

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3004 SCOMM 134: HOUSE SPECIAL COMMITTEE ON WAYS & MEANS 2003-04

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:

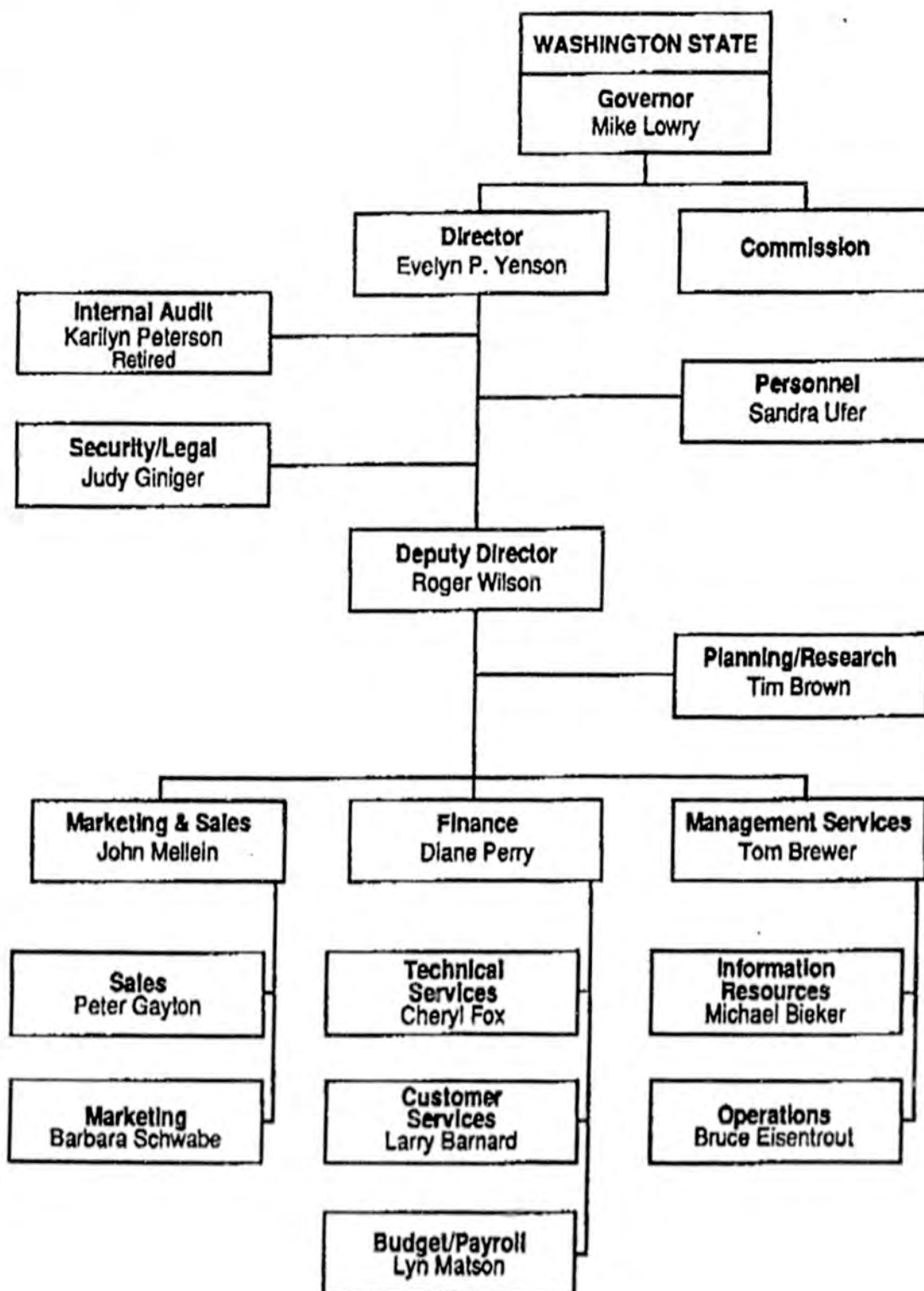
- * A brief history of lottery legislation in Alaska
- * Lottery Alaska's marketing and sales of modern lottery products
- * Lottery facts and figures
- * A review of the Washington State Lottery
- * Suggestions for improving the current legislation
- * Questions and answers

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.

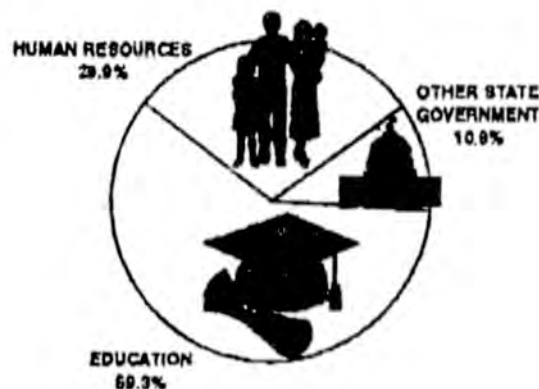
Quinto

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!"

Libby 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

Citizens Against Gambling Expansion

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Representative Beth Kartula
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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:

Governor Frank Murkowski
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Representative Albert Kookesh
Representative Pete Kott
Representative Bob Lynn
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@kpunet.net

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Representative Paul Seaton
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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

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Stop HB240 and SB186

To:

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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, Alaskans 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

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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).

