifies a person from being a member of the commission.

28 **Sec. 05.18.060. Duties of director.** The director shall

29 (1) supervise the operation and administration of the lottery and
30 electronic gaming;

31 (2) act as secretary to the commission;

1 (3) contract with agents to sell lottery tickets;

2 (4) contract with vendors to conduct electronic gaming;

3 (5) provide for the security of the lottery and electronic gaming
4 including by employment of a deputy director for security and through agreements
5 with the Department of Public Safety; the deputy director must be eligible for
6 certification as a peace officer under AS 18.65.130 - 18.65.290, and shall be
7 responsible for obtaining background investigations of employees, retail sales agents,
8 vendors, and contractors, and shall develop a security plan;

9 (6) meet at least quarterly with the commission on the operation and
10 administration of the lottery and electronic gaming;

11 (7) make available for inspection by the commission, on request, all
12 books, records, files, and other information and documents of the commission;

13 (8) advise the commission and make recommendations to improve the
14 operation and administration of the lottery and electronic gaming;

15 (9) suspend or revoke a contract issued under this chapter for a
16 violation of this chapter or the regulations adopted under this chapter;

17 (10) subject to the approval of the commission, enter into contracts for
18 the operation and administration of the lottery and electronic gaming, except that agent
19 and vendor contracts are not subject to the approval of the commission; and

20 (11) provide each month to the commission a full and complete
21 statement of lottery and electronic gaming revenue, lottery prize disbursements, and
22 other expenses for the preceding month.

23 **Sec. 05.18.070. Subpoenas.** (a) The director or the commission may
24 subpoena witnesses and documents in a matter over which the commission has
25 jurisdiction, control, or supervision. The director or the commission may administer
26 oaths and affirmations to persons whose testimony is required.

27 (b) If a person fails to obey a subpoena or refuses to answer a relevant
28 question or to exhibit a document when ordered to do so by the director or the
29 commission, the director or the commission may apply to the superior court for an
30 order directing the person to comply with the subpoena or the order. The court may
31 order the person to comply.

Article 2. Lottery Retail Sales Agents.

Sec. 05.18.100. Lottery retail sales agents. (a) The director may contract with persons on behalf of the commission to be lottery retail sales agents.

(b) A lottery retail sales agent may

(1) sell lottery tickets;

(2) hire employees to perform the services under (1) of this subsection.

(c) An agent shall supervise each employee of the agent in the employee's performance of the services under (b)(1) of this section.

Sec. 05.18.110. Qualifications for agent contracts. (a) A person who wishes to contract with the commission to be an agent shall apply on a form provided by the commission. The director shall charge the applicant a fee to cover the costs of processing the application and checking the background of the applicant.

(b) Before contracting with an applicant, the director shall require a prospective agent to disclose to the commission the applicant's name and address and the following:

(1) if the prospective lottery retail sales agent is a corporation, names and addresses of the officers, directors, and each stockholder in the corporation; except that, in the case of stockholders of publicly held equity securities of a publicly traded corporation, only the names and addresses of those known to the corporation to own five percent or more of the securities need be disclosed;

(2) if the prospective lottery retail sales agent is a trust, names and addresses of the trustees and all persons entitled to receive income or benefit from the trust;

(3) if the prospective lottery retail sales agent is an association, the names and addresses of the members, officers, and directors;

(4) if the prospective lottery retail sales agent is a subsidiary, the names and addresses of the officers, directors and each stockholder of the parent corporation of the subsidiary; except that, in the case of stockholders of a publicly traded corporation, only the names and addresses of those known to the corporation to own five percent or more of such securities need be disclosed;

(5) if the prospective lottery retail sales agent is a partnership or joint

1 venture, the names and addresses of all the general partners, limited partners, or joint
2 venturers;

3 (6) if the parent company, general partner, limited partner, or joint
4 venturer of any prospective lottery retail sales agent is itself a corporation, trust,
5 association, subsidiary, partnership, or joint venture, the names and addresses required
6 under (1) - (5) if this subsection shall be disclosed for the other entity as of it were
7 itself a prospective lottery retail sales agent to the end that full disclosure of ultimate
8 ownership be achieved;

9 (7) if any member of the immediate family of any prospective lottery
10 retail sales agent is involved in the lottery retail sales agent's business in any capacity,
11 then the names and addresses of the immediate family member shall be disclosed as if
12 the immediate family member were a prospective lottery retail sales agent;

13 (8) the details of any felony conviction of a criminal offense, state or
14 federal, of the retail sales agent or any person whose name and address are required by
15 the disclosure requirements of this subsection; and

16 (9) the details of any disciplinary action of a judicial nature taken by
17 any state against the retail sales agent or any person whose name and address are
18 required by this subsection regarding any matter related to the selling, leasing, offering
19 for sale or lease, buying, or servicing of gaming materials or equipment.

20 (c) Before contracting with an applicant to be an agent, the director shall
21 consider

22 (1) the financial responsibility and security of the applicant and the
23 applicant's business or activity;

24 (2) the accessibility of the applicant's place of business or activity to
25 the public;

26 (3) the ability of the applicant to promote the retail sale of lottery
27 tickets;

28 (4) the sufficiency of existing agent contracts to serve the public
29 convenience;

30 (5) the volume of expected sales; and

31 (6) other factors the director determines are relevant.

(d) The director may not contract with an applicant to be an agent if the applicant

(1) would be engaged in business exclusively as an agent;

(2) is an individual under 18 years of age;

(3) has a contract with the commission regarding the operation and administration of the lottery; or

(4) has been convicted of a felony or a gambling or gaming misdemeanor, including conviction based on a guilty plea or plea of nolo contendere.

Sec. 05.18.120. Duration of agent contracts. The director may contract with an agent for a term of not more than two years but may renew the contract.

Sec. 05.18.130. Revocation or suspension of agent contracts. (a) The director shall suspend or cancel the contract of an agent who violates AS 05.18.470.

(b) The director may suspend or cancel the contract of an agent who violates a regulation adopted under this chapter or a provision of this chapter other than AS 05.18.470.

(c) The director shall conduct proceedings to suspend or cancel an agent contract under AS 44.62 (Administrative Procedure Act).

Sec. 05.18.140. Compensation of agents. (a) The director shall establish the levels of compensation for agents consistent with AS 05.18.040(3). The director may establish bonus or incentive awards as permitted by AS 05.18.040(3).

(b) When establishing the compensation for agents, the director shall consider

(1) the time and the cost of overhead necessary to make the lottery tickets available at convenient times and for sufficient hours to accommodate the public;

(2) the time necessary for an agent to keep adequate records of the sales of lottery tickets and to prepare the deposits and reports required under AS 05.18.150;

(3) other criteria the director considers relevant.

Sec. 05.18.150. Deposit of receipts and reports. (a) Each agent shall deposit to the credit of the state in a bank designated by the director all money received by the agent from the sale of lottery tickets. The director shall provide for

1 periodic automatic withdrawals from the bank of the funds due the lottery.

2 (b) Each agent shall file with the director on a form provided by the
3 commission weekly reports of the receipts and transactions in the sale of lottery
4 tickets.

5 (c) The director shall impose a service charge on an agent if the payor bank
6 dishonors an electronic transfer of funds to the state lottery and gaming fund from the
7 account of the agent for money received from the sale of lottery tickets.

8 (d) The director may charge an agent interest on money that is not paid to the
9 state within 10 days after the due date and may impose an additional service charge in
10 an amount to cover administrative costs if the debt is referred for collection.

11 (e) The amount, including any interest or service charge, owed to the
12 commission by an agent is a lien on the property of the agent at the time that the
13 commission files a claim of lien in the recorder's office of the recording district of the
14 principal place of business of the agent.

15 **Sec. 05.18.160. Bond.** (a) Each applicant for an agent contract shall, at the
16 time of application under AS 05.18.110, file with the commission and maintain during
17 the term of an agent contract a bond running to the state with a corporate surety
18 qualified to do business in the state. The amount of the bond shall be determined by
19 the commission.

20 (b) The bond required by this section remains in effect until cancelled by
21 action of the surety, the principal, or the commission.

22 (c) The state or another person may not bring an action on the bond more than
23 three years after its cancellation.

24 **Article 3. Lottery Prizes.**

25 **Sec. 05.18.200. Assignment of lottery prizes.** A person may not assign a
26 right to a lottery prize. However, a lottery prize may be paid to a person other than the
27 prize winner under a court order or to the estate of a deceased prize winner. The state
28 is discharged of all further liability when a lottery prize has been paid under this
29 section.

30 **Sec. 05.18.210. Payment of lottery prizes to persons under 18 years.** (a)
31 If a person entitled to a lottery prize is under 18 years of age, the director may deliver

1 the prize by depositing the amount of the prize in a bank to the credit of an adult
2 member of the minor's family, or a guardian of the minor, as custodian for the minor.
3 The person named as custodian shall have the same duties and powers as a person
4 designated as a custodian under AS 13.46.

5 (b) The state is discharged of all further liability after payment of a lottery
6 prize to a minor under this section.

7 (c) In this section,

8 (1) "bank" has the meaning given in AS 45.14.105;

9 (2) "guardian" has the meaning given in AS 13.06.050;

10 (3) "member of the minor's family" has the meaning given in
11 AS 13.46.990.

12 **Sec. 05.18.220. Unclaimed prize money.** The director shall retain unclaimed
13 lottery prize money for the person entitled to it for one year after the prize is awarded.
14 If the winner does not claim the lottery prize money within the year, the commission
15 shall return the money and accrued interest to the state lottery and gaming fund.

16 **Article 4. Electronic Gaming.**

17 **Sec. 05.18.300. Electronic gaming vendors.** The commission may contract
18 with vendors to conduct electronic gaming. A contract may not permit a vendor to
19 have more than 10 machines at any one location.

20 **Sec. 05.18.310. Central computer system.** (a) The commission shall operate
21 electronic gaming through a central computer system. The central computer must be
22 capable of auditing the operation, financial data, and program information of each
23 electronic gaming machine.

24 (b) The commission shall contract for the provision and operation of the
25 central computer system with the private sector or another jurisdiction. The contractor
26 for the central computer system shall be compensated as a percentage of net machine
27 income generated by all electronic gaming machines in the state not to exceed one
28 percent of net machine income. All equipment or devices required for operation of the
29 central computer system shall be included in the contract.

30 (c) The central computer system shall be used exclusively for the operation of
31 electronic gaming under this chapter and shall incorporate electronic fund transfer

1 procedures for the collection of revenue, be capable of disabling any electronic
2 gaming machine from play, and be capable of communication with all electronic
3 gaming machines approved by the commission. The contractor for the central
4 computer system shall provide licensed manufacturers with the protocol
5 documentation and the audit information and controls necessary to enable the
6 manufacturers' electronic gaming machines to communicate with the central computer
7 system. The central computer system may not limit participation to only one
8 manufacturer of electronic gaming machines. The contractor for the central computer
9 system may not provide electronic gaming machines for use in connection with the
10 central computer system.

11 **Sec. 05.18.320. Electronic gaming machines.** (a) Only electronic gaming
12 machines approved and leased by the commission may be used for electronic gaming. A
13 vendor may not purchase an electronic gaming machine. A vendor may only lease an
14 electronic gaming machine from the commission. The department may not approve an
15 electronic gaming machine unless the machine

16 (1) offers only games authorized by the department;

17 (2) does not have any means of manipulation that affect the random
18 probabilities of winning a game;

19 (3) is designed to accept cash, in the form of coins or bills, to prevent
20 the obtaining of plays or credits without paying by stringing, slamming, drilling, or
21 other means of manipulation, and to suspend itself from operation until it is physically
22 reset if physically tampered with;

23 (4) has nonresettable meters housed in a readily accessible locked
24 machine area that keeps a permanent record of all money inserted into the machine, all
25 refunds of winnings made by the machine's printer, credits played for electronic
26 gaming games, and credits won by electronic gaming players;

27 (5) does not directly pay off winning players by means of tokens or
28 cash, in the form of coins or bills, but is capable of printing a ticket voucher stating the
29 value of the prize for the player at the completion of each electronic gaming game, the
30 time of day in a 24-hour format showing hours and minutes, the date, the machine
31 serial number, the sequential number of the ticket vouchers, and an encrypted
32 validation number from which the validity of the prize may be determined;

1 (6) has accounting software that keeps an electronic record that
2 includes total money inserted into the machine, the value of winning tickets claimed
3 by players, the total electronic gaming credits awarded by an electronic gaming game,
4 and the payback percentages credited players of each electronic gaming game;

5 (7) is capable of being linked to the central computer system described
6 AS 05.18.310;

7 (8) does not allow more than \$2 to be played on a game or award free
8 games or credits in excess of the value of \$75 for each credit value of \$0.25 played;
9 and

10 (9) has a total payoff of at least 85 percent of the value of one \$0.25
11 credit.

12 (b) The odds of winning each electronic gaming game shall be posted on or
13 near each electronic gaming machine. The manner in which the odds are calculated
14 and how they are posted shall be set by the department by regulation.

15 (c) An electronic gaming machine

16 (1) may not be played by a person under 21 years of age and may not
17 be located in any place accessible to persons under 21 years of age;

18 (2) may be played only during the regular business hours for the
19 location and, if the permittee or electronic gaming vendor is licensed under AS 04.11,
20 during the legal hours of operation allowed by the license and applicable municipal
21 ordinance.

22 (d) All electronic gaming machines shall be monitored by the electronic
23 gaming vendor during business hours. Monitoring shall be accomplished by the
24 physical presence of an employee of the permittee or the electronic gaming vendor or
25 by an employee using video cameras or mirrors and by periodic personal inspections
26 of the machines and the area in which the machines are located.

27 (e) An electronic gaming vendor may not advertise in any manner the
28 possession or availability of electronic gaming machines on their premises.

29 (f) If the sale of alcoholic beverages has been prohibited within a municipality
30 under AS 04.11.491, the commission may contract with a person within the
31 municipality that provides the person with the authority to conduct electronic gaming

1 by use of electronic gaming machines in a manner similar to other electronic gaming
2 vendors. These persons are only authorized to conduct electronic gaming if the
3 electronic gaming is conducted only within a location into which the access is
4 restricted to persons 21 years of age or older.

5 **Sec. 05.18.330. Electronic gaming machine manufacturers.** (a) A person
6 may not manufacture electronic gaming machines or associated equipment in the state
7 and may not distribute an electronic gaming machine or associated equipment that the
8 person has manufactured outside of the state in the state unless the person has received
9 an electronic gaming manufacturer's license issued by the commission.

10 (b) The commission may issue an electronic gaming machine manufacturer's
11 license to a person who pays an annual fee of \$5,000.

12 (c) An electronic gaming machine or associated equipment may not be
13 manufactured, sold, or distributed in the state unless it has been approved by the
14 commission. The commission shall examine prototypes of electronic gaming
15 machines and associated equipment that a licensed manufacturer wishes to
16 manufacture, sell, or distribute in the state. The manufacturer shall pay in advance the
17 costs of the examination and approval of an electronic gaming machine or associated
18 equipment. The commission may contract with another state or person for the
19 examination required under this subsection.

20 (d) An electronic gaming machine manufacturer may distribute electronic
21 gaming machines and associated equipment only to the commission, or to a vendor
22 when directed by the commission, under a contract entered into with the commission.
23 The commission may provide that an electronic gaming machine manufacturer may
24 receive up to five percent of net machine income generated by machines provided by
25 the manufacturer under the contract to the commission for use by electronic gaming
26 vendors.

27 (e) An electronic gaming machine manufacturer shall report to the
28 commission by the last business day of the month on each machine or associated
29 equipment distributed within the state during the preceding month, including the serial
30 number of each machine or associated equipment distributed.

31 **Sec. 05.18.340. Contracts with electronic gaming vendors.** (a) The director

1 may contract with persons on behalf of the commission to be electronic gaming
2 vendors. Except as provided in AS 05.18.320(f), each electronic gaming vendor must
3 be a business whose primary activity is not regulated by this chapter that

4 (1) holds a business license under AS 43.70; and

5 (2) is an establishment holding a beverage dispensary license under
6 AS 04.11.090 that has not been designated by the Alcoholic Beverage Control Board
7 under AS 04.16.049(a)(2) or (3), has not been exempted by the Department of Labor
8 and Workforce Development under AS 04.16.049(c) and AS 23.10.355, and, if the
9 establishment is a hotel, motel, resort, or similar business that caters to the traveling
10 public as a substantial part of its business, does not conduct the electronic gaming
11 activities in a dining room, banquet room, guest room, or other public areas other than
12 a room in which there is regularly maintained a fixed counter or service bar at which
13 alcoholic beverages are sold or served to members of the public for consumption.

14 (b) An electronic gaming vendor may

15 (1) possess electronic gaming machines leased from the commission
16 and conduct electronic gaming as permitted by this chapter;

17 (2) hire employees to perform the services under (1) of this subsection.

18 (c) An electronic gaming vendor shall supervise each employee of the vendor
19 in the employee's performance of the services under (b)(1) of this section.

20 (d) Before contracting with an applicant, the director shall require a
21 prospective vendor to disclose to the commission the applicant's name and address and
22 the following:

23 (1) if the prospective vendor is a corporation, names and addresses of
24 the officers, directors, and each stockholder in the corporation; except that, in the case
25 of stockholders of publicly held equity securities of a publicly traded corporation, only
26 the names and addresses of those known to the corporation to own five percent or
27 more of the securities need be disclosed;

28 (2) if the prospective vendor is a trust, names and addresses of the
29 trustees and all persons entitled to receive income or benefit from the trust;

30 (3) if the prospective vendor is an association, the names and addresses
31 of the members, officers, and directors;

1 (4) if the prospective vendor is a subsidiary, the names and addresses
2 of the officers, directors and each stockholder of the parent corporation of the
3 subsidiary; except that, in the case of stockholders of a publicly traded corporation,
4 only the names and addresses of those known to the corporation to own five percent or
5 more of such securities need be disclosed;

6 (5) if the prospective vendor is a partnership or joint venture, the
7 names and addresses of all the general partners, limited partners, or joint venturers;

8 (6) if the parent company, general partner, limited partner, or joint
9 venturer of any prospective vendor is itself a corporation, trust, association, subsidiary,
10 partnership, or joint venture, the names and addresses required under (1) - (5) if this
11 subsection shall be disclosed for the other entity as if it were itself a prospective
12 vendor to the end that full disclosure of ultimate ownership be achieved;

13 (7) if any member of the immediate family of any prospective vendor
14 is involved in the ~~lottery~~ vendor's business in any capacity, then the names and
15 addresses of the immediate family member shall be disclosed as if the immediate
16 family member were a prospective vendor;

17 (8) the details of any felony conviction of a criminal offense, state or
18 federal, of the vendor or any person whose name and address are required by the
19 disclosure requirements of this subsection; and

20 (9) the details of any disciplinary action of a judicial nature taken by
21 any state against the vendor or any person whose name and address are required by
22 this subsection regarding any matter related to the selling, leasing, offering for sale or
23 lease, buying, or servicing of gaming materials or equipment.

24 **Sec. 05.18.350. Qualifications for vendor contracts.** (a) A person who
25 wishes to contract with the commission to be an electronic gaming vendor shall apply
26 on a form provided by the commission. The director shall charge the applicant a fee to
27 cover the costs of processing the application and checking the background of the
28 applicant.

