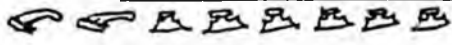


**ALASKA LEGISLATURE COMMITTEE FILES 1991-1992 8672**  
**7055 HOUSE LABOR & COMMERCE**



# KAWERAK, INC.



P.O. BOX 94B • NOME, ALASKA 99762



(907) 443-5231

## REINDEER HERDERS ASSOCIATION CORRECTIONAL INDUSTRIES RESOLUTION 91-01

SERVING THE  
VILLAGES OF:

- BREVIG MISSION
- COUNCIL
- DIOMEDE
- ELIM
- GAMBELL
- GOLOVIN
- KOYUK
- NOME
- SADONGA
- SHAKTOOLIK
- SHISHMAREF
- SOLOMON
- STEBBINS
- ST. MICHAEL
- TELLER
- UNALAKLEET
- WALES
- WHITE MOUNTAIN

WHEREAS, the Correctional Industries Meat Plant is operating to provide a stable market for Alaska Grown livestock, including reindeer, and

WHEREAS, the meat plant is providing a source of quality local products for consumption by state institutions and purchases by local meat wholesalers and processors and

WHEREAS, the \$850,00 of livestock purchased for local producers stayed in the state economy instead of going to lower 48 producers and

WHEREAS, the slaughter and processing of reindeer through this inspected plant is providing a critical marketing service in expanding the industry and

WHEREAS, the Correctional Industries is providing training in proper handling and marketing of Alaska Grown products for both instate and potential export markets of meat products.

NOW THEREFORE BE IT RESOLVED, that continued operation of the Correctional Industry Meat Plant is recommended to provide a cost effective means of developing the reindeer industry as a key part of the livestock production sector in the Alaska economy.

BE IT FURTHER RESOLVED that the Reindeer Herders Association in its annual meeting March 14-15, 1991 in Nome endorse the Correctional Industries Meat Plant project and the continued processing of reindeer and encourage the Alaska State Legislature to support House Bill 166 which continues the Correctional Industries Program.

Tom [Signature]  
President, Reindeer Herders Assn.

4-4-91  
Date



RECEIVED  
MAR 13 P.M.

March 7, 1991

Representative Lincoln  
Health, Ed. and Social Services  
P.O. Box V  
Juneau, Alaska 99811

Dear Representative Lincoln:

It is my understanding the State Administration has submitted a bill (HB166) that will allow the continuation of Chapter 32, Correctional Industries, and satisfy the sunset clause that will affect this bill if not acted upon.

Though I applaud the efforts of the Administration and Legislature to deal with this ever mounting problem, I do see a need to alter a portion of this act to minimize the negative impact this legislation creates on my business and other Alaskan businesses.

Presently, the Correctional Industries Program creates a mandatory purchasing situation by the State of Alaska with Correctional Industries as it relates to the purchase of office furniture. I have gone along with some of the intended reasons as to the merits of this program except for it's recent entry into the Panel System work station concept. If this is allowed to continue, private business will be totally excluded from providing it's products to the State Of Alaska.

I suggest that a portion of the particular Section be eliminated as an alternative to requiring that the program/products/services undertaken by Correctional Industries \*MUST not create a negative impact in the private sector. I am suggesting Section 33.32.030 be repealed and item (c) in it's entirety be remove from the Statute. It would also seem practical that public hearings be held when there is an attempt to expand the program in any manner.

It is my understanding Senator Jim Duncan is in the process of submitting a bill dealing with the problem to which I refer.

If I can provide further information in this matter, please feel free to contact me at any time.

Yours truly,

  
T.C. Quinn  
President & General Manager

\* See Sec. 33.32.015 Item (3) "minimal impact"



## Chamber of Commerce

124 West 5th St., Juneau, Alaska 99801

Phone: (907) 586-6420 FAX: (907) 463-5670

March 25, 1991

The Honorable Representative Lincoln, Chairman  
HESS  
State of Alaska Legislature  
P.O.Box "V"  
Juneau Alaska

*referral*

Madam Chairman:

I am here to testify on HB166

We, the Greater Juneau Chamber of Commerce, do not believe that the State of Alaska should compete with the private sector for public business. This situation currently exists within the Department of Corrections program. We recognize the importance of vocational training for inmates within our prison system, but feel that some of the existing programs do not train these inmates for jobs currently available within the State of Alaska. If Alaskan taxpayers are paying for this program, inmates should be trained for vocations that exist within our State .