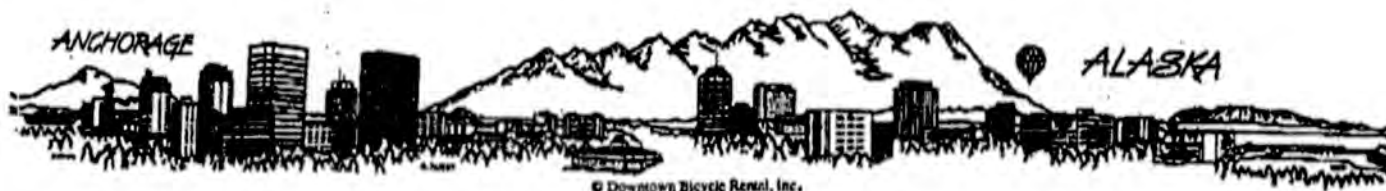
Re: Changing Limitation Provision of AS 05.15.150 in House Bill 240.

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

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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	907-556-1025
<i>Rebecca Jones</i>	Rebecca Jones	Quinhagak	556-8048
<i>Harvey Jones Jr</i>	Harvey Jones Jr	11	11
<i>Martha Charlie</i>	Martha Charlie	Barrow Alaska 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 9965	

**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 Louise Lunk	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 Eluk	Box 52 Quinhagak	556-8186
<i>[Signature]</i>	Marion	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>	John	Box 80	556-8818
<i>[Signature]</i>	Marion	Box 120	" "

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 Haeg, 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

Interim:
716 W. 4th Ave., #650
Anchorage, AK 99501-2133

Phone: (907) 269-0160
Fax: (907) 269-0177



Session:
Alaska State Capitol, Rm 416
Juneau, AK 99801-1182

Phone: (907) 465-4930
Fax: (907) 465-3834
Toll Free: (800) 331-4930
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.

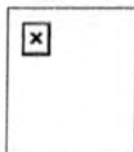
The Chairman has the authority to appoint and terminate an Executive Director and other such personnel necessary for the Commission to perform its duties. The appointment and termination of the Executive Director shall be subject to confirmation by a majority of the Commission's members. The Chairman 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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23-LS0936S
Kurtz
4/23/03

*Passed out
w/amendment
4/24*

CS FOR HOUSE BILL NO. 271(W&M)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVE KOTT

A BILL

FOR AN ACT ENTITLED

1 "An Act levying and providing for the collection and administration of excise taxes on
2 passenger vehicle and recreational vehicle rentals; and providing for an effective date."

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

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

5 **Chapter 52. Vehicle Rental Taxes.**

6 **Sec. 43.52.010. Levy of passenger vehicle rental tax.** There is imposed an
7 excise tax on the charge for the lease or rental of a passenger vehicle made in this state
8 if the lease or rental of the passenger vehicle does not exceed a period of 90
9 consecutive days.

10 **Sec. 43.52.020. Rate of passenger vehicle rental tax.** The rate of the tax
11 levied in AS 43.52.010 is 10 percent of the amount charged for the lease or rental of
12 the passenger vehicle.

13 **Sec. 43.52.030. Levy of recreational vehicle rental tax.** There is imposed an
14 excise tax on the charge for the lease or rental of a recreational vehicle made in this

1 state if the lease or rental of the recreational vehicle does not exceed a period of 90
2 consecutive days.

3 **Sec. 43.52.040. Rate of recreational vehicle rental tax.** The rate of the tax
4 levied in AS 43.52.030 is three percent of the amount charged for the lease or rental of
5 the recreational vehicle.

6 **Sec. 43.52.050. Liability for payment of vehicle rental taxes.** (a) The taxes
7 imposed by this chapter are due and payable to the department

8 (1) by the person who provides the leased or rented vehicle; and

9 (2) in the manner and at the times required by the department by
10 regulation.

11 (b) Nothing in this section prohibits a person who provides a leased or rented
12 vehicle from collecting the tax due from the person leasing or renting the vehicle if the
13 amount of the tax is stated separately from the amount charged for the lease or rental.

14 **Sec. 43.52.060. Applicability of the tax.** The provisions of this chapter apply
15 to a passenger vehicle whether or not the vehicle is registered and licensed in this
16 state. [^]or recreational

17 **Sec. 43.52.070. Relationship to municipal levies.** The taxes imposed by this
18 chapter are in addition to taxes that may be imposed on vehicle rentals by a
19 municipality under AS 29.45.

20 **Sec. 43.52.080. Administration of tax.** (a) The department shall administer
21 the taxes imposed by this chapter and may adopt necessary regulations.

22 (b) The proceeds of the vehicle rental taxes imposed by this chapter shall be
23 deposited into a special vehicle rental tax account in the general fund.

24 (c) The legislature may appropriate the actual balance of the vehicle rental tax
25 account for tourism development and marketing. This section is not intended to create
26 a dedicated fund.

27 **Sec. 43.52.099. Definitions.** In this chapter,

28 (1) "passenger vehicle" means a motor vehicle as defined in
29 AS 28.40.100 that is driven or moved on a highway or other public right-of-way in the
30 state, but does not include

31 (A) a commercial motor vehicle as that term is defined in

1 AS 28.40.100;

2 (B) emergency or fire equipment that is necessary to the
3 preservation of life or property;

4 (C) a farm vehicle that is controlled and operated by a farmer,
5 used to transport agricultural products, farm machinery, or farm supplies to or
6 from that farmer's farm, not used in the operations of a common or contract
7 motor carrier, and used within 150 miles of the farmer's farm; or

8 (D) a recreational vehicle;

9 (2) "recreational vehicle" means

10 (A) a motor vehicle or trailer for recreational dwelling
11 purposes;

12 (B) a motor home or other vehicle with a motor home body
13 style;

14 (C) a one-piece camper vehicle; and

15 (D) any other self-propelled vehicle with living quarters.