29 (b) Before contracting with an applicant to be an vendor, the director shall
30 consider

31 (1) the financial responsibility and security of the applicant and the

1 applicant's business or activity;

2 (2) the accessibility of the applicant's place of business or activity to
3 the public;

4 (3) the ability of the applicant to promote electronic gaming;

5 (4) the sufficiency of existing vendor contracts to serve the public
6 convenience;

7 (5) the volume of expected electronic gaming; and

8 (6) other factors the director determines are relevant.

9 (c) The director may not contract with an applicant to be an agent if the
10 applicant

11 (1) would be engaged in business exclusively as a vendor;

12 (2) is an individual under 18 years of age;

13 (3) has a contract with the commission regarding the operation and
14 administration of the lottery; or

15 (4) has been convicted of a felony or a gambling or gaming
16 misdemeanor, including conviction based on a guilty plea or plea of nolo contendere.

17 **Sec. 05.18.360. Duration of vendor contracts.** The director may contract
18 with an electronic gaming vendor for a term of not more than two years, but may
19 renew the contract.

20 **Sec. 05.18.370. Revocation or suspension of vendor contracts.** (a) The
21 director shall suspend or cancel the contract of an electronic gaming vendor who
22 violates AS 05.18.320.

23 (b) The director may suspend or cancel the contract of an electronic gaming
24 vendor who violates a regulation adopted under this chapter or a provision of this
25 chapter other than AS 05.18.320.

26 (c) The director shall conduct proceedings to suspend or cancel an electronic
27 gaming vendor contract under AS 44.62 (Administrative Procedure Act).

28 **Sec. 05.18.380. Compensation of vendors.** The director shall establish the
29 levels of compensation for electronic gaming vendors. The director may not contract
30 with a vendor to receive more than 31 percent of net machine income.

31 **Sec. 05.18.390. Deposit of receipts and reports.** (a) Each electronic gaming

1 vendor shall deposit to the credit of the state in a bank designated by the director all
2 money received by the vendor from electronic gaming machines. The director shall
3 provide for periodic automatic withdrawals from the bank of the funds due the state.

4 (b) Each agent shall file weekly reports with the director on a form provided
5 by the commission of the receipts of electronic gaming.

6 (c) The director shall impose a service charge on a vendor if the payor bank
7 dishonors an electronic transfer of funds to the state lottery and gaming fund from the
8 account of the vendor for money received from electronic gaming.

9 (d) The director may charge ~~an agent~~ ^{Vendor} interest on money that is not paid to the
10 state within 10 days after the due date and may impose an additional service charge in
11 an amount to cover administrative costs if the debt is referred for collection.

12 (e) The amount, including any interest or service charge, owed to the
13 commission by ~~an agent~~ ^{Vendor} is a lien on the property of the ~~agent~~ ^{Vendor} at the time that the
14 commission files a claim of lien in the recorder's office of the recording district of the
15 principal place of business of the ~~agent~~ ^{Vendor}.

16 **Sec. 05.18.400. Bond.** (a) Each applicant for an electronic gaming vendor
17 contract shall, at the time of application under AS 05.18.340, file with the commission
18 and maintain during the term of an electronic gaming vendor contract a bond running
19 to the state with a corporate surety qualified to do business in the state. The amount of
20 the bond shall be determined by the commission.

21 (b) The bond required by this section remains in effect until cancelled by
22 action of the surety, the principal, or the commission.

23 (c) The state or another person may not bring an action on the bond more than
24 three years after its cancellation.

25 **Article 5. Miscellaneous Provisions.**

26 **Sec. 05.18.450. State lottery and gaming fund and appropriations.** There
27 is created in the general fund the state lottery and gaming fund. The state lottery and
28 gaming fund consists of all revenue received from the sale of lottery tickets and from
29 electronic gaming and all other money credited or transferred to the fund from another
30 fund or source.

31 **Sec. 05.18.460. Audit.** The commission shall have an audit of the books and

1 accounts of the commission performed at least once in each year by certified public
2 accountants. The commission may have special audits performed at any time on its
3 own motion or at the request of the director. The commission shall file a copy of each
4 audit with the commissioner of revenue and the legislature.

5 **Sec. 05.18.470. Prohibited acts.** (a) A person may not

6 (1) knowingly act as an agent or sell a lottery ticket unless the person
7 has a contract with the commission to be an agent, or is an employee of an agent and
8 sells lottery tickets under the supervision of the agent;

9 (2) knowingly sell a lottery ticket at a price greater than that fixed by
10 the commission;

11 (3) knowingly sell or offer to sell a lottery ticket to a person under 18
12 years of age;

13 (4) knowingly present a counterfeit or altered lottery ticket for
14 payment or transfer a counterfeit or altered lottery ticket to another person to present
15 for payment;

16 (5) with intent to defraud, falsely make, alter, forge, utter, pass, or
17 counterfeit a lottery ticket;

18 (6) knowingly act as an electronic gaming vendor unless the person
19 has a contract with the commission to be an electronic gaming vendor, or is an
20 employee of a vendor and conducts electronic gaming under the supervision of the
21 vendor;

22 (7) knowingly allow or offer to allow a person under 21 years of age to
23 play an electronic gaming machine;

24 (8) knowingly present a counterfeit or altered electronic gaming
25 receipt for payment or transfer to another person for payment;

26 (9) knowingly deceive or attempt to deceive an electronic gaming
27 machine to

28 (A) allow the play of that machine without first inserting the
29 required amount of money; or

30 (B) cause the machine to display a winning hand or
31 combination or otherwise provide a payoff when the winning hand,

1 combination, or payoff was not going to occur;

2 (10) impersonate an employee or contractor of the commission.

3 (b) A lottery retail sales agent, an electronic gaming vendor, the governor, or
4 an officer, employee, or contractor of the commission or the Office of the Governor
5 may not purchase a lottery ticket or receive a lottery prize or play an electronic gaming
6 machine.

7 (c) An agent or vendor may not knowingly withhold funds owed to the
8 commission.

9 (d) This section does not prohibit a person from giving a lottery ticket to
10 another person of any age.

11 (e) In this section, "knowingly" has the meaning given in AS 11.81.900.

12 **Sec. 05.18.480. Assignment of contracts.** A person that enters into a contract
13 under this chapter may not assign the contract without the approval of the commission.

14 **Sec. 05.18.490. Penalty.** A person that violates AS 05.18.150 - 05.18.200,
15 05.18.390, 05.18.400, 05.18.470, or 05.18.480 is guilty of a class C felony.

16 **Sec. 05.18.500. Statement of odds.** Each lottery ticket must indicate the odds
17 of winning a lottery prize in the particular lottery game represented by the lottery
18 ticket.

19 **Sec. 05.18.510. Applicability of other laws.** Other laws regarding the sale of
20 lottery tickets, the administration of a lottery, or the conduct of electronic gaming do
21 not apply to the sale of lottery tickets and the conduct of electronic gaming under this
22 chapter.

23 **Article 5. General Provisions.**

24 **Sec. 05.18.900. Definitions.** In this chapter, unless the context requires
25 otherwise,

26 (1) "agent" means a person who has contracted with the commission to
27 be a lottery retail sales agent under this chapter;

28 (2) "agent contract" means a contract under AS 05.18.100 between the
29 commission and a person for the person to be an agent;

30 (3) "commission" means the Alaska State Lottery and Gaming
31 Commission;

1 (4) "department" means the Department of Revenue;

2 (5) "director" means the executive director of the commission;

3 (6) "electronic gaming" means a game of chance that uses an
4 electronic gaming machine;

5 (7) "electronic gaming machine" means an electronic video game
6 machine that, upon insertion of cash, in the form of coins or bills, is able to play or
7 simulate the play of a video game, including video poker, keno, or blackjack,
8 authorized by the department, using a video display and microprocessors so that, by
9 chance, the player may receive free games or credits that can be redeemed for cash;

10 (8) "lottery" or "state lottery" means the lottery established and
11 operated under this chapter;

12 (9) "lottery ticket" means a ticket, receipt, card, or other item, received
13 by a person from an agent or an employee of an agent as evidence of participation in
14 the lottery;

15 (10) "net machine income" means money put into an electronic gaming
16 machine minus credits paid out in cash;

17 (11) "operation and administration" includes accounting, sales,
18 promotion, and security;

19 (12) "person" has the meaning given in AS 01.10.060 and also
20 includes an estate, receiver, trustee, assignee, referee, or other person acting in a
21 fiduciary or representative capacity, whether appointed by a court or otherwise, and a
22 department, commission, agency, or instrumentality of the state, including a
23 municipality and an agency or instrumentality of a municipality;

24 (13) "vendor" or "electronic gaming vendor" means a person who has
25 contracted with the commission to conduct electronic gaming under this chapter;

26 (14) "vendor contract" means a contract under AS 05.18.340 between
27 the commission and a person for the person to be a vendor.

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

29 (2) "gambling" means that a person stakes or risks something of value
30 upon the outcome of a contest of chance or a future contingent event not under the
31 person's control or influence, upon an agreement or understanding that that person or

1 someone else will receive something of value in the event of a certain outcome;
2 "gambling" does not include

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

8 (B) playing an amusement device that

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

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

14 (C) an activity authorized by the Department of Revenue under

15 AS 05.15 or AS 05.18;

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

17 (3) "gambling device" means any device, machine, paraphernalia, or
18 equipment that is used or usable in the playing phases of unlawful gambling, whether
19 it consists of gambling between persons or gambling by a person involving the playing
20 of a machine; "gambling device" does not include

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

23 (B) an amusement device as described in (2)(B) of this section;

24 or

25 (C) an electronic gaming machine permitted by the
26 commissioner of revenue under AS 05.18;

27 * Sec. 4. AS 18.65.080 is amended by adding a new subsection to read:

28 (b) The Department of Public Safety shall investigate and ascertain whether a
29 person appointed by the governor to serve as a member of the Alaska State Lottery and
30 Gaming Commission has been convicted of a crime set out in AS 05.18.010(e) and shall
31 perform other services for the commission as may be required.

1 * Sec. 5. AS 18.65.290(6) is amended to read:

2 (6) "police officer" means

3 (A) a full-time employee of the state or a municipal police
4 department with the authority to arrest and issue citations; detain a person
5 taken into custody until that person can be arraigned before a judge or
6 magistrate; conduct investigations of violations of and enforce criminal laws,
7 regulations, and traffic laws; search with or without a warrant persons,
8 dwellings, and other forms of property for evidence of a crime; and take other
9 action consistent with exercise of these enumerated powers when necessary to
10 maintain the public peace;

11 (B) an officer or employee of the Department of Transportation
12 and Public Facilities who is stationed at an international airport and has been
13 designated to have the general police powers authorized under
14 AS 02.15.230(a);

15 (C) a University of Alaska public safety officer with general
16 police powers authorized under AS 14.40.043;

17 (D) the deputy director for security for the Alaska State

18 Lottery and Gaming Commission;

19 * Sec. 6. AS 29.10.200(51) is amended to read:

20 (51) AS 29.45.650(c), (d), (e), [AND] (f), and (i) (sales and use tax);

21 * Sec. 7. AS 29.45.650 is amended by adding a new subsection to read:

22 (i) A borough may not levy or collect a sales tax on sales, rents, and services,
23 or a use tax on the storage, use, or consumption of personal property on electronic
24 gaming machines and electronic gaming. This subsection applies to home rule and
25 general law municipalities.

26 * Sec. 8. AS 29.45.700(d) is amended to read:

27 (d) A city that levies and collects sales and use taxes under (a) of this section
28 may not levy and collect a sales tax on a purchase made with (1) food coupons, food
29 stamps, or other types of allotments issued under 7 U.S.C. 2011 - 2036 (Food Stamp
30 Program); or (2) food instruments, food vouchers, or other type of certificate issued
31 under 42 U.S.C. 1786 (Special Supplemental Food Program for Women, Infants, and

Children). For purposes of this subsection, the value of a food stamp allotment paid in the form of a wage subsidy as authorized under AS 47.25.975(b) is not considered to be an allotment issued under 7 U.S.C. 2011 - 2036 (Food Stamp Program). A city that levies and collects sales and use taxes under (a) of this section may not levy and collect a sales or use tax on sales, rents, services, storage, use, or consumption of electronic gaming machines or electronic gaming. This subsection applies to home rule and general law municipalities.

* Sec. 9. AS 39.25.110(11) is amended to read:

(11) the officers and employees of the following boards, commissions, and authorities:

(A) [REPEALED

(B)] Alaska Permanent Fund Corporation;

(B) [(C)] Alaska Industrial Development and Export Authority;

(C) [(D)] Alaska Commercial Fisheries Entry Commission;

(D) [(E)] Alaska Commission on Postsecondary Education;

(E) [(F)] Alaska Aerospace Development Corporation;

(F) [(G)] Alaska Natural Gas Development Authority;

(G) Alaska State Lottery and Gaming Commission;

* Sec. 10. AS 39.50.200(b) is amended by adding a new paragraph to read:

(58) Alaska State Lottery and Gaming Commission (AS 05.18).

* Sec. 11. The uncoded law of the State of Alaska is amended by adding a new section to read:

REGULATIONS. Notwithstanding the effective date of this Act, the Department of Revenue shall begin the process under AS 44.62 (Administrative Procedure Act) of adopting regulations to implement those sections of this Act so that the regulations can take effect January 1, 2004, or as soon thereafter as is possible.

* Sec. 12. Except as provided in sec. 13 of this Act, this Act takes effect January 1, 2004.

* Sec. 13. Section 11 of this Act takes effect immediately under AS 01.10.070(c).

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MEMORANDUM

April 9, 2003

SUBJECT: Sectional Summary - HB 240 (Work Order No. 23-LS0914\D)

TO: Representative Cheryll Heinze
Attn: Helen

FROM: Gerald P. Luckhaupt 
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, please note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill - the bill itself is the best statement of its contents.

Section 1. This section is where all the action is. It adds a new chapter to AS 05 dealing with a state lottery. The following sections are created:

- AS 05.18.010 - creates the Alaska State Lottery Commission in the Department of Revenue;
- AS 05.18.020 - sets meeting requirements for the commission;
- AS 05.18.030 - establishes the duties and powers of the commission; paragraph (8) authorizes the commission to conduct two lotteries per year with each winner receiving 50 percent of the ticket sales for that lottery less up to five percent for expenses;
- AS 05.18.040 - authorizes the commission to adopt regulations;
- AS 05.18.050 - allows the commission to employ an executive director and the director to employ deputies and other employees; the director and all employees are in the exempt service;
- AS 05.18.060 - sets the duties of the director;
- AS 05.18.070 - authorizes the director or the commission to issue subpoenas in matters over which the commissioner has control;
- AS 05.18.100 - authorizes the director to contract with persons to be lottery sales ticket agents;
- AS 05.18.110 - sets qualifications for a person to be a lottery sales ticket agent;
- AS 05.18.120 - provides that contracts with agents may not be for more than two years but may be renewed;
- AS 05.18.130 - relates to suspension or cancellation of agent contracts;
- AS 05.18.140 - allows the director to establish the compensation for agents;
- AS 05.18.150 - provides requirements for the deposit of receipts and reports by agents;
- AS 05.18.160 - requires agents to maintain a bond in an amount set by the commission;
- AS 05.18.200 - relates to assignments of lottery prizes;

Representative Cheryll Heinze

April 9, 2003

Page 2

AS 05.18.210 - relates to the payment of a prize to a person under the age of 18;

AS 05.18.220 - relates to unclaimed prizes;

AS 05.18.300 - creates a state lottery fund in the general fund;

AS 05.18.310 - requires an audit of the books of the commission at least each year;

AS 05.18.320 - establishes prohibitions on certain conduct relating to the lottery;

AS 05.18.330 - provides that contracts may not be assigned without the approval of the commission;

AS 05.18.340 - provides that a person that violates the prohibitions, assigns a contract without permission, fails to deposit lottery receipts or make required reports, fails to obtain the bond required by the commission, or illegally assigns a lottery prize is guilty of a class C felony;

AS 05.18.350 - requires each lottery ticket to have a statement of odds printed on the ticket;

AS 05.18.360 - provides that other laws do not apply to this chapter;

AS 05.18.900 - provides definitions.

Section 2. Amends the definition of "gambling" to exclude the state lottery.

Section 3. Requires the Department of Public Safety to investigate appointees to the commission.

Section 4. Provides that the officers and employees of the commission are in the exempt service.

Section 5. Provides that the commission is subject to the requirements of AS 39.50, public official financial disclosure.

GPL:med

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Sectional Analysis for CS for HB 240
(Work Draft 23-LS0914H)

- Sec. 1:** Technical – Activities authorized under the permit don't include EGMs, therefore EGM permittees don't pay additional 1% fee to Department of Revenue.
- Sec. 2:** Technical – Places EGM vendors under Department of Revenue oversight and regulation.
- Sec. 3:** Technical – Authorizes Department of Revenue to examine books and records of EGM vendors.
- Sec. 4:** Technical – Requires signature on applications and reports to Department of Revenue by licensed EGM distributor agents, EGM manufacturers or agent, registered EGM vendors or agent, and registered pull-tab vendor or agent.
- Sec. 5:** Technical – Allows Department of Revenue to issue a permit to a municipality or qualified organization to conduct electronic gaming activities through EGMs.
- Sec. 6:** Technical – Adds EGM vendor to list of convicted felons in Alaska and from other states (if same offense), and also adds violators of a law or ordinance in Alaska or another state, of a crime involving theft, dishonesty or gambling, and affords ability to prohibit from being issued an EGM permit or working in an establishment.
- Sec. 7:** Prohibits an EGM permittee from contracting with an operator.
- Sec. 8:** Technical – Allows a municipality to prohibit an EGM vendor from conducting activities in respective municipality.
- Sec. 9:** Technical – Clarifies EGM activities within revocation purview by the Depart of Revenue over operators.
- Sec. 10:** Technical – Adds EGM proceeds to revenue prohibited from being paid to a state registered lobbyist.
- Sec. 11:** Technical – Places EGM in same category as pull-tabs for ceiling of 90% adjusted gross income to be used for expenses.
- Sec. 12:** Technical – Relates to suspension or revocation of an EGM permit, license or vendor registration concurrent with standards for pull-tab suspensions and revocations.

- Sec. 13:** Technical – Adds EGM use, as a coin operated device, acceptable under gaming law.
- Sec. 14:** Technical – Adds electronic gaming activities to the list of permitted activities in Alaska.
- Sec. 15:** Technical – Excludes electronic gaming from the annual limit of the amount awarded in prizes by charities.
- Sec. 16:** Technical – Clarifies what a distributor is limited to regarding purchases, sales and deliver of pull-tabs to pull-tab vendors so there is no prohibition against an EGM vendor doing same.
- Sec. 17:** Technical – Specifies that registered pull-tab vendors are prohibited from purchasing pull-tabs from themselves.
- Sec. 18:** Technical – Clarifies that pull-tab vendors may not turn over a prize of more than \$50 without collecting a signed receipt.
- Sec. 19:** Technical – Specifies the requirements for pull-tab sales by pull-tab vendors apply only to pull-tab vendors, not EGM vendors.
- Sec. 20:** Authorizes electronic gaming to be conducted and provides the requirements for obtaining an electronic gaming endorsement. Specifies the standards of electronic gaming operation and provides guidelines for approval of EGMs. Provides requirements for the manufacturers and distributors of EGMs. Outlines distribution of income from EGMs and allows for the Dept. of Revenue to contract services related to the administration of electronic gaming.
- Sec. 21:** Allows municipalities and villages to vote on and prohibit, if indicated by the vote, EGMs within their boundaries.
- Sec. 22:** Provides the question to be put before the voters of the municipality or village considering electronic gaming activities.
- Sec. 23:** Technical – Adds EGM vendors to the penalties that apply to pull-tab vendors.
- Sec. 24:** Provides a penalty for violating the standards of EGM operation.
- Sec. 25:** Establishes definitions of terms related to electronic gaming.
- Sec. 26:** No change to original bill. This is Section 1 from original version.
- Sec. 27:** No change to original bill. This is Section 2 from the original version.