Some of other concerns that we have are as follows;

- (1) Currently the State Department of Corrections has the blessing of the Department of Administration and the Legislature to bypass the established purchasing policy for competitive bids. The Legislature currently mandates that "a product or service provided by correctional industries that meets marketable standards of quality and that meets the needs of state agencies at reasonable cost,... SHALL BE purchased by state agencies. It does not say MAY BE purchased. The administration does not even appear to have a formal method to evaluate comparable value and the Commissioner of Administration is a member of the board of charged with the responsibility to promote this concept.

Currently the Dept of Corrections is in the butcher business, office furniture business, laundry business, agricultural business, garment manufacturing and auto body repair business. They pay far less than current market value for labor, in fact a range of \$.65 to \$1.25 per labor hour.

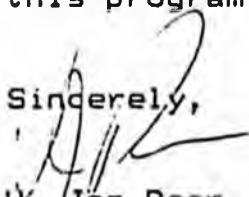
*Juneau CoC Position Statement*

We do not appreciate the direction that the Department of Corrections appears to be going and strongly object to the provision of the law that allows them to by-pass the competitive bid process of the State of Alaska.

- (2) We do not feel the composition of the existing Corrections Board provides adequate representation from the private sector. Since this Commission authorizes the Department of Corrections to enter or expand commercial revenue generating programs that may compete with the private sector, it is paramount that adequate representation from the private sector be present on this Board. We feel if the Board composition cannot be "balanced" then perhaps the program should be allowed to "sunset".
- (3) We feel the board should be mandated to revisit each prison program at least every two years to insure that the intent of the law is met. Specifically the provision that there is "minimal negative impact" to the private sector.
- (4) We are not aware of any appeal process that can be initiated by the private sector to get a fair, unbiased hearing if it appears the "minimal negative impact" has been exceeded. The appeal process should have a provision for reversal of the Department of Corrections action.
- (5) Finally, please remember that Alaska cannot be compared to the Corrections programs in the "lower 48". The State of Alaska is one of the largest employers within our state and plays a major role in our economic health. Whereas in the "lower 48", State government purchases is a minimal contributor to their economic stability.

If these concerns cannot be satisfied then we recommend that this program be allowed to "sunset".

Sincerely,

  
W. Joe Poor  
Executive Director

# **NFIB** Alaska

National Federation of  
Independent Business

POSITION PAPER

OF

NATIONAL FEDERATION OF INDEPENDENT BUSINESS  
(NFIB/ALASKA)

TO THE

HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

MARCH 25, 1991

ON

HB 166

AN ACT CONTINUING THE CORRECTIONAL INDUSTRIES PROGRAM.

State Office  
9159 Skywood Lane  
Juneau, AK 99801  
(907) 789-4278



The Guardian of  
Small Business

NFIB Position Statement

Madam Chairman, members of the Health, Education and Social Service Committee, my name is Rosa Jerrel, and I represent the National Federation of Independent Business - NFIB/Alaska.

NFIB/Alaska is comprised of 5,240 small and independent business owners. The legislative agenda of NFIB/Alaska is determined by our ballot. The ballot is our annual poll of our membership on a series of issues deemed critical to small business. A majority vote, of the members in response to the poll, sets our policy and position on legislative issues. We then share the results of our poll with the legislature and administration. There is not enough space on the annual poll to place every possible issue to our membership. Therefore, we also use the three previous years ballot results as guidance on issues. I have attached a copy of the results of our 1988 and 1991 NFIB/Alaska questions regarding unfair competition.

Currently the Department of Corrections, Correctional Industries Program, is in the Agriculture, Butcher, Office Furniture, Office Panels/Systems, Metal Products, Auto Body Repair, Garment Making and Laundry Businesses. This puts them in direct competition with small businesses.