16 (3) "tax" means the excise tax levied under this chapter on the charge
17 made for the rental of a passenger vehicle.

18 * Sec. 2. TRANSITIONAL PROVISIONS: REGULATIONS. Notwithstanding sec. 4 of
19 this Act, the Department of Revenue may proceed to adopt regulations necessary to
20 implement this Act. The regulations take effect under AS 44.62 (Administrative Procedure
21 Act), but not before the effective date set out in sec. 4 of this Act.

22 * Sec. 3. Section 2 of this Act takes effect immediately under AS 01.10.070(c).

23 * Sec. 4. Except as provided in sec. 3 of this Act, this Act takes effect July 1, 2003.

LEGISLATIVE RESEARCH REPORT

MARCH 28, 2003



REPORT NUMBER 03.178

VEHICLE RENTAL INCOME IN ANCHORAGE

PREPARED BY CHERIE NIENHUIS, LEGISLATIVE ANALYST

You asked about rental car income for the cities of Anchorage, Fairbanks, and Juneau. Specifically, you wished to know how much revenue the rental car industry generates on a monthly basis in each of these cities.

Contacts in Juneau and in Fairbanks could not provide us with this information. Fairbanks does not collect a sales tax, and therefore, would have no official access to this information. Although the City and Borough of Juneau does levy a sales tax on car rentals, they are unable to disaggregate the tax paid on rentals from the tax paid by those same agencies for other services they provide.

The Municipality of Anchorage does not have a sales tax, but in 2000, it authorized a tax of 8% on the fees and costs charged to persons renting vehicles in the municipality.¹ The city's Finance Department provided information about gross "fees and costs" reported by rental car agencies since the tax began in 2000. Anchorage Municipal code defines "fees and costs" as the following:

Fees and costs means the value of all charges incurred by the renter, other than the tax prescribed by this chapter, for the use of a motor vehicle, regardless of whether paid in the form of money, property, or services, except for only the following items if separately stated on the rental contract or other document invoicing payment:

1. Fees from the sale of automobile liability insurance, loss damage waiver insurance, and personal accident insurance;
2. Parking tickets;

¹ Anchorage Municipal Code Chapter 12 Section 45 authorizes the vehicle rental tax; the code provides for some tax ceilings and exceptions.

3. The amount of any sales tax, so-called "luxury tax", consumer excise tax, gross receipts tax, or other similar tax imposed by the United States, the State of Alaska, or the Municipality;

4. Payments received by the rental agency from the renter or the renter's insurance provided for damage to a motor vehicle when the damage was incurred during the rental period;

5. Personal property other than items that are permanently affixed to the motor vehicle. Personal property does not include pickup truck shells or campers mounted on the motor vehicle, or trailers designed, constructed, or used primarily for dwelling;

6. The amount of the concession fee paid to the Ted Stevens Anchorage International Airport; and

7. Fueling charges.²

The Anchorage Department of Finance records gross fees and costs for rental car agencies on a quarterly basis. The vehicle rental tax is approximately 8% of these fees and costs, as shown in Table 1 below.³

Table 1: Total Fee and Costs, and Vehicle Rental Taxes Paid, Municipality of Anchorage, Since Tax Inception, 2000 (in thousands)

	2000		2001		2002	
	Total Fees and Costs	Vehicle Rental Taxes Collected	Total Fees and Costs	Vehicle Rental Taxes Collected	Total Fees and Costs	Vehicle Rental Taxes Collected
1st Quarter	n/a	n/a	\$ 6,370.5	\$ 476.9	\$ 6,266.7	\$ 468.4
2nd Quarter	n/a	n/a	\$ 13,896.9	\$ 1,092.4	\$ 14,530.5	\$ 1,123.5
3rd Quarter	n/a	n/a	\$ 29,792.1	\$ 2,300.6	\$ 29,961.9	\$ 2,319.8
4th Quarter	\$ 6,326.7	\$ 460.4	\$ 6,637.2	\$ 500.3	\$ 6,796.3	\$ 488.1
Totals	\$ 6,326.7	\$ 460.4	\$ 56,696.7	\$ 4,370.2	\$ 57,555.4	\$ 4,399.8
Source: Municipality of Anchorage, Department of Finance, (907) 343-6686.						

We also include, as Attachment A, a brief summary of the potential revenue and impacts of a state tax on vehicle rentals, as prepared by the Alaska Department of Revenue in February of this year.

I hope you find this information useful. Please do not hesitate to contact us if you have questions or need additional information.

² Anchorage Municipal Code Chap 45 Section 12.010.

³ Neva Harnish of the Municipality of Anchorage Department of Finance explained that there are items included in the gross fees and costs that are not taxed; therefore, tax computations will not exactly equal 8 percent.

Attachment A

**"Proposed Revenues," Prepared by
the Alaska Department of Revenue,
February, 2003**

Proposed Revenues

BRIEF DESCRIPTION: Tax on vehicle rentals.

DEPARTMENT AND PROGRAM NAME: Department of Revenue.

SUMMARY: The state could impose a tax on vehicle rentals, either a flat per-rental fee or a percentage tax (much like a sales tax). Anchorage already imposes an 8% tax, with Cordova at 6% and Yakutat at 4%.

WHO WILL PAY? Anyone who rents a vehicle, although the state would need to decide if the tax also applies to RVs, trailers and commercial rentals, too, such as heavy equipment. And would the tax apply to leases, or only short-term rentals of less than (for example) 30 days?