- Sec. 28:** Excludes permitted EGM from definition of "gambling device."
- Sec. 29:** No change to original bill. This is Section 3 from original version.
- Sec. 30:** Conforming amendment to Section 31.
- Sec. 31:** Prevents a borough or municipality from levying or collecting a sales, rent, service or use tax on the storage, use or consumption on personal property on EGMs and electronic gaming.
- Sec. 32:** Prevents a city from levying or collecting a sales, rent, service or use tax on the storage, use or consumption on personal property on EGMs and electronic gaming.
- Sec. 33:** No change to original bill. This is Section 4 from original version.
- Sec. 34:** No change to original bill. This is Section 5 from original version.
- Sec. 35:** Repeals definition of vendor because EGM vendor definition is added to language.
- Sec. 36:** Allows Department of Revenue to start adopting regulations for electronic gaming before EGMs laws take effect.
- Sec. 37:** EGM sections take effect January 1, 2004.
- Sec. 38:** State Lottery sections take effect immediately.

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23-LS0921\H

Kurtz

4/14/03

CS FOR HOUSE BILL NO. 236()**IN THE LEGISLATURE OF THE STATE OF ALASKA****TWENTY-THIRD LEGISLATURE - FIRST SESSION****BY****Offered:****Referred:****Sponsor(s): REPRESENTATIVE WILSON****A BILL****FOR AN ACT ENTITLED**

1 "An Act imposing a tax on employment; and providing for an effective date."

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

3 * Section 1. AS 43 is amended by adding a new chapter to read:

4 **Chapter 45. Education Tax.**

5 **Sec. 43.45.011. Tax imposed.** There is imposed a tax of \$100 a year on each
6 individual 19 years of age or older who, during the entire tax year, receives
7 compensation greater than \$1,000 in the state.

8 (b) For purposes of this section, "compensation" includes wages, salaries,
9 commissions, tips, any other form of remuneration paid for personal services, and
10 gross receipts from a trade or business.

11 (c) The tax imposed under this section does not apply to compensation exempt
12 from the tax under federal law.

13 **Sec. 43.45.021. Collection and payment of tax.** (a) An employer shall
14 deduct and withhold \$50 of the tax or 10 percent of the employee's gross
15 compensation, whichever is less, on the first regular payroll in which the employee's

1 total compensation paid by the employer during the tax year exceeds \$1,000, and from
2 subsequent payrolls until the tax due under this chapter is fully withheld.

3 (b) An employer shall file a return on a form prescribed by the department and
4 remit the tax withheld to the department on or before the 15th day of the month
5 following the earlier of the last day of

6 (1) each calendar quarter during which tax was required to be
7 withheld; or

8 (2) any month in which, on the last day of that month, the employer
9 has withheld but not paid \$500 or more of tax.

10 (c) A deduction of the tax may not be made in the salary or other
11 compensation of an individual who provides proof to the employer that

12 (1) the tax imposed under AS 43.45.011 for that tax year has already
13 been withheld by another employer; or

14 (2) the individual was not 19 years of age or older for the entire tax
15 year.

16 (d) An individual who has not had the full tax withheld by an employer must
17 file a return on a form prescribed by the department and remit the tax due under this
18 section by June 30 of the tax year.

19 **Sec. 43.45.031. Liability of employer.** An employer who pays compensation
20 is liable for the tax required to be withheld from an employee under this section unless
21 the employer can demonstrate that the employer relied on proof provided by the
22 employee that

23 (1) the tax imposed under AS 43.45.011 had already been withheld by
24 another employer; or

25 (2) the individual was not 19 years of age or older for the entire tax
26 year.

27 **Sec. 43.45.041. Refund claims.** (a) An individual who has paid more than
28 \$100 in tax under this chapter in a tax year, directly or through employer withholding,
29 or both, may claim a refund from the department. The claim must be made on a form
30 prescribed by the department before December 31 of the calendar year immediately
31 following the tax year in which the overpayment was made.

1 (b) Interest on the overpayment may not be allowed under AS 43.05.280 if the
2 department pays the refund within 90 days after the date the individual files the refund
3 claim or the date on which the last payment of the tax by or on behalf of the individual
4 was received by the department, whichever is later.

5 **Sec. 43.45.051. Disposition of tax proceeds.** (a) The tax collected by the
6 department under AS 43.45.021 shall be deposited into the general fund and accounted
7 for separately.

8 (b) The legislature may appropriate the estimated amounts to be collected and
9 separately accounted for under (a) of this section for education.

10 (c) The deposit required and appropriation authorized by this section are not
11 intended to create a dedication in violation of art. IX, sec. 7, Constitution of the State
12 of Alaska.

13 **Sec. 43.45.099. Definition.** In this chapter, "tax year" means the period
14 beginning on July 1 and ending on June 30 of the following calendar year.

15 * **Sec. 2.** The uncodified law of the State of Alaska is amended by adding a new section to
16 read:

17 **TRANSITIONAL PROVISION.** Notwithstanding AS 43.45.021(b)(2), enacted by
18 sec. 1 of this Act, amounts withheld during the first three months that the tax is in effect shall
19 be remitted and a return shall be filed on or before the 15th day of the fourth month that the
20 tax is in effect.

21 * **Sec. 3.** This Act takes effect July 1, 2003.

Oregon Lottery Information

EGM's (called VLT, Video Lottery Terminals, in Oregon) are owned and operated by Oregon Lottery. Here are some data points:

- Maximum of 5 VLT's per location
- 1,969 retailers have VLT's representing 9,453 total terminals
- Average weekly net sales (after payouts) is \$1,016/week
- In 2002 Oregon pulled in approx. \$480,000,000 from VLT's
 - 9% (\$43,200,000) went for Operating Expenses
 - 33% (\$158,400,000) went to the Retailers in Commissions
 - 58% (\$278,400,000) went to the State of Oregon
- \$480,000,000 represented 80% of Oregon Lottery's total transfer to the state the other 20% was from lottery, keno, etc.
- Attached are a list of staff and pay ranges for video lottery

OREGON LOTTERY STAFFING ASSOCIATED WITH VIDEO LOTTERY

FIELD TECHNICIANS

01 @ Salary Range \$2130-\$2770/mo.	\$2,450 /mo.
11 @ Salary Range \$2280-\$2970/mo.	\$28,875 /mo.
60 @ Salary Range \$2440-\$3180/mo.	\$168,600 /mo.

VIDEO SUPPORT TECHNICIANS/SUPERVISORS

03 @ Salary Range \$2130-\$2770/mo.	\$7,350 /mo.
15 @ Salary Range \$2280-\$2970/mo.	\$39,375 /mo.
05 @ Salary Range \$2440-\$3180/mo.	\$14,050 /mo.
01 @ Salary Range \$2800-\$3640/mo.	\$3,220 /mo.
01 @ Salary Range \$3690-\$4800/mo.	\$4,245 /mo.

RETAILER SERVICES OPERATORS/SUPERVISOR

05 @ Salary Range \$1990-\$2590/mo.	\$11,450 /mo.
22 @ Salary Range \$2130-\$2770/mo.	\$53,900 /mo.
01 @ Salary Range \$3220-\$4190/mo.	\$3,705 /mo.

VIDEO CENTRAL COMPUTER SYSTEM/TELECOMMUNICATIONS NETWORK

12 @ Salary Range \$1780-\$2400/mo.	\$25,080 /mo.
02 @ Salary Range \$2210-\$3000/mo.	\$5,210 /mo.
03 @ Salary Range \$2735-\$3690/mo.	\$9,638 /mo.
03 @ Salary Range \$3035-\$4100/mo.	\$10,702 /mo.
02 @ Salary Range \$3350-\$4550/mo.	\$7,900 /mo.

VIDEO PRODUCT MANAGER/ASSISTANT

1 @ Salary Range \$2620-\$3410/mo.	\$3,015 /mo.
1 @ Salary Range \$3690-\$4800/mo.	\$4,245 /mo.

COMPLIANCE AUDITORS

2 @ Salary Range \$2620-\$3410/mo.	\$6,030 /mo.
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ACCOUNTING

2 @ Salary Range \$2130-\$2770/mo.	\$4,900 /mo.
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153 Video Lottery Staff

TOTAL /mo. \$413,940

SUBTOTAL /yr. \$4,967,280

PLUS BENEFITS \$1,788,221

TOTAL /yr. \$6,755,500



Where the Money Goes

Cumulative Lottery Proceeds by Program—Lotteries Making a Difference

(All numbers as of 6/30/02 unless otherwise specified)

Arizona Lottery (1982*)

- Education \$355.91 million
- Health and Welfare \$140.38 million
- Protection and Safety \$65.98 million
- Economic Development Fund \$37.78 million
- General Government \$39.21 million
- Inspection and Regulation \$6.88 million
- Natural Resources \$5.51 million
- Local Transportation Assistance Fund \$466.00 million
- County Assistance Fund \$122.03 million
- Heritage Fund \$219.91 million
- Mass Transit \$19.74 million
- Clean Air Fund \$0.5 million
- Court Appointed Special Advocate Fund (Unclaimed prizes) \$18.07 million
- State General Fund \$1.5 million

Atlantic Lottery Corporation (1976*)

- Lotteries Commission of New Brunswick \$1,023.5 million
- Provinces of Newfoundland and Labrador \$952.2 million
- Nova Scotia Gaming Corporation \$1,474.9 million
- Prince Edward Island Lotteries Commission \$174.1 million

British Columbia Lottery Corporation (1974*)

- Government of British Columbia \$5.2 billion (through March 31, 2002)

California State Lottery (1985*)

- Education \$14.0 billion

Colorado Lottery (1983*)

- Capital Construction Fund \$439.8 million
- Division of Parks and Outdoor Recreation \$117.7 million
- Conservation Trust Fund \$471.0 million
- Great Outdoors Colorado Trust Fund \$263.0 million
- General Fund \$1.3 million
- School Fund \$8.5 million

Connecticut Lottery Corporation (1972*)

- General Fund \$4.8 billion (to benefit education, roads, health and hospitals and public safety)

Delaware State Lottery (1975*)

- General Fund \$1,403.7 million

D.C. Lottery & Charitable Games Control Board (1982*)

- General Fund \$1.1 billion

Florida Lottery (1987*)

- Education Enhancement Trust Fund: \$12.05 billion (as of 6/30/02)

Georgia Lottery Corporation (1993*)

- HOPE Scholarships \$2.1 billion
- Pre-Kindergarten Program \$1.8 billion
- Capital Outlay and Technology for Primary and Secondary Schools \$1.8 billion

Idaho Lottery (1989*)

- Public Schools (K-12) \$105.5 million
- Public Buildings \$105.5 million

Illinois Lottery (1974*)

- Illinois Common School Fund (K-12) \$11.06 billion

Indiana (Hoosier) Lottery (1989*)

- Education \$387.5 million
- Build Indiana Capital Projects Fund \$419.2 million
- Teachers' Retirement Fund \$372.6 million
- Police & Fire Pension Relief Fund \$186.3 million
- License Plate Taxes \$593.5 million
- Property Tax Fund \$55.2 million
- General Fund \$83.2 million

Iowa Lottery (1985*)

- Iowa Plan (economic development) \$170.31 million
- CLEAN Fund (environment and agriculture) \$35.89 million
- Gambler's Treatment Program \$8.14 million
- Special Appropriations \$20.82 million
- Sales Tax \$127.02 million
- General Fund \$417.65 million

Kansas Lottery (1987*)

- Economic Development Initiatives Fund \$477.3 million
- Correctional Institutions Building Fund \$56.4 million
- County Reappraisal Project (FY 88-90) \$17.2 million
- Juvenile Detention Facilities Fund \$15.3 million
- Problem Gambling Grant Fund \$160,000

Kentucky Lottery Corporation (1989*)

- Education \$214 million
- Vietnam Veterans \$32 million
- General Fund \$1.3 billion
- Post-Secondary and College Scholarships \$203 million
- Affordable Housing Trust Fund \$17 million

- Literacy Programs & Early Childhood Reading \$9 million

Loteria Electronica de Puerto Rico (1991*)

- Contingency Fund to Subsidize Rent for Elders Economically Disadvantaged \$20 million
- Municipality Fund \$307.5 million
- Public Health Reform \$27.8 million
- General Fund \$670.5 million

Loto-Quebec (1970*)

- Consolidated Fund \$14.3 billion
- Government of Canada \$279.31 million
- Special Commissions to Non-Profit Organizations \$50.4 million
- Independent Community Action Support Fund \$101.8 million
- Agricultural Ministry \$21.3 million
- Ministry of Industry, Commerce, Science and Technology \$28.1 million
- Culture & Communication Ministry \$3.0 million
- Municipal Affairs \$2.3 million
- Social Services Ministry \$56.0 million

Louisiana Lottery Corporation (1991*)

- General Fund \$1.272 billion

Maine State Lottery (1974*)

- General Fund \$602.4 million
- Outdoor Heritage Fund \$9.52 million

Maryland State Lottery (1973*)

- General Fund \$7.486 billion
- Subdivisions (for one year only FY '84-85) \$20.9 million
- Stadium Authority \$357.53 million

Massachusetts State Lottery (1972*)

- Cities and Towns \$9.294 billion
- Arts Council \$166.3 million
- General Fund \$2.578 billion
- Compulsive Gamblers \$7.8 million

Mexico (1770*)

- Education and Health Programs \$9.4 million (\$U.S.)

Michigan Bureau of State Lottery (1972*)

- Education (K-12) \$10.4 billion

Minnesota State Lottery (1989*)

- General Fund \$633.5 million
- Environmental and Natural Resources Trust Fund \$290.0 million
- Game and Fish Fund \$22.2 million
- Natural Resources Fund \$22.2 million
- Other State Programs \$38.5 million
- Problem Gambling Programs \$17.7 million

Missouri Lottery (1986*)

- Public Education \$1.2 billion
- General Revenue Fund (1986-1993) \$542.54 million

Montana Lottery (1987*)

- Education \$49.4 million
- Juvenile Detention \$2.5 million
- General Fund \$47.2 million
- Study of Socioeconomic Impact on Gambling \$.1 million

Nebraska Lottery (1993*)

- Compulsive Gambling \$2.6 million
- Education \$80.2 million
- Environment \$61.7 million
- Solid Waste Landfill Closure Fund \$18.5 million

New Hampshire Sweepstakes Commission (1964*)

- Education \$789.8 million

New Jersey Lottery (1970*)

- Education and Institutions \$12.35 billion

New Mexico Lottery (1996*)

- Public School Capital Outlay \$66.55 million
- Lottery Tuition Fund \$81.39 million

New York Lottery (1967*)

- Education \$21.24 billion

Ohio Lottery Commission (1974*)

- Education \$11.7 billion

Ontario Lottery Corporation (1975*)

- Province of Ontario \$17.1 billion

Oregon Lottery (1985*)

- Economic Development \$1.2 billion
- Public Education \$1.47 billion
- Natural Resource Programs \$136.5 million

Pennsylvania State Lottery (1972*)

- Older Pennsylvanians \$13 billion

Rhode Island Lottery Commission (1974*)

- General Fund \$1.46 billion

South Dakota Lottery (1989*)

- General Fund \$354.7 million
- Capital Construction Fund \$9.2 million
- Property Tax Reduction Fund \$613.8 million

Texas Lottery Commission (1992*) (as of 8/31/02)

- General Fund \$4.96 billion
- Foundation School Fund \$4.72 billion

Vermont Lottery (1978*)

- General Fund \$212.8 million
- Education Fund \$73.5 million

Virginia Lottery (1988*)

- General Fund (FY 1989-1998) \$2.8 billion
- General Fund to be used only as direct aid to Public Education (K-12) (FY 1999-present) \$1.34 billion
- Literary Fund (for school construction additions and renovations) \$107 million
- Debt Set-Off Collection \$9.8 million

Washington State Lottery (1982*)

- General Fund \$1.9 billion
- Education Funds \$83.0 million • Seattle Mariners Stadium \$21.8 million
- King County Stadium and Exhibition Center \$25.4 million
- Public Schools Special Programs: 22,800 new elementary school books
- Local Food Banks: 193 tons of food

Western Canada Lottery Corporation (1974*)

- Member Provinces and Associate Territories \$3.4 billion

West Virginia Lottery (1986*)

- Education \$67.1 million
- Senior Citizens \$195.6 million
- Tourism \$170.8 million
- Bonds covering profit areas \$222.6 million
- General Fund \$138.9 million
- Other \$79.5 million

Wisconsin Lottery (1988*)

- Public Benefit such as Property Tax Relief \$1.98 billion

* = Year founded



Did You Know?

*Background
on HB240*

| [Glossary of Lottery Terms](#) | [Terms Relating to Problem Gambling](#) |

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- ▶ [Top Ten Myths About Lottery \(and Why They Are Not True\): Testimony Before the Public Sector Gaming Study Commission, by Duane V. Burke, CEO & Chairman Public Gaming Research Institute, Inc. \(PGRI\), August 20, 1999](#)

Lottery Sales

How many lotteries are there?

In North America every Canadian province, 38 U.S. states, the District of Columbia, Mexico, Puerto Rico, and the U.S. Virgin Islands all offer government-operated lotteries. Voters in two other states (North Dakota and Tennessee) approved lotteries in the November, 2002 election. Elsewhere in the world publicly-operated lotteries exist in at least 100 countries on every inhabited continent. In some cases they are operated by national governments, in other cases by state or provincial governments, and in still others by cities.

What types of games do they offer?

Most offer instant or scratch-off tickets. Many offer lotto and/or numbers games. Some also offer keno or video lottery terminals. Outside of the United States many offer various types of sports betting. Raffles or passive games are less common. A few government lotteries, including those in Ontario and Quebec, also operate casinos. See the definitions section for examples of these and other lottery games.

How much do lotteries sell?

During fiscal year 2002 (which for most jurisdictions ended June 30) U.S. lottery sales totaled \$42.9 billion (\$US). Canadian sales reached \$7.7 billion (\$Can). Per capita sales were (\$Can)252 in Canada and (\$U.S.)123 in the U.S. Worldwide

lottery sales were more than \$126 billion in 1998.

What jurisdictions sold the most?

New York led the U.S. (and North America) with fiscal 2002 sales of \$4.7 billion, followed by Massachusetts with sales of \$4.2 billion. The Canadian leaders were Quebec (\$2.9 billion) and Ontario (\$2.1 billion). On a per capita basis the Canadian leader was the Atlantic Lottery Corporation, including New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island (\$419), while the U.S. leader was Rhode Island (\$1,115).

Worldwide sales honors go to Japan's *Dai-ichi Kangyo Bank Lottery*, with sales of \$7.9 billion (\$US) in 2001. They were followed by the U.K. National Lottery, *Loterias y Apuestas del Estado* of Spain, *Lottomatica* of Italy, and France's *La Francaise des Jeux*.

Table of North American lottery sales**Lottery Revenues****What do lottery revenues benefit?**

Lottery proceeds benefit different programs in different jurisdictions. In many cases lottery profits are combined with tax and other revenues in a government's general fund. In other cases lottery proceeds are dedicated to a wide range of causes, including education, economic development, the environment, programs for senior citizens, health care, sports facilities, capital construction projects, cultural activities, tax relief, and others. Lottery beneficiaries.