The Correctional Industries Commission was designed to provide general policy direction for the Program. The Commission has eight members with one from private industry, agriculture, general public, ex-offender and two representatives from organized labor. The Commissioner of Administration serves on the Commission and the Commissioner of Corrections serves as the chairperson. They are required to meet at least four times a year.

In two sections of the statutes AS 33.32.015 (4) and AS 33.32.30(b) the Commission is to determine that an employment project: "will have minimal negative impact on an existing private industry or labor force in the state."

The Correction Industries Program is having a growing impact on existing private industry. With only one member on the Commission from the private sector, five from other walks of life and two bureaucrats it easy to see why the Program is having a growing negative impact on business. At the present time the Commission is not fulfilling the statutory obligation of making sure a project "will have minimal negative impact on an existing private industry..."

NFIB/Alaska would suggest that the Commission be allowed to sunset. In the ensuring one year wind down period, see if they can work more cooperatively with private business.

NFIB/Alaska would like to offer some alternatives:

First, require them to hold hearings when they propose either entering into a new area of industry or expanding the scope of an

existing industry. They could better inform the public of their hearings. Their most recent hearing was published in the news paper. The notice did not specify the location of the hearing in Juneau. The first time I called, I was informed that they "thought" it was going to be in the Commissioners office, could I call back. Second, the legislature could eliminate the statute that requires the state to purchase goods and services from the program. Both of these are being proposed in the other body. If you would like to take a look at that bill - it is SB 184. If you are interested, it will be heard for the first time April 3rd.

Also, instead of selling directly to the State of Alaska, they could offer their products directly to private businesses. This would allow the Program to not only indirectly sell to the State but, potentially their products could be purchased by other customers serviced by the private retailer. This way they would be fulfilling their goal of training the inmates, act like a true manufacturer and small business would not be faced with unfair competition from the state.

The following is the result of the 1988 NFIB/Alaska ballot question regarding unfair competition:

Should legislation be enacted to restrict the commercial activities of government entities so they are not permitted to compete with existing private enterprises?

Yes 78%

No 12%

Undecided 10%

More recently, the following is the result of the 1991 NFIB/A ballot question on this issue:

Should the legislature establish a Private Enterprise Preservation Task force in order to study and recommend legislation to limit competition with private business by state and local government?

Yes 67%

No 23.1%

Undecided 9.9%

# Federal Probation

Implementing Community Service: The Referral  
Process ..... *Probation Division,  
Administrative Office  
of the United States Courts*

Strategies for Working With Special-Needs  
Probationers ..... *Ellen C. Wertlieb  
Martin A. Greenberg*

✓ Do Correctional Industries Adversely Impact  
the Private Sector? ..... *Robert C. Grieser*

The Perspective of State Correctional Officials  
on Prison Overcrowding: Causes, Court Orders, and Solutions ..... *Fred Holbert  
Jack E. Call*

The Correctional Orientation of Prison Guards:  
Do Officers Support Rehabilitation? ..... *Francis T. Cullen  
Faith E. Lutze  
Bruce G. Link  
Nancy Travis Wolfe*

Rehabilitation and Correctional Privatization:  
Observations on the 19th Century Experience and  
Implications for Modern Corrections ..... *Alexis M. Durham III*

Ireland's Ennis Inebriates' Reformatory:  
A 19th Century Example of Failed Institutional Reform ..... *Beverly A. Smith*

The Kentucky Substance Abuse Program: A Private  
Program to Treat Probationers and Parolees ..... *Gennaro F. Vito*

The Forgotten Few: Juvenile Female Offenders ..... *Ilene R. Bergsmann*

---

**MARCH 1989**

# Do Correctional Industries Adversely Impact the Private Sector?

BY ROBERT C. GRIESER

*Marketing Development Specialist, UNICOR Federal Prison Industries, Inc.*

**O**VER THE past decade, correctional industries programs nationwide have grown considerably in an effort to keep inmates busy and keep pace with rising inmate populations. Correctional industries operate within a limited government market and are generally restricted by statute from placing an undue burden on the private sector and particularly small business.