ESTIMATED REVENUE EXPECTED: Each 1% tax on rentals would raise approximately \$500,000 to \$600,000 per year. This assumes the vehicle rental business in Alaska is a \$50 million to \$60 million a year industry, and it also assumes that long-term vehicle and commercial leases would be exempt from the tax. The revenue could start flowing to the state by January 1 of the year after passage, to allow time to set up a tax collection program, forms and software.

ESTIMATED COST TO COLLECT: The department estimates the cost of running a vehicle rental tax program at approximately \$125,000 to \$150,000 per year.

WHAT OTHER DEPARTMENTS WILL BE AFFECTED BY THIS PROPOSAL? Department of Community and Economic Development.

WHO WILL SUPPORT THIS BILL? No one specific, unless the state shared the revenue with the airports or communities.

WHO WILL OPPOSE THIS BILL? Probably car rental agencies and perhaps Bush Alaskans who travel frequently to Anchorage or Fairbanks for shopping, business, medical needs or leisure, and who rent vehicles.

CONTACT FOR MORE INFORMATION:

Name: Commissioner Bill Corbus or Deputy Commissioner Larry Persily

Phone: 465-2301

Email: bill_corbus@revenue.state.ak.us, larry_persily@revenue.state.ak.us

Table 2
Rental Car Tax
State-by-State Comparison¹

State	State Rental Tax		State Sales Tax		Local Rental Tax		Local Sales Tax		Effective Tax	
	Tax Rate ²	Applicable	Tax Rate		Maximum Local Rate ^{2,3}	Applicable	Local Rate		Maximum Effective Tax	Rank
Illinois ⁴	5.000%	No	6.250%		18.500%	Yes	up to 2%		31.750%	1
Arizona ⁵	5.000%	Yes	5.000%		17.300%	Yes	up to 2.5%		29.800%	2
Massachusetts ⁵	0.000%	Yes	5.000%		20.600%	N.A.	N.A.		25.600%	3
Texas ³	10.000%	No	6.250%		13.000%	No	up to 2%		23.000%	4
Louisiana ³	3.000%	Yes	4.000%		10.250%	Yes	up to 5%		22.250%	5
Washington ³	5.900%	Yes	6.500%		7.000%	Yes	up to 2.1%		21.500%	6
Nevada ³	6.000%	Yes	6.500%		8.000%	Yes	up to 0.5%		21.000%	7
North Carolina ³	8.000%	No	4.000%		10.000%	Yes	up to 2.5%		20.500%	8
Colorado ³	0.000%	Yes	2.900%		11.460%	Yes	up to 5%		19.360%	9
North Dakota ³	3.000%	Yes	5.000%		10.000%	No	up to 1.75%		18.000%	10
Indiana ³	0.000%	Yes	5.000%		13.000%	N.A.	N.A.		18.000%	11
Oregon ³	0.000%	N.A.	N.A.		18.000%	N.A.	N.A.		18.000%	11
Utah	6.500%	Yes	4.750%		3.000%	Yes	up to 3.35%		17.600%	13
California ³	0.000%	Yes	7.000%		8.000%	Yes	up to 2.5%		17.500%	14
Minnesota ³	6.200%	Yes	6.500%		3.500%	Yes	up to 1%		17.200%	15
Georgia ³	0.000%	Yes	4.000%		11.000%	Yes	up to 2%		17.000%	16
Virginia ³	8.000%	No	4.500%		7.000%	Yes	up to 2%		17.000%	16
New Jersey ³	0.000%	Yes	6.000%		10.000%	N.A.	N.A.		16.000%	18
New Mexico	9.000%	Yes	5.000%		N.A.	Yes	up to 1.9375%		15.938%	19
Nebraska	4.500%	Yes	5.000%		4.000%	Yes	up to 1.5%		15.000%	20
Oklahoma	6.100%	Yes	4.500%		N.A.	Yes	up to 4%		14.600%	21
Arkansas	5.500%	No	5.125%		5.000%	Yes	up to 4%		14.500%	22
Dist. of Columbia ³	10.000%	No	5.750%		4.000%	N.A.	N.A.		14.000%	23
New York	5.000%	Yes	4.000%		N.A.	Yes	up to 4.25%		13.250%	24
Ohio	0.000%	Yes	5.000%		6.000%	Yes	up to 2%		13.000%	25
Pennsylvania	6.000%	Yes	6.000%		N.A.	Yes	1%		13.000%	23
Rhode Island	6.000%	Yes	7.000%		N.A.	N.A.	N.A.		13.000%	25
Wisconsin	3.000%	Yes	5.000%		4.000%	Yes	up to 0.6%		12.600%	28
Alabama	8.000%	No	4.000%		N.A.	Yes	up to 4%		12.000%	29
Florida	4.100%	Yes	6.000%		0.000%	Yes	up to 1.5%		11.600%	30
Maryland	11.500%	No	5.000%		N.A.	N.A.	N.A.		11.500%	31
South Dakota	5.500%	Yes	4.000%		N.A.	Yes	up to 2%		11.500%	32
Connecticut	5.000%	Yes	6.000%		N.A.	N.A.	N.A.		11.000%	33
South Carolina	5.000%	Yes	5.000%		N.A.	Yes	up to 1%		11.000%	33
Tennessee	2.000%	Yes	6.000%		N.A.	Yes	up to 2.75%		10.750%	35
Kansas	3.500%	Yes	4.900%		0.000%	Yes	up to 2%		10.400%	36
Wyoming	4.000%	Yes	4.000%		N.A.	Yes	up to 2%		10.000%	37
Hawaii	6.000%	Yes	4.000%		N.A.	N.A.	N.A.		10.000%	37
Maine	10.000%	No	5.000%		N.A.	N.A.	N.A.		10.000%	37
Kentucky	0.000%	Yes	6.000%		3.000%	N.A.	N.A.		9.000%	40
Mississippi	6.000%	Yes	3.000%		N.A.	N.A.	N.A.		9.000%	40
Michigan	0.000%	Yes	6.000%		2.000%	N.A.	N.A.		8.000%	42
New Hampshire	8.000%	N.A.	N.A.		N.A.	N.A.	N.A.		8.000%	42
Missouri	0.000%	Yes	4.225%		N.A.	Yes	up to 3.75%		7.975%	44
Idaho	0.000%	Yes	5.000%		N.A.	Yes	up to 2%		7.000%	45
Iowa	0.000%	Yes	5.000%		0.000%	Yes	up to 1%		6.000%	46
Alaska	0.000%	N.A.	N.A.		N.A.	Yes	up to 6%		6.000%	47
Vermont	0.000%	Yes	5.000%		N.A.	Yes	1%		6.000%	47
West Virginia	0.000%	Yes	6.000%		N.A.	N.A.	N.A.		6.000%	47
Montana ⁶	0.000%	N.A.	N.A.		N.A.	Yes	up to 3%		3.000%	50
Delaware	1.920%	N.A.	N.A.		N.A.	N.A.	N.A.		1.920%	51