Who decides where the money goes?

In a few cases the recipients of lottery proceeds are specified in a jurisdiction's constitution, but in most cases this decision is up to that state or province's elected officials.

But isn't it true that lotteries haven't benefited education like they were supposed to do?

First, not every jurisdiction dedicates lottery proceeds to education; in fact, less than half do. In many places where there is a dedication to education, state education spending has risen but other parts of the budget have risen faster. Education is therefore a smaller proportion of the budget than it was before the start of the lottery. Skyrocketing medical care costs and the demand for new prisons have placed a tremendous strain on all government budgets. Between 1986 and 1993 the average U.S. state saw a 13 percent annual increase in the cost of correctional facilities. Schools have benefited from lottery funds, but this contribution is often masked by the other demands placed on state budgets.

It is also true that some non-lottery states spend a higher percentage of their budget on education than do lottery states, but in most cases the lottery states spend more per pupil. Individuals making this argument fail to recognize that the funding needs of all states are not equal. High-growth and more populous states, in particular, usually have greater needs in areas such as criminal justice and health

care than do smaller, more rural states, and it should come as no surprise that their education percentage is smaller. The more populous states are also the states most likely to have lotteries.

How much money do lotteries raise?

Since the New Hampshire lottery was founded in 1964, lotteries have raised almost \$200 billion for government programs in North America. In fiscal year 02 Canadian lotteries transferred \$2.8 billion (\$CAN) to their beneficiaries, while U.S. lotteries turned over \$13.7 billion (\$US) to theirs.

Aren't lotteries an inefficient way to raise revenue?

Certainly lotteries are more expensive to administer than taxes, assuming we consider only the cost to government and not the costs to businesses and individuals in complying with tax laws. However, unlike taxes, lottery purchases are both voluntary and overwhelmingly preferred by the public.

But doesn't the government risk becoming "addicted" to lottery profits?

On the average, lotteries account for one-half of one percent of their state or provincial budgets. Governments are far, far, more dependent on tax and fee revenues than they are lottery proceeds. Voluntary, non-tax revenue sources are obviously more popular than taxes, and always will be.

Purchasing Lottery Tickets**Where are lottery tickets sold?**

Lottery tickets are sold at more than 240,000 locations throughout North America. Most of these locations are conventional retail outlets such as convenience stores, gas stations, and supermarkets.

How is it decided who gets to sell tickets?

State and provincial laws set minimum standards to sell lottery tickets based on financial soundness and integrity. Generally, any retailer meeting these standards will be permitted to sell lottery tickets.

How much do these retail outlets make?

Retailers are paid a commission on every ticket they sell. These commissions vary from jurisdiction to jurisdiction, but typically range from 5 percent to 8 percent depending on the specific product being sold. Retailers are also commonly compensated for cashing winning tickets, awarded bonuses when they sell a ticket which wins a major prize, or rewarded for exceeding sales goals. Retailers typically pay a license fee and in some cases other costs relating to the sale of lottery tickets. These costs also vary from jurisdiction to jurisdiction.

Isn't it true that lotteries deliberately place more ticket outlets in low-income neighborhoods?

No. Lotteries place their ticket outlets where there are qualifying stores. In many cases zoning regulations in upper-income communities mean that these communities have few or no gas stations or supermarkets, and hence few or no lottery retailers. City neighborhoods, by contrast, often have many qualifying

retailers because of the population density in these areas and hence many lottery outlets. In addition, many "low-income" areas (such as downtown areas) are, in fact, commercial or industrial centers with a large influx of higher-income people during the workday.

But shouldn't the lotteries restrict the sale of tickets in low-income areas?

To deny a government contract to a retailer who meets basic financial and integrity standards would be very difficult. Such restrictions are clearly discriminatory against retailers located in these neighborhoods and would likely face a serious legal challenge.

I don't live in a state with a lottery. How can I buy a ticket?

You must travel to a state or province with a lottery and buy the ticket there. Lottery tickets cannot legally be sold by mail, telephone, or in any other type of interstate commerce.

Can lottery employees play the lottery?

Usually, no, though laws do vary from place to place. In most cases the employee's immediate family and employees of lottery suppliers are also not allowed to play. In practice, there is no way that employees could alter the outcome of a game in their favor, but lottery officials generally believe that public confidence would be damaged should an employee win a large prize.

Lottery Prizes

What was the biggest prize in history?

On December 25, 2002 Jack Whittaker of West Virginia won the largest jackpot ever. Mr. Whittaker elected to receive a lump sum payment of \$170.5 million in lieu of an annuity that would have paid out \$314.9 million over a 30 year period. The winning Powerball ticket was purchased in Hurricane, West Virginia.

What will happen if I win a big prize?

Winners of large prizes must bring the winning ticket to lottery headquarters -- the amount at which you must show up in person varies from jurisdiction to jurisdiction. The ticket will be examined by lottery security staff for authentication. The lottery usually gives some advice on seeking financial and legal advice along with some practical advice like getting an unlisted phone number. All but a very few states and provinces have laws that require the lottery to make public the name and city of every winner (to assure the public that there are real winners). The lottery will ask the winner to participate in a press conference. Most take that option. It really is a good idea to get it over with since the press is likely to pursue your story until they get some questions answered. Questions are usually along the lines of "will you quit your job?" or "what will you do with the money?" or "how did you tell your family you won?" After a few weeks the excitement usually dies down and you can go about your life.

Can winners remain anonymous?

Usually no. State and provincial lawmakers want the public to know that the lottery is honestly run and so require that at a minimum the name of the winner and their

city of residence be made public. This way the public can be reassured that the prize really was paid out to a real person.

Some large lottery prizes pay out over a period of several years. What if the holder of this type of prize dies before collecting it all?

In this case the prize is considered to be part of the estate and is passed along to the winner's heirs. Contrary to popular belief, the prize does not revert to the government. The only exceptions are "win for life" games where a prize is guaranteed for the rest of the winner's life. In this case the payments stop with the winner's death.

How long do I have to claim my prize?

The time to claim a prize varies from place to place, but typically is between six months and one year.

What happens to prizes that aren't claimed?

The disposition of unclaimed prizes varies from lottery to lottery and is governed by the laws of that state or province. In some cases all unclaimed prizes reenter the prize pool and increase the payout on future games. In other cases the money goes to the government to benefit the causes the lottery supports.

Lotteries and the Economy

Aren't lotteries (and other forms of gambling) just "zero-sum" games which contribute nothing to the economy?

Some economists have argued that since lotteries do not produce a tangible product they cannot contribute to the economy. However, there are many other businesses that do not produce a tangible product, including medical offices, banks, law firms, movie theaters, and auto repair shops, to name a few. If the criterion for contributing to the economy is the production of a good, then all service businesses and over half the workforce contributes nothing to the economy.

Lottery revenues contribute to the economy in a number of ways. Certainly that portion of lottery sales which return as prizes is simple redistribution, but revenues are also distributed to over 240,000 retail outlets as commissions, to the companies which supply lotteries such as ticket printers, data processing companies, advertising agencies, and delivery services, and most importantly, for the provision of goods and services through the programs lotteries were created to support.

But don't lottery purchases lack a useful purpose? If you don't win, you've gotten nothing for your money.

Lotteries are perceived by players as a form of entertainment, not as a financial investment. As such, they are no more or less "useful" to the buyer than a ticket to a sports event or a video rental. A player's entertainment and the programs funded by the lottery is the value received; prize awards are not the singular benefit.

Who Plays Lotteries?

Who buys lottery tickets? I understand it's mostly poor people.

A recent Gallup Poll on Gambling in America found that 57% of American adults reported buying a lottery ticket in the past 12 months. People with incomes of \$45,000 to \$75,000 were the most likely to play -- 65 percent had played in the past year -- while those with incomes under \$25,000 were the least likely to play at 53 percent. Further, people with incomes in excess of \$75,000 spend roughly three times as much on lotteries each month as do those with incomes under \$25,000.

In addition, surveys of gambling behavior have been conducted in a number of jurisdictions. In Colorado, for example, people with annual incomes of \$15,000 or less make up 7 percent of the population but only 5 percent of those playing the lottery in the past 30 days. In Georgia, an Atlanta Journal and Constitution Survey found that only 8.6 percent of lottery players had incomes of \$24,000 or less, while 27 percent had incomes between \$50,000 and \$74,000. In addition, 33 percent were high school graduates, 22 percent had some college, 25 percent had a college degree, and 10 percent had an advanced degree. A 1998 Texas study found that those with less than a high school education and those with the lowest incomes were least likely to play. And in Minnesota a 1998 study found that the 13 percent of the population with incomes under \$20,000 made up only 9 percent of the past year's ticket buyers while those with incomes higher than \$50,000 were disproportionately more likely to play.

But not all of these people play the same amount. Don't most lottery sales come from a relatively small number of people?

As with any product or service, some people are more enthusiastic consumers than others. Business schools teach marketing students the "pareto principle:" the idea that no matter what the product, 80 percent of the sales will come from 20 percent of the customers. Lotteries are no different. A Minnesota study, for example, found that 20 percent of the lottery players account for 71 percent of lottery income. In Arizona, 24 percent of lottery players accounted for 70 percent of lottery spending, and in Pennsylvania 29 percent of the players accounted for 79 percent of the spending on the lottery.

What about the heaviest lottery players? Aren't they poor, undereducated, and desperate?

Again, no. Numerous studies conducted in a wide range of jurisdictions show that frequent or "heavy" lottery players closely resemble the overall population of that state or province. They are no more likely to be poor or have little formal education than a citizen selected at random.

But didn't a New York study show that the lowest income areas had the highest per capita lottery sales?

This "study" was a simple correlation between ticket sales and per capita income by zip code. The newspaper reporter who prepared it failed to realize that the zip codes with the highest sales and lowest incomes were in fact commercial districts with large numbers of ticket-buying workers and very few full-time residents. In fact, the zip code with the highest sales and lowest income was the Wall Street financial district. Had the reporter thoroughly analyzed the data, the "study" would have recognized that the residents of Wall Street (if any) weren't buying nearly as many tickets as were stock market workers commuting from New Jersey, Connecticut,

and other wealthy suburbs. Other similar studies have been conducted, but all suffer from the failure to recognize that people buy tickets where they work, shop, vacation, or other places other than where they live. In Minnesota it was found that over half the players bought their tickets in a zip code other than where they lived.

Don't poor people spend a higher percentage of their incomes on lottery tickets than those of greater means?

Poor people spend a larger proportion of their income than wealthy people on any item having a fixed price and general appeal. Poor people pay proportionately more for food, medicine, clothing, utilities, insurance, and housing, as well as for payroll and sales taxes. People who are well-off, on the other hand, spend a higher percentage of their income on things that the poor cannot afford, such as overseas vacations or season tickets to cultural or sporting events. The rich also invest and gamble in stock and commodity markets -- also activities the poor cannot afford.

Lottery opponents have pointed out, though, that unlike spending on, say, a movie ticket, the lottery ticket is purchased from the government and is therefore a regressive tax. But the lottery is not a tax. Webster defines a tax as "a compulsory payment ... for the support of government." No one is coerced to play the lottery. The purchase of a lottery ticket is completely voluntary - and a lot more fun than filling out Form 1040.

Ultimately, though, the important question isn't the percentage of income spent. It's whether the less affluent are spending an unduly large portion of their income on lottery tickets. This has undoubtedly happened in some instances just as it undoubtedly happened with junk food, athletic shoes, and other consumer items. However, there is no evidence suggesting that it is anything approaching the norm. The overwhelming majority of poor people, along with the overwhelming majority of upper-income people, play with restraint and moderation.

But shouldn't the government try to keep those who can least afford it from spending their money on the lottery?

This question implies that economically disadvantaged people are somehow less capable of making a decision on how to spend a dollar than those of greater means or that they are not entitled to the same opportunities for entertainment and recreation than the rest of us. The poor are allowed to vote, get married, and sign contracts. Society in the U.S. and Canada does not usurp rights and privileges based on socioeconomic status. The poor have to budget and watch their expenditures much more carefully than the rich. Economic status is not a measure of intelligence.

Lottery Advertising

How much do lotteries advertise?

In 1996 North American lotteries spend \$400 million (\$US) on advertising and received \$34 billion in sales. Advertising expenditures accounted for 1.17 percent of total revenue. By contrast, restaurant owners spent 3.2 percent of their revenues on advertising, beverage manufacturers 7.5 percent, cosmetics companies 8.8 percent, and candy makers 12.7 percent. Advertising accounts for less of the cost

of a lottery ticket than virtually any other consumer product.

Why can lotteries advertise when casinos can't?

Casinos can, and do, advertise. A recent Supreme Court decision cleared the way for casinos to advertise throughout the country. But even before this decision, casino advertising was extensive. According to the recent Saul F. Leonard Company's Study of U.S. Gaming, the MGM Grand casino alone spent \$51,622,000 on advertising and promotion in 1994.

Lottery advertising isn't regulated by the Federal Trade Commission. Why not?

Lotteries are not subject to FTC regulation because they are operated by state governments, and the federal government cannot regulate state government programs. Unlike other products, however, lottery advertising is subject to review and restriction by governors and state and provincial legislators. Rodney A. Smolla, George Allen Professor of Law, University of Richmond, T.C. Williams School of Law has recently written about the constitutional limitations on federal regulation of advertising of state gambling operations.

So who does regulate lottery advertising?

Lottery advertising is regulated by the states and provinces in which lotteries operate. Many have adopted formal laws, standards, or guidelines about what is and is not appropriate for advertising in their jurisdiction, and most states have elaborate review procedures to prevent potentially offensive advertising from appearing. In addition, the North American Association of State and Provincial Lotteries has adopted advertising standards to which members have agreed to abide. These standards are extensive and incorporate aspects related to compulsive gambling, beneficiary funding, and more. Remember, too, that lottery advertising is seen by lottery critics as well as lottery players. If an ad is seen as even marginally objectionable, these critics do not hesitate to make their opinions known in the political arena.

Unlike other advertising, though, isn't lottery advertising dangerous because it can create compulsive gamblers?

This statement reflects a misunderstanding of the nature of compulsive gambling. Most researchers and treatment professionals agree that compulsive or pathological gambling arises as a result of some combination of biological and psychological factors predisposing an individual to addictive behavior. Dr. Durand Jacobs, Vice-president of the National Council on Problem Gambling, has written that "the addict's pursuit and over indulgence in alcohol, other drugs, food, gambling, sex, overwork, or whatever, is NOT the addict's "problem". On the contrary, a person's addictive pattern of behavior represents that person's best SOLUTION to the stresses generated by their long-standing underlying problems." This is further borne out by the recent National Survey on Gambling Behavior, which found no relationship between problem gambling rates and the presence or absence of a lottery. If problem gambling is no more common where there is a lottery, then problem gambling cannot be caused by lottery advertising.

Is lottery advertising targeted to the poor?

No. This would be both a bad business decision and a bad political decision. It's a

bad business decision to target marketing to a small portion of the population with the least disposable income and who are the least likely to buy the product. It's a bad political decision as such a practice is almost certain to earn a lottery the wrath of the governor, the legislature, and the media.

But what about the billboard in the low-income neighborhood that pictured a lottery ticket with the caption "your ticket out of here"?

The billboard in question was just one of hundreds placed by the Illinois lottery as part of an advertising campaign in 1986. It actually read "How to get from Washington Street to Easy Street". Similar billboards appeared throughout the state (with the street name changed), in wealthy and middle-class areas in addition to the one low-income example cited. In fact, the location in question was selected because it was on the main access road to Chicago Stadium (home of the Chicago Bulls and Blackhawks) hardly a low income target audience.

I've heard that lottery ads are timed to coincide with monthly welfare and Social Security checks.

Duke University professors Charles T. Clotfelter and Philip J. Cook in their book "Selling Hope" investigated this charge. They concluded that "... there appears to be no systematic attempt to time ads to correspond to specific days other than around Friday."

Why aren't the odds of winning all lottery prizes on all ads?

Why aren't all food ingredients listed on all ads? Because of the limited time and space available on advertisements and the likelihood that they would have to be either spoken too fast or appear in too small print to be easily comprehended. All lotteries make the odds of winning available in print at the point of sale, often on the ticket itself, much as food ingredients are available at the store on the product label.

Lotteries and Compulsive Gambling

Do lotteries contribute to compulsive gambling?

There are certainly pathological and problem gamblers who play the lottery to excess. They are, however, few and far between. According to the Iowa Department of Human Services after 10 years of the lottery's existence only 6 percent of the calls to the state's problem gambling hotline related to lottery play. In Minnesota, it was 4 percent in 1997. Also in Minnesota, of the 944 admitted to the state's gambling treatment centers from 1990 to 1996, only eight cited the lottery as their preferred game. A Colorado study found that problem gamblers were 4.7 times more likely to have visited a casino in the past week and 5.2 times more likely to have played bingo than non-problem gamblers. By contrast, they were only 1.9 times more likely to have played the lottery, the lowest figure of any form of gambling. An Iowa State University study found that having more than one marriage, frequently changing residences, being a member of a minority group, and serving in the armed forces had higher correlations with problem gambling than did playing the lottery.

Most conclusively, the recent National Survey on Gambling Behavior conducted for the National Gambling Impact Study Commission found that "it does not appear

that the availability of a lottery has an impact on (problem gambling) prevalence rates." In fact, they found that problem gamblers were only slightly more likely to be lottery players than were members of the general public. By contrast, they were more than five times as likely to have made an "unlicensed" (often illegal) wager and more than four times as likely to have visited a racetrack.

Why don't lottery games appeal to problem gamblers?

Problem gamblers are attracted to games for a variety of reasons. One is a sense of high excitement, usually involving considerable sensory stimulation. Lottery tickets do not provide this. A second factor is a sense of mastery or skill. Lotteries have no skill element. A third is the immediacy of the result and reward and the ability to play repeatedly and quickly. Numbers game drawings typically take place some time after the purchase is made, and players have to wait between a day and a week to play again, making chasing losses difficult. Even instant or scratch tickets have much less immediacy than other forms of gambling. The outlets at which they are sold are not conducive to repeated play, and a player with a winning ticket must return to the convenience store, stand in line, and wait for the clerk to validate the ticket before beginning the process anew. It's quite different from pulling the slot machine handle and watching the coins come out (or not come out).

Didn't I read that lotteries cost states \$10.9 billion a year because of the resulting compulsive gambling problems?

This estimate comes from "The Luck Business" by Dr. Robert Goodman. In making this estimate, Dr. Goodman makes an assumption of an average cost of \$13,200 per pathological gambler without disclosing the basis for this estimate. He further assumes that 4 percent of all lottery players are pathological gamblers, a figure higher than the measured prevalence for all forms of pathological gambling and one particularly doubtful in light of the small number of pathological gamblers citing lotteries as their problem. He also assumes that all of their compulsive play is on lotteries, and that eliminating lotteries would in turn eliminate their compulsive gambling. These assumptions are clearly erroneous.

But isn't one compulsive lottery player too many?

Yes. Treatment should be made available to anyone needing it. Research should be conducted on making treatment more effective. More emphasis should be placed on prevention and gambling education. And lotteries should (and do) play a role in funding these activities. But it does not follow that the existence of compulsive lottery players should result in the elimination of lotteries any more than the existence of compulsive shoppers should result in the elimination of shopping malls or the existence of eating disorders should lead to the closing of all fast food restaurants. The overwhelming majority of lottery players (in excess of 99 percent) enjoy their pastime and are not pathological gamblers. To punish the majority because a small minority refuses to play these games responsibly would be unfair to the majority. It would also eliminate the billions of dollars that lotteries contribute to public good works.