Its Board of Directors shall provide employment for all physically fit inmates in the U.S. penal and correctional institutions, diversify, so far as practicable, prison industrial operations and so operate the prison shops that no single private industry shall be forced to bear an undue burden of competition from the products of the prison workshops, and to reduce to a minimum competition with private industry or free labor.<sup>1</sup>

Notwithstanding the number of small businesses and private industries have recently begun to voice their concern about the growth in correctional industry sales.

Given the fact that the pressures to expand the number of inmate jobs are expected to continue, legitimate questions are raised about the future of correctional industries and the impact that they may have on the private sector. One question that often arises is do correctional industries adversely impact on private sector business? A corollary question is, given the pressure to expand, what steps can correctional industries take to minimize any impact they may have on the private sector and, perhaps, work more closely with private industry to alleviate its concerns?

## *Historical Perspective*

Work programs for inmates date back to the origin of the penitentiary system in America. Correctional

industries emerged in the early 1800's in an effort to have inmates repay their debt to society and reduce the cost of incarceration to the state. At that time, correctional industries were principally involved in limited operations, i.e., furniture and textiles. Today the past maxim "all they make is license plates" is no longer appropriate, with correctional industries nationwide approaching \$800 million in sales.<sup>2</sup> Correctional industries now provide a diverse range of products such as electronics cable assemblies for the military to ethanol fuel production and services such as travel reservations, telemarketing, and asbestos removal. Approximately 50,000 inmates, or 10 percent of the total prison population,<sup>3</sup> are employed in the 50 states and the Federal system.

During its approximately 150-year history, correctional industries have come nearly full cycle in terms of their relationship with the private sector. At the turn of the century, when correctional industries were thriving, the private sector was integrally involved. At that time, many private sector firms contracted for the use of inmate labor to produce goods for sale on the open market. In the early 1900's, complaints of unfair competition began to surface, which led to the first of a series of market restrictions being placed upon correctional industries. In accordance with these restrictions, which culminated during the time of the Depression, correctional industries were to remain limited in their dealings with the private sector until interest in privatization resurfaced in the mid-1970's.<sup>4</sup> While private sector involvement has now regained a foothold, the existing linkages with the private sector still remain limited.

While some private sector companies have openly pursued their interest in working jointly with correctional industries, numerous others remain opposed to the re-emergence of correctional industries. Increasing concern on the part of the private sector has led to recent efforts by some groups to oppose efforts by correctional industries aimed at enhancing their ability to meet increased demands to reduce

<sup>1</sup>Title 18, U.S. Code, excerpt reprinted in UNICOR Federal Prison Industries, UNICOR Products Condensed Catalog, August 1987.

<sup>2</sup>Preliminary telephone research conducted by the Institute for Economic and Policy Studies, Inc., to update the *Guidelines for Prison Industries* report for the National Institute of Corrections.

<sup>3</sup>Prisoners in 1988, Bureau of Justice Statistics Bulletin, May 1987.

<sup>4</sup>For a complete history on prison industry programs, see *Assets and Liabilities of Correctional Industries*, by Funke, Wayson, and Miller, Lexington Books, 1982.

idleness in ever expanding prison populations around the nation. Industry groups have been forming coalitions and have actively sought after opportunities to voice their concerns about correctional industries expansion.

Examples of these include the enactment of interstate highway sign legislation in 1987 which, with the intense lobbying support of the Traffic Safety and Sign Manufacturers Association, states that the future production of highway signs by correctional industries cannot exceed the dollar volume produced in 1986.<sup>5</sup> Also the Federal legislation authorizing UNICOR to borrow requires establishment of a formal process of private sector notification and involvement in its new product and product expansion plans, in order to minimize potential adverse impact on private competition.<sup>6</sup> More recently, the Business and Institutional Furniture Manufacturers Association (BIFMA) voted in new guidelines to exclude government agencies from its membership, effectively eliminating correctional industries. A recent article published in the wood manufacturers' trade journal<sup>7</sup> outlines some of the private sector concerns about correctional industries.