Mean	5.948%
Median	5.900%
Maximum	11.500%
Minimum	1.920%

Mean	13.874%
Median	13.000%
Maximum	31.750%
Minimum	1.920%

¹Sources: The National Conference of State Legislatures July 1999, "Travel and Tourism a Legislator's Guide"; Federal Tax Administrators, and National Car Rental for select states. Sources do not coincide for every state.

²Per day charges are converted to percentages using \$50.00 as a base price before surcharges and taxes.

³Maximum local tax include additional off-airport car rental fees;

AZ-7%, CA-8%, CO-5.96%, DC-4%, GA-8%, IN-7%, LA-5%, MN-3.5%, NV-8%, NJ-10%, NC-5%, ND-10%, OR-4%, TX-8%, VA-7%, WA-4%

⁴Maximum local tax includes transit taxes (16.5% in Chicago)

⁵Maximum local tax includes 20.6% surcharge that is only assessed in Boston

⁶Resort tax

SCOMM

134:7

Alaska State Legislature

House Special Committee on Ways and Means

Co-Chair, Representative Jim Whitaker
State Capitol
Room 501
Juneau, AK. 99801
Phone (907) 465-3004
Fax (907) 465-2070
Contact: Lori Backes



Co-Chair, Representative Mike Hawker
State Capitol
Room 434
Juneau, AK. 99801
Phone (907) 465-4949
Fax (907) 465-4979
Contact: David Brewster

Committee Aide: Lori Backes, 465-6541

HB 293 State Sales Tax

As amended in the House Special Committee on Ways and Means, the current version:

- Levies a statewide sales and use tax at 3% effective January 1, 2004
- Caps the total amount of combined local and state sales tax at 8%. The effect on municipal sales and use tax rates shall be phased in with the municipal rate not to exceed 6% as of January 1, 2008, followed by a limit to 5% on January 1, 2010. The 8% combined cap may be exceeded by a municipality if approved by the local voters in a referendum.
- Phases in statewide authority to administer and collect sales and use tax according to the following schedule:
 1. For the first two years, municipalities may collect and enforce their own sales and use tax laws under their current ordinances,
 2. Then, on January 1, 2006, municipalities must begin enforcing and collecting local sales and use taxes under the state sales and use tax laws.
 3. Finally, on January 1, 2008, the state assumes responsibility for administering and collecting state and local sales and use taxes.
- Allows the state to contract with municipalities for tax administration field office services
- Allows municipalities to continue to levy and collect special taxes on single categories of items
- Includes an increase in the motor fuels tax to 20 cents per gallon and deposits 6 cents per gallon of those proceeds into the special highway fuel tax account to be used for increased revenue sharing to the municipalities

Committee Members:

Representative Cheryll Heinze • Representative Vic Kohring • Representative Norman Rokeberg
Representative Bruce Weyhrauch • Representative Peggy Wilson
Representative Max Gruenberg • Representative Carl Moses

Exemptions: the following sales, uses, purchasers, or categories will be exempt from the statewide tax:

- Sales to and uses by a governmental agency
- Sales and rents of real property
- IRS approved charitable organizations
- Purchases with food stamps or WIC program benefits
- Intangible items
- Isolated or occasional sales or leases
- The prices of a motor vehicle, boat, snowmobile, airplane or mobile home above \$5,000
- Sales for resale
- Services for resale
- Sales for ingredients used in mining and manufacturing
- Sale of property for lease
- Certain intrastate transportation and services in interstate commerce
- Health care services by licensed providers
- Child care services

The bill authorizes the department to enter into the Streamlined Sales and Use Tax Agreement to simplify and modernize sales and use tax administration.

The statewide sales and use tax sunsets on January 1, 2012.

Committee Members:

Representative Cheryll Heinze • Representative Vic Kohring • Representative Norman Rokeberg
Representative Bruce Weyhrauch • Representative Peggy Wilson
Representative Max Gruenberg • Representative Carl Moses

Statewide Sales Tax

What Do Other States Charge?

The only states in the nation without a statewide sales tax are Alaska, Delaware, Montana, New Hampshire and Oregon. The others collect taxes that range from a low of 2.9% in Colorado to 7% in Mississippi, Tennessee and Rhode Island.