What are lotteries doing about problem gambling?

Elsewhere on this web site you'll find a table of lottery contributions to problem gambling programs. These contributions vary from state to state and province to province. It is important to note, though, that decisions on what to do with lottery

proceeds are not made by the lotteries but by their governors and legislatures. A state or province may choose to have a program for problem gamblers but to fund it from a source other than the lottery. The net effect, of course, is the same.

Lottery regulation

Who regulates lotteries?

Lotteries are regulated by their state or provincial governments. Federal regulation in the U.S. is limited to interstate distribution of tickets and interstate advertising.

Can state governments be trusted to regulate lotteries when they benefit from the lottery proceeds?

State regulatory proceedings are much more open and accessible to the public than the workings of federal regulatory agencies. All lottery board meetings are public, as are all legislative hearings. Lottery files are public records, subject at any time to media scrutiny. Lottery opponents in a legislature can examine the smallest lottery details and vote on lottery business operations. (In what other business would those opposed to the business' existence be permitted a vote on business operations?) And if the public does not approve of the way a lottery is run, they have recourse to the ballot box and the ultimate sanction of refusing to buy tickets. Those who claim that lotteries are not regulated are really complaining that the regulators have made decisions they don't agree with.

If the states cannot be trusted to regulate lotteries because they make a relatively small amount of money on them (an average of 1/2 of 1 percent of the state budget) it follows that they should not be allowed to make their own tax policy as well.

Can't lotteries be privatized?

Yes, they could be. Certainly many of the day-to-day activities of lotteries are done under contract or are privatized, and the retailers selling lottery tickets are almost all private businesses. However, the public has a right to demand both the security and integrity of lotteries, to ensure that everyone stands an equal chance of winning, that all advertised prizes are in fact paid out, and that the lottery does not resort to unscrupulous business practices. It is true that these factors also apply to casinos, but it is much easier to police operations at a handful of casinos than at thousands of lottery retail outlets. Remember that lotteries were abolished in the 1800s because of the dishonesty of private operators.

But at least with a private lottery the government would not be sponsoring an activity I consider to be immoral.

There are many government activities that some consider to be immoral, ranging from defense spending to the teaching of evolution. Citizens do not have the option of paying taxes only to support those programs they approve of. By contrast no one is forced to buy a lottery ticket.

Lottery odds

Is it true that the odds of winning the lottery are worse than being struck by lightning?

No, even if we just consider the awarding of large jackpots. In 1996 1,136 people won \$1,000,000 or more playing North American lotteries. An additional 4,520 won \$100,000 or more. By contrast, 91 people were killed by lightning.

In addition, there's no second prize in a lightning strike. In a lottery, you win lesser amounts of money by coming close to the winning numbers. On many games odds of 1 in 5 or 1 in 4 are not uncommon. Lotteries award over \$50 million in prizes in North America every day. Lightning isn't nearly that productive.

I bought six tickets for a game where the odds were one in four, and none of them were winners. Doesn't this show that the prizes aren't awarded randomly?

No. Consider tossing a coin. It is certainly possible for a coin to come up heads four, five, or more times in a row, even though the odds are one in two. Part of randomness is the concept that every ticket has the identical chance of winning and that the result of one ticket has no impact on the next. Suppose "one in four" meant that out of every four tickets there was exactly one winner. Suppose three tickets in a row lost. You now know that the next one is a winner. This is not random. If you were a store clerk and saw three people in a row buy non-winning tickets, would you sell the next one or keep it for yourself? This is why true randomness is necessary for security.

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LOTTERY ALASKA

Daniel A. Sullivan, President

Dear Legislators,

Thank you for the opportunity to testify today on HB 240 (CS). Given our state's fiscal situation, it is timely to consider all proven forms of revenue enhancement and state lotteries have a long and successful history of government financing. My remarks today will focus on the following areas:

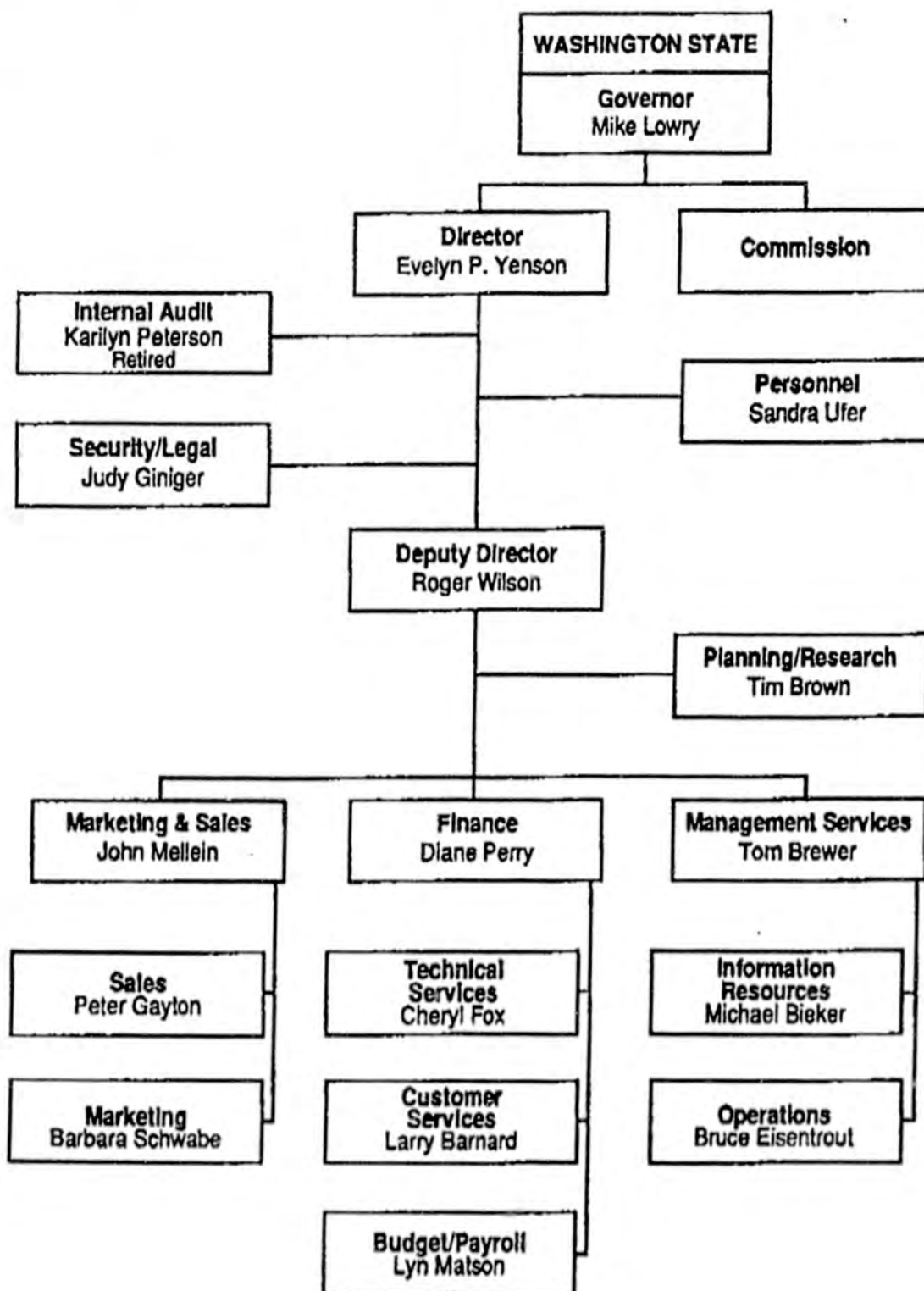
- * A brief history of lottery legislation in Alaska
- * Lottery Alaska's marketing and sales of modern lottery products
- * Lottery facts and figures
- * A review of the Washington State Lottery
- * Suggestions for improving the current legislation
- * Questions and answers

My company is prepared to assist the legislature in any way possible to help create a state lottery that is secure, socially responsible and financially successful. Thank you for your time.

Daniel A. Sullivan

LOTTERY FACTS AND FIGURES

1. In 1964, New Hampshire started the first modern state lottery (yes, they are successful in low population states!)
2. Today, 39 states and the District of Columbia operate lotteries. Over 90% of the U.S. population lives in lottery jurisdictions.
3. Historically, lotteries helped fund most of the Ivy League colleges as well as many public institutions such as libraries, museums, etc.
4. Thomas Jefferson praised lotteries, calling them "the only voluntary form of taxation."
5. Polling data shows that nearly 70% of Alaskans favor a state lottery.
6. Several states developed their lottery as a result of voter initiative when legislatures would not pass lottery legislation. There is strong interest in Alaska for an initiative petition as well.
7. Based on Lottery Alaska scratch ticket sales from 1989 through 1992, we estimate that the state of Alaska would net approximately 25 million dollars annually from a state lottery with a variety of different games.
8. The sales estimate above does not include revenue from Electronic Gaming Machines (EGM). Depending on the number of machines distributed, the revenue estimate above could double.
9. With sales of nearly 300 million dollars annually from charitable gaming products, Alaska, even without a state lottery, spends the highest amount per capita on gaming products in the nation.

**ORGANIZATION CHART
WASHINGTON STATE LOTTERY**

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

WASHINGTON STATE LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
For the Years Ended June 30,

	1994	1993
Sales		
Instant Ticket Sales.....	\$ 84,238,025	\$ 73,281,875
On-Line Game Sales.....	<u>230,344,217</u>	<u>291,673,944</u>
Total Sales.....	314,580,242	364,955,819
Cost of Sales		
Prize Payments.....	167,789,898	181,518,269
Retailer Commissions.....	19,470,445	20,325,744
Vendor Expenses.....	11,194,179	11,807,293
Advertising/Research Expenses.....	6,593,760	7,074,807
Miscellaneous Promotional Expenses.....	1,437,039	2,319,882
Uncollectible Accounts Expense.....	<u>25,511</u>	<u>(17,120)</u>
Total Cost of Sales.....	206,510,632	223,028,455
Operating Expenses		
Salaries and Benefits.....	6,510,905	6,383,529
Goods and Services.....	2,049,629	2,388,815
Travel.....	335,623	410,118
Depreciation.....	<u>424,821</u>	<u>418,509</u>
Total Operating Expenses.....	9,320,978	9,600,971
Operating Income.....	98,748,632	132,326,393
Non-Operating Revenues (Expenses)		
Interest Income.....	134,285	99,588
Lease Purchase Interest Expense.....	(10,232)	(8,230)
Interest from Investments for Lotto Payments..	25,824,895	22,910,773
Fee Income.....	18,900	18,350
Gain on Disposal of Fixed Assets.....	112	1,425
Interest Expense on Lotto Payments.....	(25,824,895)	(22,910,773)
Miscellaneous Income (Expense).....	<u>14,288</u>	<u>(25,417)</u>
Total Non-Operating Revenues (Expenses)....	155,353	85,698
Income before Payments to the State.....	98,903,985	132,412,089
Payments to the State.....	<u>(98,814,904)</u>	<u>(128,722,861)</u>
Net Income.....	89,081	3,689,228
Beginning Retained Earnings.....	6,028,572	2,339,344
Price Period Adjustment.....	<u>(205,287)</u>	<u>0</u>
Ending Retained Earnings.....	\$ <u>5,912,366</u>	\$ <u>6,028,572</u>

The accompanying notes are an integral part of the Financial Statements

CURRENT LOTTERY PRODUCTS

The Washington State Lottery provides the opportunity to participate in five different games:

INSTANT GAMES are played by scratching the latex covering off the play area on the ticket. There are different ways to win in an instant or "scratch" game, including matching three like dollar amounts, symbols or letters, or adding up numbers to a prescribed total. If the correct combination appears, the player becomes an "instant winner" without having to wait for the results of a drawing. The instant game offers a wide variety of game themes ranging from matching symbols to popular sports events and holiday themes. As of June 30, 1994, the Lottery had introduced 114 scratch games. This product was our first type of game, and it currently provides approximately 27 percent of annual Lottery sales.



THE DAILY GAME was the first on-line game introduced by the Washington State Lottery. Under the original name "Triple Choice," sales began in January 1984. Players pick three numbers from 0 through 9 and choose among six different play options. Numbers are randomly drawn seven nights a week. The Daily Game accounts for about 6 percent of annual Lottery sales.



LOTTO was introduced in July 1984. It has proven to be the most popular Lottery game, with sales of over \$1.5 billion thus far. Players pick six numbers and match them to the numbers drawn from the Lotto machines. The minimum Lotto jackpot is \$1 million paid over 20 years. The jackpot grows from drawing to drawing if no ticket has all six of the numbers drawn.

The prizes for matching four or five of the numbers drawn are parimutuel, meaning the amount won depends on sales for that particular drawing and the number of winning tickets. The prize for matching three of six numbers is \$3. The matrix is currently "6 of 49" with drawings on Wednesdays and Saturdays. Lotto sales were approximately 50 percent of total 1994 Lottery sales.

Lotto

QUINTO is our third on-line game; sales began in May 1990. The tickets were computer pick only, until November 1993 when the game was changed to allow players to pick their own cards. To win, players must match their five card symbols to the card symbols drawn by the Lottery. The matrix is "5 of 52" with drawings on Wednesdays and Saturdays. The cashpot, which is won by matching all five of the symbols drawn, starts at \$100,000 and grows by \$100,000 each week until someone wins. Prizes are also paid for matching two, three, or four of the symbols drawn.

A poker game feature, BEAT THE STATE, was added to Quinto in May 1992. For an extra dollar, the five card symbols on the Quinto ticket were played like a poker hand. When the player's poker hand beat the Lottery's poker hand, the player won. However, due to declining sales and player requests to select their own Quinto cards, Beat the State was dropped in November 1993. Quinto with Beat the State provided over 12 percent of total sales in Fiscal Year 1994.

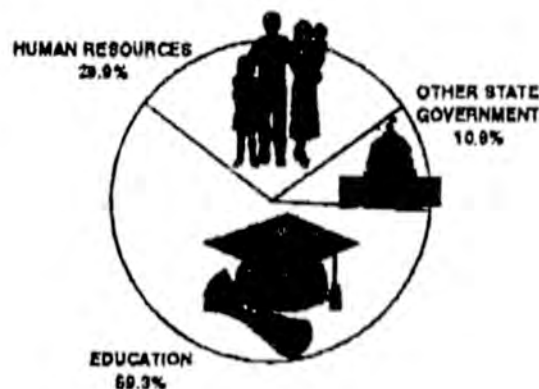
Quinto

DAILY KENO was introduced in November 1992. Daily Keno has a "10 of 20 of 80" matrix and a \$100,000 top prize. Players can pick from one to ten numbers ("spots") or choose computer-generated Quick Pick, and can purchase tickets for up to seven drawings in advance. The Lottery draws 20 numbers each night, and prizes vary depending on how many of the player's numbers match the Lottery's numbers. Daily Keno accounted for just over 5 percent of sales in Fiscal Year 1994, its first full year.

DAILY KENO

ACCOMPLISHMENTS

The Washington State Lottery has contributed over \$1 billion dollars to the state's General Fund from its inception in July 1982 through June 30, 1994. The General Fund supports education and human resource programs, and Lottery dollars are an important part. The following chart shows the distribution of General Fund dollars:





WIN Iditarod Gold



\$450,000 in cash and merchandise prizes will be won in this exciting new scratch-off game. It's fast, fun, and it raises money for the Iditarod Trail Committee. So, what are you waiting for—mush on over to your nearest Lottery Alaska retailer and buy your winning tickets today!

"Play the Iditarod Race for the Gold game and help the 'Last Great Race' grow even bigger and better. Thanks!"

Sibby Riddle



Proceeds Benefit the Iditarod Trail Committee, permit #89-0121

LOTTERY ALASKA

Citizens Against Gambling Expansion

Liquor Industry Wants to get Alaska Drunk on Gambling!

Here is what the liquor industry wants
for Alaska (these numbers are the
Liquor Industry's numbers):

- A State in which Alaskans gamble \$2,000,000,000 (2 Billion Dollars) each year in Video Poker and Slot Machines instead of buying groceries, shoes, or gasoline or paying electric bills, rent or doctor bills
- A State that has 5,596 Video Poker and Slot Machines (some of them want 11,192 Video Poker Machines) spread across every neighborhood and area
- A City of Anchorage that would have over 1,300 Video Poker Machines
- A State where every man, woman and child gambles \$3,350 per year
- A State in which bars get \$88,329,384 in gambling profits each year
- A State where the Government has to Promote Gambling to Addicts in order to provide essential services

Stop Video Poker and Slot Machines in Alaska

CAGE
CAGE@kpunet.net

Citizens Against Gambling Expansion

Stop Video Poker and Slots in Alaska! Stop HB240 and SB186

To:

Governor Frank Murkowski
Lieutenant Governor Loren Leman

Senator Cox Bando
Senator John Cowdery
Senator Bettye Davis
Senator Fred Dyson
Senator Johnny Ellis
Senator Kim Elton
Senator Hollis French
Senator Lyda Green
Senator Gretchen Grees
Senator Lyman Hoffman
Senator Georgianna Lincoln
Senator Scott Ogan
Senator Donny Olson
Senator Ralph Seckins
Senator Ben Stevens
Senator Gary Stevens
Senator Robin Taylor
Senator Gene Theriault
Senator Thomas Wagoner
Senator Gary Wilken

Representative Tom Anderson
Representative Brian Berkowitz
Representative Mike Chensult
Representative Sharon Cissna
Representative John Coghill
Representative Harry Crawford
Representative Eric Croft
Representative Nancy Dahlstrom
Representative Hugh "Bud" Fato
Representative Richard Foster
Representative Les Gars
Representative Carl Gatto
Representative Max Gruenberg
Representative David Guttenberg
Representative John Harris
Representative Mike Hawker
Representative Cheryl Heinze
Representative Jim Holm
Representative Reggie Jouis
Representative Mary Kasper

Representative Beth Kertula
Representative Vic Kohring
Representative Albert Kookash
Representative Pete Kott
Representative Bob Lynn
Representative Beverly Masok
Representative Leslie McGuire
Representative Kevin Moyer
Representative Carl Morgan
Representative Carl Moses
Representative Norman Rokeberg
Representative Ralph Samuels
Representative Paul Satori
Representative Bill Stoltze
Representative Bruce Weybrauch
Representative Jim Whitaker
Representative Bill Williams
Representative Peggy Wilson
Representative Kelly Wolf

Mr. Larry Meyers (Gaming Unit)
Mr. Jeff Prather (Gaming Unit)

From: Lisa Alty (Print Name)

Community: Anchorage

Phone Number: 907-677-1644

Date: April 2003

I am against Video Poker, Slot Machines and other Gaming Machines because:

These are very addictive and will cause
community problems. Not to mention the people
that will be affected by this. Do we really need
the headaches. Is it worth it? And personally
it will probably cost me my job.