### *Purpose and Scope*

The purpose of this article is threefold: (1) to dispel some of the common misconceptions held by many in the private sector; (2) to show that correctional industries are both cognizant and sensitive to concerns of the private sector as they are being called upon to expand; and (3) to cite examples of ways in which the private sector and correctional industries can work together. While the article is based primarily on experience at UNICOR Federal Prison Industries (FPI), recent experience and discussions with a number of state industry directors would suggest that many of the points made are applicable to state correctional industries. In terms of size, UNICOR recorded over \$300 million in sales in Fiscal Year 1987 and employs nearly 15,000 inmates.<sup>8</sup> This represents more than one-third of the total business of correctional industries nationally.

### *Facts About Correctional Industries*

There are several facts that must be clearly stated to provide an understanding of the current status of correctional industries. First of all, for better or for worse, correctional industries are here to stay. They have become an integral part of corrections management and programming, and it is safe to say that the corrections system could no longer be operated safely and effectively without them.

Perhaps the most well-known facet of correctional industries is the market limitation imposed upon the sale of their products. The market limitations imposed upon industries have two aspects. In most states, correctional industries can only sell to government markets; in many states, as well as in the Federal system, it is required by law that the government consider correctional industries first. In other words, customers must purchase from FPI when FPI produces a product that meets their need, can deliver on time, and be price competitive. When one or all of these three conditions are not met, FPI will waive the order. (Note that FPI is not a mandatory source for service industries.)

Correctional industries, while still a critical prison program, are, of necessity, beginning to be managed more like a business. This shift, which began in the late 1970's, stems primarily from two factors. First is the influence of the private sector on various aspects of public functions including corrections. Emulation of the private sector has led to professionalization and improved management of many aspects of corrections, including industries. Second, has been the skyrocketing prison populations, which have placed demands upon correctional industries to create more jobs for inmates. With the expansion of correctional industries came the need to operate these programs akin to a private sector business.

Given the continued increase anticipated in prison populations,<sup>9</sup> correctional industries will continue to come under increasing pressure to expand their operations. In many respects, in the field of corrections, correctional industries have become "all things to all people." The reasons for this are many. To the general public, correctional industries mean putting inmates to hard work to repay their debt to society; to legislators, correctional industries mean a no-cost program which saves the state money; to correctional administrators, correctional industries have the management appeal of reducing idleness among inmates; and finally, to advocates of rehabilitation, correctional industries mean providing inmates with

<sup>5</sup>Title 23, U.S. Code, Section 114B.

<sup>6</sup>Amendment to the Omnibus Anti-Substance Abuse Act of 1988.

<sup>7</sup>Prisons Locking Onto Wood Products Manufacturing, *Wood & Wood Products*, July 1988.

<sup>8</sup>UNICOR 1987 Annual Report.

<sup>9</sup>U.S. Bureau of Prisons, *State of the Bureau of Prisons*, January 1988.

useful skills they can use to reenter society as productive citizens.<sup>10</sup>

### *Myths and Realities*

There are a number of common misconceptions about correctional industries on the part of various persons and entities in the private sector and the general public. Perhaps foremost among these is that correctional industries compete unfairly with the private sector due to their cheap labor pool. As those familiar with correctional industries know, inmates are typically paid only a token wage, called a gratuity, which averages approximately 50 cents per hour. Yet there are a number of hidden factors (several of which are described below) to operate an industry within a correctional facility that often make the cost of inmate labor higher than that of a free world factory worker.

A second myth that many outside of the corrections arena still have is that the quality of prison-made products is poor. While this was often true in the past, when industries were run like "mom and pop" shops, the past decade has seen dramatic changes in the quality of inmate products. As a result, the current products of correctional industries typically equal and often surpass those produced in the private sector.

Another common myth about correctional industries is that they exert pressure to enforce the mandatory-use law provisions. Once again while this was the case in the past, when quality was poor, the onset of business-run operations in correctional industries has brought with it a whole new modus operandi or philosophy of serving its customers. While the mandatory-use laws are still in effect, most of the more progressive industrial programs around the nation now attempt to sell their products with the theme of "wanting" to buy from them rather than "having" to buy from them. The emphasis on producing a quality product comparable to that available from the private sector has brought about this change.