- In most states, the cities, counties, transit districts and other taxing authorities add their tax onto the state tax rate, with the states handling collection and enforcement, then disbursing the funds to the municipal agencies.
- State and city sales taxes are collected and administered separately in only a very few locations nationwide. Businesses prefer to deal with a single set of rules and a single taxing authority (reducing compliance costs to businesses).

Because of the cumulative effect of adding local sales taxes to the state tax, many states set a maximum overall rate.

- The highest combined state and municipal sales tax rate in the nation is in Alabama, with at least one community at 11%. Arkansas and Oklahoma are tied at second at 9.875%.

Most states — 28 of 45 — exempt all or some food purchases from sales taxes, with three additional states charging a lower tax rate on foods.

- All states exempt prescription medicines from sales tax.
- Fewer than 10 states exempt non-prescription medicines from sales tax.

Most states allow businesses to retain a portion of their collections as reimbursement for the expense of collecting the tax for the state.

- For those states that do allow a "discount" to businesses on their sales tax returns, the rate ranges from 0.5% of the amount collected to as much as 5% for businesses with small tax collections.
- One-third of the states set a maximum on the amount of money a business is allowed to retain.

Of those states with a general statewide sales tax, the tax provides an average of around 30% of the state's overall general fund revenues.

How Many Alaska Cities and Boroughs Already Have a Sales Tax?

About one-third of Alaskans live in a community — a city or a borough — with a municipal sales tax. The rates for those 200,000-plus Alaskans range from:

- A low of 1% in Tenakee and White Mountain.
- To a high of 7% in Wrangell, with a 6% rate in Petersburg, Cordova, Kodiak and Kotzebue.

The 97 cities and boroughs with a sales tax collected about \$125 million in Fiscal Year 2001, for an average of more than \$600 per capita.

Each municipality has its own list of tax exemptions, limits and rules, such as a cap on the maximum amount of a single purchase subject to a sales tax (to ease the burden on purchasers of big-ticket items such as cars). There is no uniformity across the state. In this aspect, merchants likely would appreciate a state-governed sales tax program, with one set of rules statewide.

The Alaska Municipal League has gone on record opposing a statewide sales tax. The league's members see the sales tax as historically the domain of municipalities in Alaska and do not want to lose control over the tax revenue or administration. Alaska communities with an existing sales tax also fear the economic damage that could be inflicted upon their cities and boroughs if the state were to impose a statewide sales tax on top of municipal taxes.

- For example, Wrangell and Petersburg, at 7% and 6%, respectively, believe merchants in their communities would lose a significant amount of business to out-of-state suppliers if residents were charged an 8%, 9% or 10% combined state/municipal tax.

Most municipalities allow for some form of exemption for senior citizens, though the process varies from city to city.

- For example, Juneau issues tax-exempt cards to seniors and then requires businesses to keep a log of all tax-exempt purchases. Wrangell uses a different approach. It issues seniors a \$250-a-year sales tax rebate, rather than requiring businesses to keep a log and enforce the exemption.

Assuming the state controlled collection of the tax, the most efficient method for distributing the local tax back to cities and boroughs would be to determine the local share of the tax revenue — for example, if Sitka had a 5% rate and the state had a 3% rate — and then compute the local share of total collections and send out the check.

How Much Would the State Raise from a Sales Tax?

The Department of Revenue estimates the state would collect approximately:

- \$110 million a year for every 1% in a statewide sales tax on retail goods and services sold in Alaska, assuming no exemptions.
- \$75 million a year if foods and medical goods and services were exempted.

Additional exemptions would reduce the tax burden on some residents and, consequently, reduce revenues to the state. Exemptions also could complicate administration of the tax. And, if the state exempted any goods or services already subject to municipal sales taxes, and then imposed its exemptions on municipalities, some cities and boroughs could see a drop in their tax revenues.

Is a Seasonal Sales Tax a Good Idea?

This is hard to judge, but it appears from Juneau's sales tax records that sales are not as heavily weighted to the summer season as many people might expect. Permanent Fund dividends and the Christmas shopping season appear to help keep the volume of sales from leaning too heavily toward a summer surge.

Based solely on Juneau's records, it appears a six-month seasonal tax might not generate much more than 50% to 55% of the year's taxable revenues. And it could be less if local residents shifted their purchases to the no-tax season.

A seasonal sales tax, while intended to grab more tax revenues from summer visitors, could actually harm local businesses, particularly big-ticket merchants that depend on local sales. For example, would a heavy seasonal sales tax deter residents from making purchases locally during the summer season? Would it hurt car dealers, appliance and furniture stores and electronic shops? Would the sales return each fall?

Who Would Pay the Tax?

A sales tax is generally considered to be regressive, meaning that lower-income people, who spend a greater proportion of their income on local goods, would pay a larger share of their income in sales taxes when compared to higher-income people. Exemptions for medical care and other necessities would reduce but not eliminate this imbalance. And the state could use a credit system to somewhat reimburse lower-income households for taxes paid on food. Taxing all services also would help to lessen the proportion of the tax burden on lower-income households, as middle- and upper-income households generally purchase services more than households on limited income.

It's hard to say how much of the sales tax would be paid by visitors from out of state, although the Department of Revenue believes it would be in the range of 10% of total tax revenues for a tax in place for the entire year. Visitors spend heavily on gifts, food, lodging and tours, although federal law prohibits a state sales tax on air transportation.

What is the Nationwide Streamlined Sales and Use Tax Agreement?

Businesses nationwide and other states are working hard to win nationwide adoption of a Streamlined Sales and Use Tax Agreement.

"It is the purpose of this agreement to simplify and modernize sales and use tax administration in the member states in order to substantially reduce the burden of tax compliance."