Lisa M. Alty
Sign Name

CAGE
CAGE@kpunct.net

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To:

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Representative Jim Holm
Representative Reggie Joulé
Representative Mary Kapoor

Representative Beth Kartula
Representative Vic Kohring
Representative Albert Kookesh
Representative Pete Kott
Representative Bob Lynn
Representative Beverly Masck
Representative Leail McGuire
Representative Kevin Meyer
Representative Carl Morgan
Representative Carl Moses
Representative Norman Rokoberg
Representative Ralph Samuels
Representative Paul Seston
Representative Bill Stoltz
Representative Bruce Weyhrauch
Representative Jim Whitaker
Representative Bill Williams
Representative Peggy Wilson
Representative Kelly Wolf

Mr. Larry Meyers (Gaming Unit)
Mr. Jeff Prather (Gaming Unit)

From: Scott McBride (Print Name)

Community: Anchorage

Phone Number: 770-5444

Date: April 2003

I am against Video Poker, Slot Machines and other Gaming Machines because:

The cost to the community is greater
than the money raised!

Scott J. McBride
Sign Name

CAGE
CAGE@kpunct.net

Citizens Against Gambling Expansion

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To:

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Representative Beverly Mazek
Representative Leslie McGuire
Representative Kevin Meyer
Representative Carl Morgan
Representative Carl Moscos
Representative Norman Rokeberg
Representative Ralph Samuels
Representative Paul Seaton
Representative Bill Stoltz
Representative Bruce Weyrauch
Representative Jim Whitaker
Representative Bill Williams
Representative Peggy Wilson
Representative Kelly Wolf

Mr. Larry Meyers (Gaming Unit)
Mr. Jeff Prather (Gaming Unit)

From: Matt L Benson (Print Name)

Community: Anchorage

Phone Number: 907-223-6664

Date: April 2003

I am against Video Poker, Slot Machines and other Gaming Machines because:

They have been shown to be highly
addictive.

Matt L Benson
Sign Name

CAGE

CAGE@akpnet.net

Citizens Against Gambling Expansion

Stop Video Poker and Slots in Alaska!

Stop HB240 and SB186

To:

Governor Frank Murkowski
Lieutenant Governor Loren Leman

Senator Con Bunde
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Representative Pete Kott
Representative Bob Lynn
Representative Beverly Masek
Representative Lesli McGuire
Representative Kevin Meyer
Representative Carl Morgan
Representative Carl Moses
Representative Norman Rokeberg
Representative Ralph Samuels
Representative Paul Seaton
Representative Bill Stoltz
Representative Bruce Weyhrauch
Representative Jim Whitaker
Representative Bill Williams
Representative Peggy Wilson
Representative Kelly Wolf

Mr. Larry Meyers (Gaming Unit)

Mr. Jeff Prather (Gaming Unit)

From: Shannon Sneller (Print Name)

Community: Ketchikan

Phone Number: 907. 247. 1562

Date: April 2003

I am against Video Poker, Slot Machines and other Gaming Machines because:

they will put me out of a job. Will you
support me when I'm homeless?

Shannon Sneller
Sign Name

CAGE

CAGE@kpunet.net

Citizens Against Gambling Expansion

Stop Video Poker and Slots in Alaska!

Stop HB240 and SB186

To:

Governor Frank Murkowski
Lieutenant Governor Loren Leman

Senator Con Bunde
Senator John Cowdery
Senator Betsey Davis
Senator Fred Dyson
Senator Johnny Ellis
Senator Kim Elton
Senator Hollis French
Senator Lyda Green
Senator Gretchen Guess
Senator Lyman Hoffman
Senator Georgianna Lincoln
Senator Scott Ogan
Senator Donny Olsen
Senator Ralph Seekins
Senator Ben Stevens
Senator Gary Stevens
Senator Robin Taylor
Senator Gene Theriault
Senator Thomas Wagoner
Senator Gary Wilken

Representative Tom Anderson
Representative Ethan Berkowitz
Representative Mike Chenault
Representative Sharon Cisna
Representative John Coghill
Representative Harry Crawford
Representative Eric Croft
Representative Nancy Dahlstrom
Representative Hugh "Bud" Fata
Representative Richard Foster
Representative Les Gara
Representative Carl Gatto
Representative Max Gruenberg
Representative David Guttenberg
Representative John Harris
Representative Mike Hawker
Representative Cheryl Heinze
Representative Jim Holm
Representative Reggie Joulé
Representative Mary Kapsner

Representative Beth Kerttula
Representative Vic Kohring
Representative Albert Kookesh
Representative Pete Kott
Representative Bob Lynn
Representative Beverly Masek
Representative Lesli McGuire
Representative Kevin Meyer
Representative Carl Morgan
Representative Carl Moses
Representative Norman Rokeberg
Representative Ralph Samuels
Representative Paul Seaton
Representative Bill Stoltz
Representative Bruce Weybrauch
Representative Jim Whitaker
Representative Bill Williams
Representative Peggy Wilson
Representative Kelly Wolf

Mr. Larry Meyers (Gaming Unit)
Mr. Jeff Prather (Gaming Unit)

From: Gregory Peterson (Print Name)

Community: Ketchikan

Phone Number: (907) 247-6972

Date: April 2003

I am against Video Poker, Slot Machines and other Gaming Machines because:

Charitable Gaming works well now. Do not ruin a good
thing with this terrible legislation.

Gregory Peterson
Sign Name

CAGE

CAGE@kpunet.net

Subject: CSHB240

Date: Fri, 11 Apr 2003 07:30:03 -0800

From: Lauri Bassett <lbassett@alaska.com>

To: Representative_Jim_Whittaker@legis.state.ak.us

Dear Representative Whittaker;

I am writing in support of CSHB 240 concerning the creation of an Electronic Gaming program. I believe it is a positive method of raising revenue for the state. As a member and campaigner of the Anchorage Community YMCA, I believe it would be an excellent way of helping to fund our youth programs, while also helping to bridge the State's fiscal gap with minimal overhead required from the State of Alaska. The Anchorage Community YMCA offers financial assistance to low income families to ensure their ability to participate in programs such as day camp, summer camp, swimming lessons, basketball, memberships, and before and after school childcare to name a few. Currently, the funding for financial assistance comes from our annual campaign. The opportunity for non-profits to benefit from Electronic Gaming Machine proceeds will help them to maintain their offerings - with the hope to be able to offer their programs to even more people.

I am not writing as a member of the board of directors of the YMCA, but on behalf of all non-profits. I urge you to pass CSHB240.

Sincerely,

Lauri Bassett

Lauri Bassett
5000 E. 98th Avenue
Anchorage, AK 99507
907.348.0967
lbassett@alaska.com

Dear Rep. Whitaker

I am writing this note to you in support of HB 240.
I urge you to support it.

Thank you

Your Neighbor
Terence Day
Nome, Alaska

A handwritten signature in black ink, appearing to read "T. Day", with a long, sweeping underline that extends to the right.

ALASKA STATE LEGISLATURE

50 Front St. Suite #203
Ketchikan, Alaska 99901



Phone: 225-9675
Fax: 225-8546

LEGISLATIVE INFORMATION OFFICE

WRITTEN TESTIMONY

NAME: Benjamin Foy
ADDRESS: 617 Garden St
Ketchikan, AK 99901
PHONE: (907) 225-1644
EMAIL: _____

BILL# or SUBJECT: 240
COMMITTEE: House Ways and Means

Based upon what I know about Alaska's population, I do not understand how EGM's are going to enable the state to raise 50 million before expenses. Even with seasonal tourism staff and the tourists themselves I can't fathom how anyone can believe that such a large amount of funds is to be expected. I am of the mind that in order for the state to take in 50 million these EGM's would have to generate a gross revenue of well over 1.5 billion dollars which is completely insane if you pay attention to how many eligible gamblers are in or passing through this state. I oppose this bill based upon the extreme speculation of the number crumbers involved particularly by the assistant director of the department of revenue, Larry Persley, who thinks that thinking, rather than knowing, is his job.

If the payout is 85% then profits must annually meet 172 million in order to pay these projected revenues. My numbers could be incorrect but based upon the numbers given by the department of revenue, and their lack of explanation, these are close estimates.

ALASKA STATE LEGISLATURE

50 Front St. Suite #203
Ketchikan, Alaska 99901



Phone: 225-9675
Fax: 225-8546

LEGISLATIVE INFORMATION OFFICE

WRITTEN TESTIMONY

NAME: Gregory Peterson
ADDRESS: 237 Meneghen
Ketchikan, AK 99901
PHONE: (907) 247-6979
EMAIL: gregorye.kpnnet.net

BILL# or SUBJECT: HB 240
COMMITTEE: House Ways and Means

HB 240 would disrupt, corrupt and destroy the current,
effective and productive charitable gaming industry. HB 240
expects the citizens of Alaska to become gambling addicts
to balance Alaska's budget. In order to reach the revenue
numbers projected by advocates, every man, woman and
child in Alaska would have to spend more than three thousand
dollars on EGM's/VLT's each year. In 2001, Alaska's spent
less than four hundred and fifty dollars per capita on
pull tabs. The State of Alaska cannot support this outrageous
increase. The advocates of this bill are sponsoring EGM
addiction.



Alaska State Legislature

Please enter into the record my testimony to the Ways and Means House
Committee name

Committee on HS 240 dated 4-16-03
Bill/Subject

The people of Alaska not the legislature should have the right to say yes or no to a state lottery or upm. The legislature should NOT be determining the morality of our state. Not everyone has compulsive gambling problem, let the voters decide.

Signed: Colleen Wolf
Testifier

Representing (Optional)

337 Ponderosa LP WASILA AK 99654
Address

907-376-9297
Phone number



Alaska State Legislature

Please enter into the record my testimony to the HW4M
committee name
committee on HB 240, dated 4-16-03
bill/subject

PLEASE CLARIFY:
SEC 05.15.340 (X3) DOES NOT ADDRESS A
MACHINE LOCATED WITHIN AN INCORPORATED (ORGANIZED)
BOROUGH BUT OUTSIDE AN INCORPORATED CITY
DO YOU MEAN A BOROUGH IS A MUNICIPALITY?
MID-VALLEY SENIORS, INC IS THE PERMIT HOLDER
LOCATED IN THE CITY OF HOUSTON
OUR SELF-DIRECTED PULL TAB STORE IS IN CITY OF
WASILLA
OUR VENDOR (WHERE A MACHINE WOULD BE) IS
WITHIN THE MATANUSKA-SUSITNA BOROUGH
BUT OUTSIDE AN INCORPORATED CITY.
WHO WOULD GET THE MUNICIPAL SHARE?

Signed: ELSIE M. O'BRYAN, PROJECT DIRECTOR
Testifier

MID-VALLEY SENIORS, INC
Representing (Optional)

PO Bx 940168 HOUSTON AK 99694
Address

907.892.6114
Phone No.

ALASKA STATE LEGISLATURE

50 Front St. Suite #203
Ketchikan, Alaska 99901



Phone: 225-9675
Fax: 225-8546

LEGISLATIVE INFORMATION OFFICE

WRITTEN TESTIMONY

NAME: Joni Denton
ADDRESS: 1350 Woodside Dr
Ketchikan, AK 99901

PHONE: 907-225-1155
EMAIL: joni@klu.net.net

BILL# or SUBJECT: HB240
COMMITTEE: (H) WPM

My name is Joni Denton. I am a 21 yr. resident of AK. I am strongly opposed to HB240. Video gaming machines have an extreme addictive effect on players, as an example, look at the way video play station games are effecting our younger generations. There is proof from Louisiana, Missouri, South Carolina, Arizona and Kentucky, that adults will sit for hours totally engrossed in winning, these adults will spend a large portion of every day away from their families, getting into further debt. If you think drinking is bad in AK, wait and see how these VLT's will largely increase alcoholism, unemployment, welfare, social service aid, divorce and bankruptcy, AND decrease very rapidly the states funds that aid all of the same programs. It is so sad and bewildering to me that the state officials would even think about passing a bill that would devastate the citizens of the last frontier all for money, and shut down the non profit organizations that help so many Alaskan residents. As far as the predicted revenue totals this bill would generate they are greatly exaggerated and false, I hope you will listen.



Alaska State Legislature

Please enter into the record my testimony to the House Ways and Means
Committee name

Committee on HB 240, dated April 16, 2003
Bill/Subject

I wish to express my opposition in the strongest possible terms to the introduction of video gaming and a state lottery. The social costs of these activities will be far greater than the revenue that will be generated. Also, the costs to administer and pay out "winning" to participants reduce the income so much that it is not an efficient way to raise finances. Please protect our state's children from their parents' addictions and poor judgment by defeating this bill!

Signed: Frances Graves
Testifier

Representing (Optional)

1161 Elsinore Ave #1 Wasilla, AK 99654
Address

907-357-6323
Phone number

DENNIS JACKSON
GTECH CORPORATION
VICE PRESIDENT

GTECH IS THE WORLD'S LARGEST PROVIDER OF LOTTERY SYSTEMS AND SERVICES. GTECH PROVIDES SYSTEMS AND SERVICES IN 80 JURISDICTIONS AROUND THE WORLD.

DENNIS HAS SALES AND GOVERNMENTAL RELATIONS RESPONSIBILITIES IN THE WESTERN U.S., CALIFORNIA, OREGON, WASHINGTON, IDAHO, ARIZONA, NEW MEXICO, AND NEBRASKA.

PRIOR TO GTECH, DENNIS WAS EMPLOYED BY INTERNATIONAL GAME TECHNOLOGY, THE WORLD'S LARGEST MANUFACTURER, OF SLOT MACHINES, AND VIDEO LOTTERY TERMINALS. HE WAS RESPONSIBLE AT THE IGT FOR SALES OF VIDEO LOTTERY TERMINALS, (EGM), AND SYSTEMS TO STATES WHERE LOTTERIES REGULATED MACHINE GAMING, WEST VIRGINIA, RHODE ISLAND, SO. DAKOTA, AND OREGON.

PRIOR TO THAT DENNIS SERVED AS DIRECTOR OF THE IDAHO STATE LOTTERY. HE ALSO SERVED ON THE BOARD OF DIRECTORS OF POWERBALL, WAS A MEMBER OF THE EXECUTIVE COMMITTEE, OF THE NATIONAL ASSOCIATION OF STATE & PROVINCIAL LOTTERIES, WAS CHAIRMAN OF THE NATIONAL ASSOCIATION OF STATE & PROVINCIAL LOTTERIES SECURITY COMMITTEE

THE
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Peter Roberts

333 W. 4th Ave., #206 • Anchorage, AK 99501
(907) 279-3334 • Fax (907) 279-8338
email: bicyclealaska@aol.com

April 18, 2003

Honorable Representatives
House Special Ways & Means Subcommittee
Legislative Information Office
716 W. 4th Avenue, Suite 200
Anchorage, AK 99501

MAILED with enclosures
FAXED with enclosures (a), (b), (d) (e).

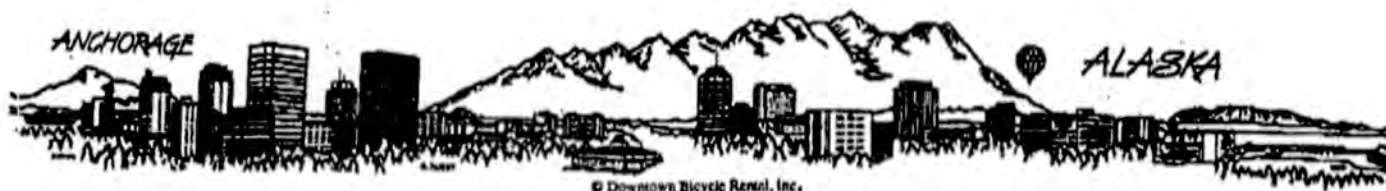
Re: Changing Limitation Provision of AS 05.15.150 in House Bill 240.

Dear Rep. Heinze, Moses, Rokeberg & Whittaker:

The purpose of "charitable" gaming is to fund worthy causes of benefit to Alaskans. AS 05.15.150 "controls" how so-called "charities" spend net gambling proceeds. This "limitation" provision is out-of-step with the explosive growth of gambling in Alaska and our fiscal gap. House Bill 240 gives you the opportunity to capture millions of dollars for the general fund that are now being squandered by organizations that do not even pretend to be doing charitable work. Legislators must not weigh the social costs of gambling without also considering where gambling money goes.

The Department of Revenue's Annual Gaming Report discloses that \$351 million was gambled in Alaska during 2001. Of that, \$30,612,915 in net proceeds went to "charities." Here is a sampling of groups that received some of this money in 2001:

<u>Organization</u>	<u>Net Proceeds</u>
Fairbanks Snowmobile Fun Lions Club	\$106,305.
Interior Girls Softball Association	\$152,514.
Alaska Soft Tip Dart Association	\$33,490.
Soldotna-Kenai Bowling Association	\$127,894
Juneau Gun Club	\$134,112.
Alaska-Hawaii Moose Association	\$68,475.
Alaska Democratic Party	\$45,971.
Alaska Republican Womens Club	\$51,372.
Brotherhood, Inc.	\$141,658.
Ducks Unlimited	\$155,930.



House Special Ways & Means Subcommittee
April 18, 2003

Page 2

Here are a few organizations that received "charitable" gaming proceeds in 2000:

<u>Organization</u>	<u>Net Proceeds</u>
West High Alumni Association	\$115,896.
Anchorage Amateur Radio Association	\$68,011.
Northern Area Aquatics Committee	\$192,792.
ANB Camp #2, Inc.	\$295,078.
Alaska Panhandle Moose Legion #215	\$537,889.
Alaska Democratic Party	\$39,232.
Anchorage Republican Womens Club	\$38,466.

There is no justification for giving any of this money to these organizations when we have a \$500 million dollar budget deficit. If House Bill 240 passes in its present form, the amount of money these organizations receive will grow more obscene. Even if you do not approve a lottery or electronic gaming machines, House Bill 240 should be rewritten so that it restricts net gaming proceeds to organizations that do real charitable work. The Revenue Department acknowledges in its Annual Gaming Reports that "use of the word charity is really a misnomer. An organization does not have to have any charitable purpose in order to have a permit to game in Alaska." This must change. Here is how.

First, only organizations with a 501(c)(3) exemption should be permitted to receive net gaming proceeds. Second, because net proceeds now outstrip what anyone ever imagined, payments should be capped. Whatever is left over should be deposited into the general fund. Third, net proceeds should stay in the communities from which they came. And fourth, operators should not select the permits to be played. That important decision should be made by qualified professionals at the Department of Revenue.

No one, not even a member of any of the aforementioned groups will ever appear before you or any other legislator and say with a straight face that their activities are more important than Denali Kid Care, DEC sanitation inspectors, the Alaska State Library, Municipal Revenue Sharing or any of the other government services that are now being cut or eliminated.

House Special Ways & Means Subcommittee
April 18, 2003

Page 3

Worthy charities that have the good fortune of having their permits played now might object to these changes. But they will not be without recourse. They will still be able to obtain gaming proceeds; but only up to a point. They can and should compete for limited funds with their brethren the way they always have, through donations and grants. When the government is involved, grants are the "most efficient way of providing these human services."¹

Presently, Revenue's Gaming Division gives a blank check to more than a dozen kinds of "qualified organizations." Restricting proceeds to a 501(c)(3) and capping the payout will make their job more manageable. More "meaningful standards" will compel compliance with the purpose of the legislation. No longer will discretion be used as an excuse to do nothing.

Attached hereto is the language I propose to accomplish the above-outlined goals. Other areas of AS 05.15 would have to be eliminated and amended if the Limitation provision is rewritten as I propose. I am able and willing to work with your staffs or officials at the Department of Revenue or Law. Please do not hesitate to call on me. I am not an operator or a gambler. I am an Alaskan who has been burned by misapplied gaming proceeds. I recognize we live in difficult times. And I care deeply how charitable gaming proceeds are spent.