Recent research into the number of "waivers" or clearance requests received from agencies seeking exemption from buying from Federal Prison Industries supports this point. Based upon waivers received during Fiscal Year 1988, the data show the potential sales volume cleared represents only a frac-

tion of the total Federal government purchases in these product areas.

A fourth myth is that correctional industries capture an adverse share of the market from the private sector. Recent data assembled by UNICOR demonstrate that Federal Prison Industries has only .16 percent of the total Federal market for goods and services. To place this figure in perspective, it should be emphasized that government is the only vehicle in which correctional industries can sell their products. If the overall private sector market were included in these figures, the share would shrink to less than one-one hundredth of a percent. The State of New York recently completed a similar study yielding very similar results, i.e., that correctional industries' share of the state-use market was between 1 and 2 percent.<sup>11</sup>

### *Operating Constraints of Correctional Industries*

As indicated above, there are a number of reasons why it is inappropriate to say that correctional industries have an unfair labor advantage over private industries. Included among these reasons are:

- Security Issues
- Unskilled Workforce
- Inmate "Featherbedding"
- Inmate Turnover
- Inefficient Equipment
- Capital Investment Constraints
- Need to Diversify
- Procurement Constraints

*Security Issues.* First of all, the reader who is not familiar with corrections must keep in mind that the paramount concern in any correctional industry program will always be security. As a result, even though correctional industries try to emulate a private sector operation, a number of security issues may arise which make that difficult, if not impossible. Foremost, custodial requirements dictate a higher supervisory to worker ratio than in the private sector, which translates directly into a higher operating cost.

Related issues range from special considerations about tool control, the time it takes to implement inmate count procedures, periodic "callouts" from the job which occur for other institutional needs, and occasional "lockdowns" in which the factory must be down since all inmates have to be back in their cells until further notice. Furthermore, there are occasions where the facility warden will instruct industry staff or inmates to divert from their normal duties in the factory to fulfill some special institutional

<sup>10</sup>For a further discussion on this subject, see article on the "Goals of Correctional Industries," published in *A Study of Prison Industry: History, Components, and Goals*, American Correctional Association, January 1986.

<sup>11</sup>The Economic Impact of Corcraft Correctional Industries in New York State, by Robert C. Griener, Institute for Economic and Policy Studies, Inc., March 1988.

need. Most if not all of these costs, from the salaries of correctional officers where needed, to the cost of production time lost as a result of the examples described, are typically borne by correctional industries.

The net impact of these security considerations described is the loss of work hours. Even under the best of circumstances, correctional industries consider a full workday to be 7 hours and more typically must manage with a 6 to 6½ hour workday. Here again, the shorter day has an adverse impact on efficiency and, hence, the cost of production.

*Unskilled Workforce.* Another factor that is unique to correctional industries involves the characteristics of the inmate workforce. The inmate worker is typically unskilled with little if any prior work experience. In addition, the inmate workforce is often unmotivated making it difficult to expect the same level of production as that of a free world employee. Thus the training time required is longer.

*"Featherbedding."* Another operational constraint which negatively affects correctional industries' profitability is the implicit and often explicit demand by correctional administrators for "featherbedding," i.e., the intentional overemployment of inmates. Featherbedding is accepted since it represents a means for reducing inmate idleness in crowded correctional facilities. While correctional industries have been moving away from featherbedding as they attempt to operate more businesslike, a certain amount of it still exists.

*Inmate Turnover.* To compound these workforce problems, there is often a very high turnover among correctional industries workers. There are several reasons for the turnover, including release of inmates back into the community and, more commonly, transfers to another correctional facility, due to a security classification change, a disciplinary problem that may arise, or the need for an additional bed or program slot in the system as a result of prison crowding. Whatever the reason may be, turnover in the inmate workforce translates directly into a higher operating cost.

Along similar lines, yet on a much broader scale, correctional industries are periodically affected by facility mission changes that are made to accommodate changing inmate populations. A facility mission change requiring a reclassification in security levels can often lead to a plant's closing or moving a particular industry from one location to another.