One of the key reasons for the push is to address the loss of state and municipal sales tax revenues to mail order and Internet commerce. The growth of mail order and Internet sales is costing states and municipalities billions of dollars a year in lost sales taxes. The retail industry has made it clear it wants to see a set of uniform sales tax rules nationwide as a condition of working with the states to collect taxes on interstate commerce. Alaska would not be in compliance with the nationwide effort if it adopted a state sales tax without the same exemptions and rules for municipal taxes statewide.

The agreement, which has been adopted by more than 20 states, requires:

"States to administer any and all sales and use taxes levied by local jurisdictions within the state so that sellers collecting and remitting these taxes will not have to register or file returns with, remit funds to, or be subject to independent audits from local taxing jurisdictions."

What Other Issues Should be Considered?

In addition to questions of local control, joining the nationwide streamlined sales tax campaign, and the risk of economic damage to communities that already have a heavy sales tax burden, other issues for the state to consider include:

- Taxable vs. non-taxable sales.
Food (prepared vs. unprepared), medicines (prescription vs. non-prescription), medical care (licensed care only or all care), sales by nonprofit organizations, and sales at vending machines are among the obvious issues.
- Senior citizen tax exemption.
No exemption, or exempt all purchases by seniors, or issue an annual rebate check? If purchases are exempt, should such tax-exempt purchases be limited?
- An exemption for purchases and/or sales by nonprofit organizations.
- Expectation for audits and enforcement. A stronger enforcement and audit program would add to the costs but would produce higher revenues to the state.

One other major issue to consider is the essential need for a "use tax" as part of any sales tax. Most states collect a use tax under the same set of statutes as their sales tax. This helps cover sales by nationwide retailers with a nexus (presence) in individual states, and allows the taxation of goods brought into the state. It is a matter of fairness. For example, it would allow taxation of office equipment brought into Alaska the same as a photocopier purchased in the state.

How Much Would it Cost the State to Administer a Sales Tax?

The Department of Revenue estimates it would cost approximately \$5 million a year to administer a statewide sales tax program, depending on the complexity of the tax, the number of exemptions, and the attention to enforcement and audits. The cost of sales tax programs nationwide average around 2% of collections. At \$5 million a year, Alaska would be within that range with a reasonable sales tax that raised \$250 million per year.

In addition to annual costs, there would be a first-year expense of approximately \$2 million to set up the tax program, including programming, offices, public and taxpayer educational programs, publications and tax forms, and a web-based filing system.

Alaska Department of Revenue - April 25, 2003

Sales and Use Taxes *The Building Blocks*

Policy Issues

What is the nature of a sales and use tax?

- Tax on consumption.
- Sales tax and use tax are complementary. It is important to have the use tax in statute if the state wants to collect tax on purchases made out of state and then brought into Alaska, such as new cars and trucks.

What is important in a good sales and use tax?

- Certainty.
- Simplicity.
- Fairness.

Why is it important?

- Business development. An overly complex set of tax codes is bad for business.
- Consumer acceptance.

What makes a good sales tax?

- Affordable rate.
- Broad base.
- Understandable rules.

Technical Issues

1. What is included in the tax base, and is it properly defined? Some examples of problem areas that need workable definitions in statute.

- "Tangible personal property." Such as software? Does it depend whether the software is off the shelf, customized or downloaded from the internet?
- Intangible property. Such as copyrights or trademarks or the sale of business goodwill.
- Services. Does this include mortgage interest, bank fees or insurance?
- Real property is not taxed through sales/use tax, but is stationary machinery at a business considered personal property or real property?

2. To what extent are business inputs taxed?

- Common exemptions.
 - “Sales for resale” generally are exempt from sales taxes, but do not generally include the following:
 - Promotional items to be given away.
 - Filling material purchased by a dentist.
 - Leather purchased by a shoe repairman.
 - Manufacturing.
 - How is “manufacturing” defined? Many states require that the process “transform” one material into a different material.
 - What is the point at which production begins and ends? Are all of the components of the production process tax exempt? Most states say production begins with the withdrawal of raw materials from storage and ends when finished goods are taken to storage within the plant. The next sale of the goods then is taxable.
 - How integral to manufacturing process must an input be for it to be considered taxable?
- Use tax. Generally, the use tax is applied against:
 - Consumables.
 - Self-constructed assets.
 - Assets brought in from other states.
- Consider:
 - Direct-pay permits for businesses to remit use taxes, such as contractors and others with a significant amount of tax-exempt use of goods (such as a manufacturer or refinery). For example, raw material used at a welding shop would be tax exempt but not the paper or toner for the photocopier.

3. What issues arise with common exemptions?

- Food. Prepared food vs. groceries? Is restaurant potato salad treated the same as grocery deli potato salad and the same as prepackaged potato salad? If candy is excluded, are marshmallows considered candy? Or does it depend on the size of the marshmallows? Is food from the deli counter exempt even if the purchaser sits down and eats in the food court just as it were a restaurant?
- Medicine. What about herbal supplements? Over-the-counter drugs?
- Medical. Veterinary services? Massage therapy? Include prescription glasses? What about the drugstore magnifying glasses?
- Utilities. What about self-generated electricity? Fuel going into generators?
- Clothing. Safety gear or receiving blankets sold by a midwife? Wigs?
- Bundling. If taxable and non-taxable items are sold as a unit, how is it taxed?