Respectfully yours,



Peter Roberts

PS: Enclosed is an email I sent to the gaming division requesting itemization reports detailing how organizations spent net proceeds. These reports will cast more light on the points I have made. Obtaining these reports prior to April 30 could be helpful to the legislation under consideration.

Enclosures: (a) Proposed Changes to Limitation Provision
(b) Editorial, *A Bad Bet*, N.Y. Times, January 3, 2003, at A 20.
(c) Terry Martin, *Buying Influence: Gam(b)ling Money And Alaska Politics*, May 1997
(d) Terry Martin Press Release announcing 501(c)(3) provision to bill.
(e) Email requesting gaming reports.

cc: Hon. Gregg Renkes, with enclosure (a) and (b).
Hon. William Corbus, with enclosure (a) and (b) (d).

¹ So says Taber Rehbaum, a former banker who tracks legislation for Arctic Alliance for People, an organization of Fairbanks nonprofits. Mr. Rehbaum was quoted in an Anchorage Daily News article entitled: "Nonprofits fear chopping block grants. Some groups depend on the funds to cover more than half their budgets."

Proposed Changes to Limitation Provision

Sec. 05.15.150. Limitation on use of proceeds.

(a) The authority to conduct the activity authorized by this chapter is contingent upon the dedication of the net proceeds of the charitable gaming activity to the awarding of prizes to contestants or participants and to charitable activities that serve a public purpose within the state. A charitable activity authorized by this chapter must benefit persons by bringing them under the influence of education or relieving them from disease, suffering, or constraint, or by assisting them in establishing themselves in life. There must be a rational relationship between an organization's activity and its professed charitable goal so that the activity is of benefit to the people of Alaska. Only organizations exempt from federal taxes under 501(c)(3) of the Internal Revenue Code are permitted to receive net gaming proceeds.

(b) A charity's permit is to be operated by a licensed operator for six months. A charity is allowed to have its permit operated for one six-month period every two years. No charity is to be paid more than \$10 thousand in net proceeds during the period in which its permit is operated. Net proceeds in excess of \$10 thousand are to be deposited into the State general fund.

(c) Net gaming proceeds should be used to fund charitable work in the community which bears the burdens of gambling. When placing permits with operators, the Department shall give preference to a charitable organization that does work in the community in which that permit is played. If no charity comes forward from a community in which gaming occurs, then the Department will use its discretion to assign that operator a qualifying charity from another community whose activities have the most beneficial effect on the community from which gaming proceeds are produced.

The New York Times

Founded in 1851

ADOLPHUS OWEN, Publisher 1896-1911
ARTHUR HAYN SUTZBERGER, Publisher 1915-1961
OWEN L. DRYFOOS, Publisher 1961-1963
ARTHUR OWEN SUTZBERGER, Publisher 1963-1992

FRIDAY, JANUARY 3, 2003

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A Bad Bet

Pro-gambling lobbyists across the country cannot believe their good fortune. The worst budgetary outlook in decades has left plenty of desperate state governments once again vulnerable to being snookered by the gambling lobby's alluring "something-for-nothing" sales pitch, the fiscal equivalent of a comped buffet. States should know better by now. Opposing an ill-advised expansion of legalized gambling will be a true test of leadership for governors and state legislators nationwide.

States embraced gambling as a fiscal panacea during the last economic slowdown, in the early 1990's. Video poker machines (the industry's crack cocaine) and riverboat casinos spread into such improbable venues as Iowa and South Carolina.

It is painfully clear that not every state, and indeed not every county, can sustain its own Las Vegas. People do not fly across the country to gamble in South Dakota saloons, and there is no long-term economic payoff in enticing locals to ante up. The all-too-distressing reality created by gambling's spread is more crime, more addiction and more local businesses being cannibalized.

In recent years, the drive to expand legalized gambling has lost its momentum. Flusher economic times helped state governments acknowledge that gambling's social costs outweighed whatever windfall could be had in tax revenue. In 1999 the Congressionally appointed National Gambling Impact Study

Commission called for a moratorium on the spread of gambling.

Now budget deficits are back, and so are the pro-gambling lobbyists. From California to Florida and Massachusetts, states are eyeing an expansion of legalized gambling. The gleeful lobbyists portray the issue as a choice between voluntary and involuntary taxes. What they don't add is that this so-called voluntary tax is regressive and saddles communities with unacceptably high social costs.

The case made for expanding gambling is usually a disingenuous one. It's all about saving venerable horse tracks (by bringing in slot machines), enhancing an existing lottery or helping Indian nations. An army of Washington lobbyists and outside casino operators eager to join with real and imagined tribes has worked hard to transform laws allowing gambling on reservations into a regulatory Trojan horse stuffed with slot machines.

Among the ensuing absurdities: Indian-owned off-reservation casinos, like the glitzy one the Seneca Nation opened on New Year's Eve in Niagara Falls, N.Y. Casinos already operate on the Canadian side of the falls.

One rationale for allowing casino gambling in New York State, as in most places, is a rather defensive "If we don't take the wagers, other states will." Courageous leaders must resist this destructive race to the bottom.

Alaska State Legislature

News from the House Majority

House Majority Press Secretary Ken Freeman (907) 465-3804
Actuality line: 1-800-478-6540
For Immediate Release: January 16, 1997 Contact: Rep. Terry Martin (907) 465-3783
January 22, 1997

MARTIN INTRODUCES BILL TO LIMIT PULL-TAB GAMING TO 501(c)3 CHARITIES

JUNEAU, AK -- Representative Terry Martin (R-Anchorage) has introduced legislation that would limit the permitting of pull-tab gaming to organizations that qualify as tax-exempt charities under the Internal Revenue Service code.

Martin, a long-time opponent of gambling in Alaska, said the state's current charitable gaming program allows virtually any organization, from labor unions to professional associations to political parties, to raise money--under the guise of charity--through pull-tab permits.

"Many are not charities," Martin said. "The situation has simply gone far beyond what the legislature and the people of Alaska intended when they approved the charitable gaming program. What we have discovered is that there is now a heavy stream of dollars, generated mainly from pull-tabs, flowing into the political arena. In fact, the amount of money contributed to political campaigns by organizations with pull-tab permits is more than the total amount contributed by the oil industry."

Martin said his bill would allow only those organizations that qualify as tax-exempt under 26 U.S.C. 501 (c)(3) to obtain pull-tab gaming permits from the state. "Is this extreme?" Martin asked. "Maybe so, but we need to explore all sides of this problem to determine what our solution ought to be."

Other organizations that do not qualify as tax-exempt, but which would like to continue to use charitable gaming activities to raise money could be issued permits to run raffles, bingo, lotteries, and myriad other classics, contests and derbies.

Martin's research has shown that subgroups of both major political parties in Alaska have in the past used pull-tab permits to raise campaign funds. "I am hopeful that some political parties or subgroups have ceased to use the pull-tabs, but I'm not sure they have," Martin said. "Even with campaign finance reform passed last session, we still have a big loophole, allowed by the abuse of charitable gaming permits."

"Alaska is the only state in the nation that has allowed gam(b)ling money direct access to the political process. This bill will put Alaska on par with other states by simply using the IRS definition of a charitable organization."

The bill, HB 84, was referred to the state affairs, labor and commerce and finance committees. Martin said he will ask for hearings right away on the bill.



✦ HB84 HB 84

"An Act limiting the authority to conduct pull-tab charitable gaming to qualified organizations that are exempt from taxation under 26 U.S.C. 501(c)(3) or (19); and providing for an effective date."

Sponsor(s): REPRESENTATIVE(S) MARTIN

Current Status: (H) STA Status Date: 1/22/97
THEN L&C, FIN

Jrn-Date Jrn-Pg Action

1/22/97	122	(H)	READ THE FIRST TIME - REFERRAL(S)
1/22/97	122	(H)	STATE AFFAIRS, L&C, FINANCE
3/11/97		(H)	STA AT 8:00 AM CAPITOL 102
3/11/97		(H)	MINUTE(STA)
3/13/97		(H)	STA AT 8:00 AM CAPITOL 102
3/13/97		(H)	MINUTE(STA)
3/15/97		(H)	STA AT 11:00 AM CAPITOL 102
3/15/97		(H)	MINUTE(STA)
3/20/97		(H)	MINUTE(STA)
3/22/97		(H)	STA AT 10:00 AM CAPITOL 102
3/22/97		(H)	MINUTE(STA)

✦ HB 84 HB84 - PULL-TABS LIMITED TO CERTAIN TAX-EXEMPTS - (H) STA, 1/22/97
ORGANIZING QUALIFIED CHARITABLE ORGANIZATIONS THAT ARE TAX-EXEMPT



Subj: Re: gaming report request
Date: 4/17/2003 6:47:10 PM Eastern Daylight Time
From: jeff_prather@revenue.state.ak.us
To: Bicyclealaska@aol.com
Sent from the Internet (Details)

Mr. Roberts,

We intend to produce the information you have requested. However, we are not able to meet your requested deadline. We hope to have this information available to you by April 30, 2003.

Bicyclealaska@aol.com wrote:

Jeff Prather:

I am writing a letter to special committee that is considering House Bill No 240. I am going to suggest that the committee amend AS 05.15.150 so that net proceeds are limited to 501(c)(3) organizations. I will also suggest other ways to ensure that gaming proceeds are used only for activities that relieve a governmental burden. Most importantly, I will suggest that no entity receive more than \$10 thousand in any calendar year. I will propose that anything more than that be deposited into the general fund.

I think the committee members will be shocked to learn that membership organizations like the Alaska Soft Tip Dart Association are receiving tens of thousands of dollars when the State is cutting truly charitable programs. I think my position will have even more support if I can report how some of these organizations actually spent their money. That is why I have requested the itemization reports. The subcommittee is meeting on Tuesday. I would very much appreciate it if you pulled net proceeds reports that I requested and ship them to the Anchorage office for my review. Can this be done on Thursday so I can read them on Friday? There is no need to make copies.

Regards,

Peter Roberts

**To Representative Jim Whitaker
May 11, 2003**

**From Omer and Carol Carey
2020 Muldoon Rd., #104
Anchorage, AK 99504**

Dear Representative Whitaker:

**We don't want any more gambling than what we already have.
The financial benefits would be offset by the social service costs, family
miseries, political corruption and bankruptcies.**

We would prefer a sales tax or an income tax.

**Sincerely,
Omer and Carol Carey**

Omer Carol

**Citizens Against Gambling Expansion
Stop Video Poker and Slots in Alaska!
Stop HB240 and SB186**

We, the undersigned, are against Video Poker, Slot Machines and other Gaming Machines because the population of Alaska is fairly small. Gambling machines will take money away from Bingo and Rippie sales. Bingo and Rippie sales help employ people. DATE 5-2-03 to _____

Signature	Name	Address	Phone Number
<i>Juchie Sharp</i>	Juchie Sharp	Twintills	525-4787 Unlisted
<i>Norma Cleveland</i>	Norma Cleveland	Quinhagak	907-556-2807
<i>Phyllis L. Roberts</i>	Phyllis L. Roberts	Quinhagak	556-8528
<i>John A. Sharp</i>	John A. Sharp	Quinhagak (907) 556-8221	
<i>Carly</i>	Carly	Quinhagak	
<i>Jamie Small</i>	Jamie Small	Quinhagak	556-8520
<i>Carolyn Smith</i>	Carolyn Smith	Quinhagak	556-8525
<i>Kelma M. Burke</i>	Kelma M. Burke	Quinhagak	556-8529
<i>Caroline Smith</i>	Caroline Smith	Quinhagak	556-8527
<i>Mary Hill</i>	Mary Hill	Quinhagak	556-8140
<i>John A. Sharp</i>	John A. Sharp	Quinhagak, AK 99551	907-556-1025
<i>Rebecca Jones</i>	Rebecca Jones	Quinhagak, AK 99551	556-8048
<i>Harvey Jones Jr</i>	Harvey Jones Jr	11	11 11
<i>Martha Charlie</i>	Martha Charlie	Barrow AK 99559 (907) 548-7144	
<i>Pauline Pleasant</i>	Pauline Pleasant	Quinhagak AK 99655	
<i>Pete Felt</i>	Pete Felt	Quinhagak AK 99655 (907) 556-8576	
<i>BESSIE HAWK</i>	BESSIE HAWK	Box 110 Quinhagak AK 99655	556-8921
<i>Diane Britton</i>	Diane Britton	Box 121 Quinhagak AK 99655	11-87
<i>Barbara Wassili</i>	Barbara Wassili	Box 800 Quinhagak	
<i>John Hill</i>	John Hill	Box 805 Quinhagak	
<i>Grace Pleasant</i>	Grace Pleasant	Box 74 Quinhagak	
<i>Wendy</i>	Wendy	Quinhagak AK 99655	
<i>Margie M. Jones</i>	Margie M. Jones	Quinhagak, AK 99655	

**Citizens Against Gambling Expansion
Stop Video Poker and Slots in Alaska!
Stop HB240 and SB186**

We, the undersigned, are against Video Poker, Slot Machines and other Gaming Machines because the population of Alaska is fairly small. Gambling machines will take money away from Bingo and Rippie sales. Bingo and Rippie sales help employ people. DATE 5-2-03 to 5-8-03

Signature	Name	Address	Phone Number
<i>[Signature]</i>	Grace Johnson	Box 58 Quinhagak	556-8836
<i>[Signature]</i>	Elizabeth	Box 53	556-8055
<i>[Signature]</i>	Marie N. Kipke	Box 13 Quinhagak, AK	556-8904
<i>[Signature]</i>	Frank Jones	Box 33 Quinhagak	556-8266
<i>[Signature]</i>	John	Box 17	556-8168
<i>[Signature]</i>	Anna E. Clark	Box 52 Quinhagak	556-8186
<i>[Signature]</i>	Murray	Box 57	556-8657
<i>[Signature]</i>	Bernadette	Box 86 Quinhagak	
<i>[Signature]</i>	Hannie Button	Box 64 Quinhagak	556-8916
<i>[Signature]</i>	Grace Jones	Box 118	556-8454
<i>[Signature]</i>	Bernadette	Box 86	" "
<i>[Signature]</i>	John	Box 32	" "
<i>[Signature]</i>	Sally Carter	Box 05 Quinhagak	556-8266
<i>[Signature]</i>	John	Box 142	" "
<i>[Signature]</i>	Robert	Box 80	556-8818
<i>[Signature]</i>	Moses Henry	Box 100	" "

Coalition Against Gambling Expansion

Stop HB240

Here are the ABCs of VLTs and EGMs

Addiction

Bankruptcy

Crime and Corruption

CAGE gambling where it is now!

CAGE

2417 Tongass Avenue * Suite 225 * Ketchikan Alaska 99901 * 907-225-1644
CAGE@kpunet.net

AWSEM ENTERPRISES

April 21, 2003

Representative Jim Whitaker
State Capitol Rm. 501
Juneau, AK 99801

Dear Representative Whitaker:

My name is George Wright and I am licensed Operator #84. I have been an operator since January 1, 2003. For the past 12 years I have worked as an employee for 25 charities. I was the Gaming Manager and served as Member-in-Charge for the Alaska Native Brotherhood Camp #2 Inc. starting in 1992 when the ANB Camp 2 had a manager convicted of taking \$1.5 million dollars over a period of several years. By 1995, we had re-established ANB financially. In 1995, I sat on the task force to re-write the state gaming regulations. At that time, we built a good gaming record and served all of our charities very well. In 2002, the State of Alaska asked me to sit on yet another task force to re-write the regulations once again. After nine months of going around the state taking testimony, the Department of Revenue, Gaming Division changed the regulations and stated that I could no longer work for more than one charity. The department stated that the reason they are changing the rules is so that more charities could be in play and that we had to dissolve three Multiple Beneficiary Permittee's (MBP's). The task force minority lost the decision to the majority and the regulations passed and became effective January 1, 2003. On December 31, 2002 I resigned from my position as the Gaming Manager and Member-in-Charge for ANB Camp 2 and became an operator. For the past 12 years I opposed operators because I felt that the charities weren't getting a fair deal. However, since the state has forced me to become an operator I have not experienced enough exposure as an operator to understand how a gaming operator really works, except that charities in the past received \$70 to \$100 thousand dollars a year and now the same charities I've worked for since 1995 receive only \$25 to \$50 thousand dollars a year.

Now, HB 240 is pushing for electronic gaming in bars only, this will cut out a lot of charities who can't get a bar to run their permit. As a result, many charities will lose out. Also, we will lose 65 percent of our income because electronic gaming will virtually make pulltabs "a thing of the past" which will force charities to close their pulltab shops. These charities that I work for are made up of children and senior citizens and over the years they have educated me and entrusted me with their fund raising and pull tab operations. They have asked me to try to work out an amendment to HB 240, which would be fair and equitable for them and the entire gaming industry as well as bringing in revenue for the state.

P.O. BOX 21910 • JUNEAU, AK 99802 • OFFICE (907) 780-2504 • FAX (907) 780-2577

The Governor's bills (HB 169 and SB 102) would impose a tax heavy enough to kill the charities little at a time, which in turn would not give the state the revenue it's looking for either.

Therefore, following the wishes of the charities, I have drafted the attached amendment to HB 240.

In closing, I personally feel that the state is punishing our charities. In fact, I was forced to be an operator by the Department of Revenue, in which my charities are ultimately being hurt.

Please review our amendment and if you have any questions, please call me anytime at 321-0918.

Sincerely,


George Wright
Operator #84

P.S.

You may also contact any of my charities to check my integrity and my work record. Allowing only bars to have electronic gaming will push our people into liquor establishments, where we know we already have problematic issues - "alcoholism".

Proposed changes to HB 240 are as follows:

Article 2A. Electronic Gaming Activities.

Sec. 05.15.300 is amended to read:

Electronic Gaming. (a) The department may issue an electronic gaming endorsement to a permittee to conduct electronic charitable gaming.

The endorsement provides the permittee with the authority to

(1) contract with electronic gaming vendors and/or operators to conduct electronic gaming by use of electronic gaming machines;

[(2) if the permittee has a club license under AS 04.11.110, conduct electronic gaming by use of electronic gaming machines at the location of the club.]

(b) To obtain an electronic gaming endorsement under

(1) (a)(1) of this section, a permittee shall register each electronic gaming vendor and/or operator with the department by applying for registration on a form prescribed by the department and

(A) identify the locations of the electronic gaming machines;

(B) identify the number of electronic gaming machines the permittee will have at each location; and

(C) pay an annual fee of \$100 for each electronic gaming machine;

[(2) (a)(2) of this section, the permittee shall submit proof of the club license to the department and

(A) identify the location of the club;

(B) identify the number of electronic gaming machines the permittee will have at the club; and

(C) pay an annual fee of \$100 for each electronic gaming machine.]

(c) A permittee issued an endorsement to conduct electronic gaming activities under

(1) (a)(1) of this section may not be issued an endorsement under (a)(2) of this section.

(2) (a)(2) of this section may not be issued an endorsement under (a)(1) of this section.

(d) The endorsement issued under (a) of this section is an extension of the permittee's privilege to conduct charitable gaming in this state. In addition to the endorsement, the department shall issue a machine permit for each electronic gaming machine the permittee has identified under (b) of this section. A permittee or registered electronic gaming vendor/operator may not conduct electronic gaming until a copy of the permit and the endorsement is posted by the permittee at the establishment where the machine is located and the machine permit is posted on the machine. The permit, endorsement, and each machine permit must be clearly visible to the public.