4. Who should collect tax on charitable gaming? The operator of the game that sells the pull-tabs to players, or the distributor that sells the bulk pull-tabs to charities?
5. Challenges to simplicity. These are policy calls that could complicate administration, collection and enforcement of a sales and use tax.
- Sales tax holidays.
 - Caps, such as a limit on the taxable amount of a single transaction. Define a single transaction? What about a 60-month car lease? Is each month's payment a transaction? What about businesses that keep an invoice open for favored customers to take advantage of the cap? And what about professional services? Does the cap apply to the law firm's entire billing for the month, or for each piece of work done for the client?
 - Multiple rates.
 - Differing tax bases in local jurisdictions. This raises the issue of state jurisdiction over sales and use tax exemptions and administration statewide. Is it fair to expect a statewide business to operate under 100 different tax codes?
6. How will special sale situations be handled?
- Leases: Is the tax collected upfront or on payment?
 - Casual or occasional sales. Such as Girl Scout cookie sales and garage sales.
 - Mergers and acquisitions. Do we really want to try collecting a sales tax on a sale such as BP's sale of ARCO assets to Phillips?
 - Bartering. Can the state collect a sales tax on bartered goods?
7. Will local sales taxes be administered by the state? Will the state charge municipalities for administering and collecting their share of the taxes?
8. What administrative provisions are necessary to ensure goals of certainty and fairness?
- Registration of sellers. This would allow the state to monitor taxpayer compliance. This could also simplify the process for claiming an exemption for goods for resale.
 - Can a seller file an extension for return?
 - Allow or require consolidated returns?
 - What accounting method is permissible?
 - Are inactive sellers required to file?
 - Are division-organized sellers allowed to file by division?

9. Why is use tax important? Is this fuss all about a pair of shoes bought in Seattle?
- Equal treatment of taxpayers. Is it fair for one Alaskan to avoid the tax by shopping out of state?
 - Businesses are the largest payors under a use tax.
10. What can be done about the regressivity of a sales tax?
- Taxing services, and not just goods, would help spread the tax burden across middle- and upper-income households that tend to spend more on services than low-income households.
 - Grocery credit. Perhaps a credit based on family size instead of a food exemption would achieve the same purpose, while avoiding the definition of tax-exempt food.
11. What can the nationwide Streamlined Sales Tax Project do for us?
- Provide standard definitions to make tax administration easier and more business friendly.
 - Uniform sourcing rules. This applies to determining the source of the taxable transaction, which is an important issue in interstate commerce.
 - Clear administrative provisions already articulated.
12. Is the internet sales issue important to Alaska? Yes, especially in Alaska where consumers rely heavily on catalog, phone and internet orders. But there are federal legal restrictions to taxing sales placed with out-of-state companies — which is something the Streamlined Sales Tax Project is trying to resolve so that states and municipalities can collect revenue from such sales.

Comparison of State and Local Retail Sales Taxes

January, 2003

	Food Items [1] Taxable (T) Exempt (E)	State Rate	Maximum Local Rate [2]	Maximum State/Local Rate [2]
Alabama	T	4.00	7.00	11.00
Alaska	T	0.00	7.00 [3]	7.00
Arizona	E	5.60	3.00	8.60
Arkansas	T	5.125	4.750	9.875
California	E	6.00	2.50	8.50
Colorado	E	2.90	5.00	7.90
Connecticut	E	6.00	---	6.00
District of Columbia	E	5.75	---	5.75
Florida	E	6.00	1.50	7.50
Georgia	E	4.00	3.00	7.00
Hawaii	T *	4.00	---	4.00
Idaho	T *	5.00	3.00	8.00
Illinois	T **	6.25	3.00	9.25
Indiana	E	6.00	---	6.00
Iowa	E	5.00	2.00	7.00
Kansas	T *	5.30	3.00	8.30
Kentucky	E	6.00	---	6.00
Louisiana	T ** [4]	4.00	5.50	9.50
Maine	E	5.00	---	5.00
Maryland	E	5.00	---	5.00
Massachusetts	E	5.00	---	5.00
Michigan	E	6.00	---	6.00
Minnesota	E	6.50	1.00	7.50
Mississippi	T	7.00	0.25	7.25
Missouri	T	4.225	4.125	8.350
Nebraska	E	5.50	1.50	7.00
Nevada	E	6.50	0.75	7.25
New Jersey	E	6.00	---	6.00
New Mexico	T	5.00	2.25	7.25
New York	E	4.00	4.50	8.50
North Carolina	E [4]	4.50	3.00	7.50
North Dakota	E	5.00	2.50	7.50
Ohio	E	5.00	2.00	7.00
Oklahoma	T	4.50	5.35	9.85
Pennsylvania	E	6.00	1.00	7.00
Rhode Island	E	7.00	---	7.00
South Carolina	T **	5.00	2.00	7.00
South Dakota	T *	4.00	2.00	6.00
Tennessee	T	7.00	2.75	9.75
Texas	E	6.25	2.00	8.25
Utah	T	4.75	2.25	7.00
Vermont	E	5.00	1.00	6.00
Virginia	T **	3.50	1.00	4.50
Washington	E	6.50	2.40	8.90
West Virginia	T	6.00	---	6.00
Wisconsin	E	5.00	0.60	5.60
Wyoming	T *	4.00	2.00	6.00

[1] Food purchased for consumption off-premises.

[2] Highest local rate known to be actually levied by at least one jurisdiction.

Includes local taxes for general purposes and those earmarked for specific purposes (e.g. transit). Taxes applying only to specified sales (e.g. lodging or meals) are excluded.

[3] Alaskan cities and boroughs may levy local sales taxes from 1% to 6%.

[4] Food exempt from state tax, but subject to local taxes. In Louisiana, food will be exempt from state tax 7/1/03.

** Food taxed at lower rate.

* Income tax credit allowed to offset sales tax on food.

Source: Compiled by the Federation of Tax Administrators from various sources.