(e) A separate endorsement shall be issued for each permittee location or electronic gaming vendor/operator location. The endorsement for a location may not be transferred to another location. The permittee shall inform the department if the permittee or its electronic gaming vendor or operator discontinues conducting electronic gaming. Failure to return the endorsed copies of a permit to the department after a permittee or an electronic gaming vendor or operator change constitutes grounds for the suspension or revocation of a permittee's permit.

(f) At the time that a permittee annually renews its permit, the permittee shall also renew the registration of the locations where the permittee or an electronic gaming vendor or operator is conducting electronic gaming.

(g) A permittee that uses an electronic gaming vendor or operator to conduct electronic gaming on its behalf shall enter into a written contract with that electronic gaming vendor/operator. The department may inspect this contract. If the contract contains provisions that violate this chapter or the regulations adopted under it, the department may declare the contract void, and may suspend or revoke the registration of the electronic gaming vendor or operator and the permit of the permittee. The contract must contain provisions regarding the allocation of the costs of purchasing or leasing the electronic gaming machines.

(h) Only electronic gaming machines approved by the department may be used for electronic gaming. A permittee may purchase the machines directly from a licensed electronic gaming machine distributor or may enter into a lease or lease-purchase

arrangement for the machines with the distributor. A lease or lease-purchase arrangement must be approved by the department.

(i) If a permittee

(1) contracts with an electronic gaming vendor/operator under (a)(1) of this section, the contract must provide that the

(A) permittee shall receive 30 percent of the net machine income;

(B) registered electronic gaming vendor/operator shall receive 30 percent of the net machine income;

(C) state shall receive 30 percent of the net machine income;

(D) municipality in which each machine is located ~~[or the state if the machine is located in an unorganized borough outside of municipalities]~~ shall receive 10 percent of the net machine income; if the machine is located in a city within an organized borough, five percent shall be paid to the city and five percent to the borough. If the machine is located in a village, five percent shall be paid to the village and five percent to an unincorporated village revenue sharing fund;

(2) conducts electronic gaming under (a)(2) of this section, the permittee must remit the percentages of net machine income under (1) of this subsection to the state and municipality, if any, at times set by the department by regulation.

(j) The odds of winning each electronic gaming game shall be posted on or near each electronic gaming machine. The manner in which the odds are calculated and how they are posted shall be set by the department by regulation.

(k) An electronic gaming machine may

(1) not be played by a person under the age of 21 and may not be located in any place accessible to persons under the age of 21;

(2) only be played during the regular business hour for the location and, if the permittee or electronic gaming vendor or operator is licensed under AS 04.11, during the legal hours of operation allowed by the license and applicable municipal ordinance;

(3) not be played if the machine permit is not posted on the machine.

(l) A permittee may not have more than ~~[5]~~ 10 electronic gaming machines at a location for which the permittee has an endorsement. An electronic gaming

vendor/operator may not have endorsements from permittees for more than 10 machines. A permittee may not contract with more than five electronic gaming vendors/operators. A permittee may not have endorsements cumulatively totaling more than [5] 10 machines.

(m) All electronic gaming machines shall be monitored by the permittee or the electronic gaming vendor/operator during business hours. Monitoring shall be accomplished by the physical presence of an employee of the permittee or the electronic gaming vendor/operator or by an employee using video cameras or mirrors and by periodic personal inspections of the machines and the area in which the machines are located.

(n) A permittee or a registered electronic gaming vendor/operator may not advertise in any manner the possession or availability of electronic gaming machines on their premises or under their permit or registration.

[(o) If the sale of alcoholic beverages has been prohibited within a municipality under AS 04.11.491, the department may issue an electronic gaming endorsement to a permittee within the municipality that provides the permittee with the authority to conduct electronic gaming by use of electronic gaming machines in the manner permittees with club licenses under AS 04.11.110 are authorized to conduct electronic gaming if the electronic gaming is only conducted within a location into which the access is restricted to persons 21 years of age or older.]

(p) The department may by regulation exempt a permittee under this section from the reporting requirements of AS 05.15.080 if the information required to be submitted in the report can be obtained directly by the department from the electronic gaming machines.

***Section 05.15.340 is amended to read:**

Distribution of net income from electronic gaming; appropriations for education. (a)
The department shall immediately revoke the electronic gaming endorsement of a permittee or the electronic gaming registration of an electronic gaming vendor/operator that fails to pay the following percentages of net machine income from each electronic gaming machine at the times directed by the department;

(1) 60 percent to the permittee or, if the permittee uses an electronic gaming vendor/operator, 30 percent to the permittee and 30 percent to the electronic gaming vendor/operator;

(2) 30 percent to the state; and

(3) 10 percent to the municipality in which the machine is located, or [to the state if the machine is located in the unorganized borough outside of municipalities] if the machine is located in a city within an organized borough, five percent shall be paid to the city. If the machine is located in a village, five percent shall be paid to the village and five percent to an unincorporated village revenue sharing fund.

*Sec. 25. AS 05.15.690 is amended by adding a new paragraph to read:

(51) "operator" means a business whose primary activity is regulated by AS 05.15 and

(A) is engaged in the sale of pulltabs on behalf of
permittee;

UMPCO ADDRESSES #1813

92-0188598

Ketchikan High School Baseball/Softball, Inc.
486-B Barbara Lane
Ketchikan, AK 99901
PMIC: James Sarvela, 228-4219, Fax 225-5633
Permit #2188
92-0165310

Anchorage Amateur Boxing Club
P.O. Box 90187
Anchorage, AK 99509
PMIC: Jill Haag, 330-8452 or 529-7057, Fax 338-7940
Permit #2132
60-1273505

★ Fairbanks Historical Preservation Foundation
P.O. Box 70552
Fairbanks, AK 99707
PMIC: Kenneth H. Murray, 456-6646, Fax 452-5445
Jack Coghill, 488-6116 (home)
Permit #1208
94-0354923

Send to:
Jack Coghill
1451 Gordy Way
North Pole, AK
99705
488-6992 fax

Spanard Community Patrol, Inc.
P.O. Box 93878
Anchorage, AK 99509
Sam O'Connor, 583-2066
Permit #2002

★ Greater Fairbanks Racing Association
P.O. Box 72811
Fairbanks, AK 99707
PMIC: Holly Halverson, 457-3232, 457-5063 (fax)
Permit #0236
92-0041453

UCA ADDRESSES #1811

92-0172122

SHOMREI OHR CONGREGATION

1323 ANNAPOLIS DRIVE

ANCHORAGE, AK 99508

David A. Green, PMIC, Phone 272-5081, Fax 272-5083 & 272-2125

Permit #0088

92-0127610

SALAMATOF TRIBAL COUNCIL

P.O. BOX 2682

KENAI, AK 99611

Penny Carty PMIC, Phone 283-7864, Fax 283-8470

Permit #2074

92-0129014

NINILCHIK SENIOR CITIZENS, INC

P.O. BOX 39422

NINILCHIK, AK 99639

Glenn Jennison, PMIC, Phone 567-3968, Fax 567-3968

Permit #0874

52-1323828

seniors@ptialaska.net**JUNEAU HIGH SCHOOL BASEBALL ASSOCIATION**

P.O. BOX 32322

JUNEAU, AK 99803

Mark Heard, PMIC, Phone 789-1490 (Reliable Transfer), Fax 789-1272

Permit #2040

92-0174500

★ **FAIRBANKS RACING LIONS**

P.O. BOX 75333

FAIRBANKS, AK 99707

Michael T. Brooks, PMIC, Phone 452-3833, Fax 451-1531

Permit #2029

92-0113038

ALASKA SHRINE TEMPLE

1930 E NORTHERN LTS BLVD

ANCHORAGE, AK 99508

Mike Johnston, PMIC, Phone 274-4344, Fax 277-4449

Permit #0431

23-7431848

MCA ADDRESSES #1658

92-0153844

JUNEAU HIGH SCHOOL SOFTBALL ASSOCIATION
P.O. BOX 32322
JUNEAU, AK 99803
Permit #1552
Mark Heard 789-1490, fax 789-1272
94-3157026

REBOUNDERS CLUB, INC
P.O. BOX 23044
JUNEAU, AK 99802
Robert Rehfeld, PMIC 790-8240, fax 789-7128
Permit #1667
92-0154202
bob@erfcpa.com

MIDNIGHT SUNS FASTPITCH SOFTBALL ASSOC
P.O. BOX 35622
JUNEAU, AK 99803
Tim Adair, PMIC 485-2470
Permit #1853
92-0161413

ANB CAMP 2, FRAT
320 W. WILLOUGHBY AVE, STE 100
JUNEAU, AK 99801
George Wright, PMIC
Permit #1520
92-0148205

CUC ADDRESSES #1814

92-0177704

P.O.W. High School Baseball & Softball Assoc.
P.O. Box 855
Craig, AK 99921
Ralph Mackie, PMIC, 828-3303 phone, 828-3424 fax
Karen Heard, Treasurer, 828-3274
Permit #1913
92-0164246
thouse@aptalaska.net

Juneau Ski Club
P.O. Box 32358
Juneau, AK 99801
Charles T. Williams, PMIC 789-9875 phone, 789-3545 fax
Permit #0004

Juneau Boxing Club
320 W. Willoughby Ave., Ste. 100
Juneau, AK 99801
George Wright, PMIC 588-3548
Permit #1119
92-015701

Anchorage Symphony Orchestra
400 D Street, Suite 230
Anchorage, AK 99501
Robert J. Dickson, PMIC 276-1700(phone), 272-2082(fax)
Permit #1468
92-8002867
aso@corecom.net

Gastineau Channel Little League
P.O. Box 33894
Juneau, AK 99803
Joyce Vick 780-4260, fax 780-4917, home 384-3820
Permit #551
92-0077310

April 29, 2003

Representative Jim Whitaker
Alaska State Capitol Building
Room 501
Juneau, Alaska 99801

Dear Representative Whitaker:

Attached are my thoughts on gambling and addiction, the most common argument against Electronic Gaming Machines (EGMs). They point out some aspects of EGMs that I believe have been overlooked or at least not stressed enough. Thank you in advance for your consideration.

Respectfully submitted,

Darwin A. Biwer, Jr.
EGM Task Force Liaison

Addiction and Video Gaming

The most common argument against implementation of Electronic Gaming Machines (EGMs) is that it will proliferate social ills, costing the State enormous sums of money, by encouraging gambling addiction. Legal gambling in Alaska has been around for more than 20 years. Bingo and Pull Tabs are widely practiced throughout the state. Reported gross sales are over \$300 million.

Without EGMs the state is already plagued by divorce, bankruptcies and crime. Illegal gambling is already very prevalent in the State. "After hours joints" are readily available for all forms of gambling. "Gray" machines, video machines that "pay out", are also abundant in Alaska. In the last few years, Internet casino gambling has become available to anyone with a computer and a credit card. Therefore, it is reasonable to assume that any adult, who has addictive tendencies toward gambling, has already been "hooked" by the habit.

It is estimated by the Alaska Department of Revenue that there are approximately 410,000 adults in Alaska, over the age of 21. Anyone that proposes that thousands or even hundreds of them, who have been exposed to gambling for years, will suddenly become welfare cases because of the introduction of EGMs is simply "crying wolf". There is no reasonable argument available to even suggest such a scenario

Pull tab cards are physically, bent and ripped apart to reveal the sequence of symbols that determine a winning card. Bend, rip, toss...bend, rip, toss...bend, rip, toss...is the method of "playing" pull tabs. Twenty dollars worth of \$1.00 pulltabs can be spent in literally, 20 seconds.

Electronic poker, "Five Card Draw" for example, requires pushing a "Deal" button, which displays five cards, face up. The player then analyzes the chances of winning, and touches which cards they want to discard (which disappear) and then pushes the "Draw" button. Enough replacement cards are then displayed, to fill their five card maximum hand. The EGM then determines the win or loss of the play.

The EGM procedure takes around 10 seconds. At the maximum bet per play, of \$2.00, it would take approximately, 100 seconds or 1 minute and 20 seconds to lose \$20. At a minimum bet of \$.25, it would take 80 plays or approximately 13 minutes to lose \$20. If, in both these scenarios, there was not one winning play, EGMs would have extended the "entertainment" time from 20 seconds to 13 minutes! It could be argued then, that EGMs, may in fact, simply by extending playing time, reduce the amount of gambling losses!

Whether a person likes or dislikes gambling is, of course, their prerogative. Their reasons may be religious, moral or some of both. The facts however, will prove out that electronic Pacman, Poker, or Blackjack, will not become a reason to see our welfare roles increase dramatically. Sure, a few younger adults, with their first taste of adulthood, may be intrigued by electronic gaming but the effects will surely decline with the strong case of reality.

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Alaska State Legislature

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Rep.CherylHeinze@legis.state.ak.us

Representative Cheryl Heinze
District 24 - Anchorage

COSTS TO SOCIETY OF PATHOLOGICAL AND PROBLEM GAMBLING

Pathological gambling, as defined by The American Psychiatric Association (APA), in its Diagnostic and Statistical Manual of Mental Disorders (DSM-IV), is classified as an impulse control disorder with 10 criteria to guide diagnoses, ranging from "repeated unsuccessful efforts to control, cut back, or stop gambling" to committing "illegal acts such as forgery, fraud, theft or embezzlement to finance gambling."

Problem gambling, by most definitions, includes those problem gamblers associated with a wide range of adverse consequences from their gambling, but fall below the threshold of at least five of ten APA DSM-IV criteria used to define pathological gambling.

A Harvard University study concluded that 3.2% of the American adult populations are pathological gamblers. The combined rate of problem and pathological gambling ranged from 1.7% to 7.3%.

Estimating the costs of problem and pathological gambling without common standards of measurement is problematic. Many of the consequences commonly attributed to problem gambling such as divorce, child abuse, depression and so forth may be the result of many factors that are difficult to sort out and quantify. Problem or pathological gambling can affect the life of the gambler and others in various ways.

Gambling problems affect not only the gambler but also the families, employers and the society in general. Families of pathological gamblers suffer from a variety of financial, physical and emotional problems, including divorce, domestic violence, child abuse and neglect and a range of problems stemming from the severe financial hardship that commonly results from problem and pathological gambling. Children of compulsive gamblers are more likely to engage in delinquent behaviors such as smoking drinking and using drugs and have increased risk of developing problem or pathological gambling themselves.

Problems faced directly by pathological gamblers include crime, loss of employment and bankruptcy. As access to money becomes more limited, gamblers often resort to crime in order to pay debts, appease bookies maintain appearances, and garner more money to gamble. Another cost to pathological gamblers is loss of employment. Roughly one-third of gamblers in treatment in Gamblers Anonymous report the loss of their jobs due to gambling. Bankruptcy presents yet another adverse consequence of excessive gambling.

Employers may experience losses in the form of lowered productivity and time missed from work. Problem and pathological gamblers often engage in a variety of crimes such as embezzlement or default on their obligations.

Costs to society result from job loss, unemployment benefits, welfare benefits, and physical and mental health issues. Problem or pathological gambling treatment costs have been estimated to be \$1200 per pathological gambler, and \$5,130 per problem gambler. The National Opinion Research Center, NORC, calculated that the aggregate annual costs of problem and pathological gambling caused by factors cited above were approximately \$5 billion per year in addition to \$40 billion in estimated lifetime costs. NORC did not include in these estimates the financial costs of any gambling related incidences of theft, embezzlement, suicide, domestic violence, child neglect, and the non-legal costs of divorce.

The NORC study also found that pathological gamblers had higher arrest and imprisonment rates than non-pathological gamblers. A third of problem and pathological gamblers had been arrested, compared to 10 percent of low-risk gamblers and 4 percent of non-gamblers.

The National Gambling Impact Study Commission, as a result of their studies, came up with a number of recommendations for communities contemplating the introduction of gambling. Recommendations of relevance to Alaska include:

1. A recommendation that jurisdictions considering the introduction of new forms of gambling should sponsor comprehensive gambling impact statements. Such analyses should be conducted by qualified independent research organizations and should encompass, in so far as possible, the economic, social and regional effects of the proposed action.
2. Placing a ban on credit card cash advance machines and other devices activated by debit or credit cards from the immediate area where gambling takes place.
3. Establishing policies to help ensure the safety of children on their premises and to prevent underage gambling.

Information presented was extracted from The National Gambling Impact Study Commission Report.

NATIONAL GAMBLING IMPACT STUDY COMMISSION

CHARTER

Authority

Congress authorized The National Gambling Impact Study Commission ("the Commission") on June 3, 1996 by Public Law 104-169. The Commission is subject to the standards and requirements of the Federal Advisory Committee Act (FACA), as amended, with respect to meetings, hearings, and availability of Commission records, and other matters.

Purpose and Function

The implementing statute for the Commission establishes it as an independent commission which is not under the auspices of any executive agency, nor specifically controlled by the legislative or judicial branches of government.

The Commission must conduct a comprehensive legal and factual study of the social and economic impacts of gambling on (1) federal, state, local, and Native American tribal governments; and (2) communities and social institutions including the individuals, families, and businesses which compose them. At a minimum, the study should include the following:

1. A review of existing government policies and practices regarding legalizing and prohibiting gambling, including the costs of such policies and practices;
2. An assessment of the relationship between gambling and levels of crime, including existing enforcement and regulatory practices that address such relationship;
3. An assessment of pathological or problem gambling, including its impact on individuals, families, businesses, social institutions, and the economy;
4. An assessment of gambling's impact on individuals, families, businesses, social institutions, and the economy generally, including advertising's role in promoting gambling and gambling's impact on depressed economic areas;
5. An assessment of the extent to which gambling provides revenue to State, local, and Native American tribal governments and the extent to which possible alternative revenue sources may exist for such governments; and

6. An assessment of the interstate and international effects of electronic gambling, including the use of interactive technologies and the Internet.

The Commission must comprehensively report its findings and conclusions, together with its recommendations, if any, to the President of the United States, the United States Congress, the State Governors, and Native American tribal governments no later than two years after the date of its first meeting. The report shall include summaries of the material the Commission relied on in preparing the report including summaries of reports made by the Advisory Commission on Intergovernmental Relations and the National Research Council.

Structure and Meetings

The Commission consists of nine members appointed for the life of the Commission. The President of the United States, the Majority Leader of the Senate, and the Speaker of the House of Representatives each appoints three members to the Commission. These individuals are to consult among themselves, to the extent possible, to achieve a fair and equitable representation of the various points of view regarding those issues that the Commission will study.

Congress has authorized such sums as needed for the Commission to carry out its purposes and has to date appropriated four million dollars. Such funds are to remain available until expended.

The President, the Majority Leader of the Senate, and the Speaker of the House shall jointly designate the Commission's Chairman, who has the authority to call the initial and all subsequent meetings. Five Commissioners shall constitute a quorum to conduct official business, but the Commission may Establish a lesser quorum to conduct hearings.

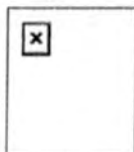
The Chairman has the authority to appoint and terminate an Executive Director and other such personnel necessary for the Commission to perform its duties. The appointment and termination of the Executive Director shall be subject to confirmation by a majority of the Commission's members. The Chairman also has the authority to utilize detailed government employees without reimbursement and to procure temporary and intermittent services.

The Commission shall have the power (1) to conduct hearings as it deems advisable to execute its duties; (2) to issue subpoenas to compel production of information from anywhere in the United States; (3) to issue subpoenas to compel oral or written explanations of materials obtained by subpoena; and (4) to secure information directly from any Federal department or agency.

Termination

The Commission shall terminate 60 days after the date on which it submits its report.

Dated and Filed: June 15, 1997



Kay C. James, Chairman
National Gambling Impact Study Commission

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