*Inefficient Equipment.* Another issue that may be overlooked in making charges of unfair competition is that correctional industries often operate with an-

tiquated equipment on the production line. While this has changed somewhat over the past several years, a number of correctional industry factories have opted to use slower, suboptimal equipment in production in order to maximize the employment of inmates. The labor intensive nature of many correctional industries, however, makes it difficult to price competitively on some items that are produced using automated equipment in the private sector.

*Investment Constraints.* For the most part, correctional industries can accumulate little retained earnings with which to reinvest in new products, equipment modernization, and other capital expansion projects. This is because earnings are often used for offsetting other costs of incarceration, including an inmate's vocational training, education, and other institutional expenses. Moreover, a number of states have imposed limits on their earnings from correctional industries, above which monies must return to the state general fund.

*Need to Diversify.* Correctional industries' continuing sensitivity to minimizing impact on the private sector by not taking too large of a market share in any one particular product area has led to their continuing efforts to diversify. The fact that correctional industries provide products and services in many different areas, rather than specializing in any one particular area, detracts from the ability to achieve economies of scale and adds significantly to production and overhead costs.

*Procurement Constraints.* The procurement of raw materials is another area in which correctional industries typically operate under constraints not facing the private sector. This is because correctional industries follow the government procurement process, which calls for competitive bidding and related procedural regulations, which do not always enable them to obtain the best price in the most expeditious fashion. For example, correctional industries are restricted from buying materials cheaply on the spot market.

*Personnel Constraints.* Another constraint that is unique to correctional industries has to do with personnel. Since correctional industries is indeed a part of government, it must follow the appropriate regulations, which can often lead to delays in hiring. Similarly, terminating an ineffective employee is also a tedious process. Moreover, limited flexibility in the pay scales and incentive structure available for government employees leads to problems with recruiting the kinds of personnel needed. As a result, correctional industries historically have hired staff directly from the corrections field and provided them

with training needed in the required business and production skills.

In sum, the several factors described should illustrate to any private sector manager the additional costs and constraints within which correctional industries must operate. These constraints lead to much lower production per inmate worker as compared to a freeworld employee. In numerical terms, the average value of production per inmate is well below \$20,000, which is less than one-fourth that of the production per worker in the private sector. While correctional industries establish prices for their products and services on a scale competitive with private industry, the net impact of these constraints is that correctional industries are often hard pressed to generate a profit even at a fair market price.

#### *Benefits of Correctional Industries*

The benefits that can be realized by correctional industries may be summarized succinctly into three general areas:

- Good Management Sense,
- Good Economic Sense, and
- Good Training Sense.

*Good Management.* Good management sense derives from the significant role that industries play in facilitating the job of correctional administrators through the reduction of inmate idleness. Correctional industries have become such a critical part of the corrections management structure that it is safe to say that facilities could not be operated safely and effectively without them. Studies have shown work programs to be an effective means of reducing incidents and other disciplinary infractions within correctional facilities.<sup>12</sup> Moreover, the courts have ruled on numerous occasions that such programs should be made available to inmates to keep them from being idle.

*Good Economics.* Good economic sense can be seen in a number of ways. These include direct savings to the government since correctional industries are self-sustaining programs that operate at no cost to the taxpayer. In the absence of correctional industry programs, the cost of additional security and/or alternative programs that would be required (probably

in the form of education) would be significant. A recent study completed for New York State calculated such replacement costs for that state alone to be in excess of \$15 million annually.<sup>13</sup>

Another economic benefit is the savings to the government in purchasing that result from eliminating the need to go through the competitive bid process. Since government agencies can purchase from correctional industries directly, this saves both time and money.

Further economic benefits include the direct civilian jobs that are employed as a result of correctional industries, that is, for production foremen, factory managers, and administration. In the case of UNICOR (the Federal system), this translates into nearly 2,000 jobs.

Finally, we should not forget that a large volume of the dollars that comprise correctional industries sales revert back into the economy for the purchase of materials. Since correctional industries are, in most cases, not primary manufacturers, this capital in turn creates additional jobs in the private sector. In 1987, for example, a year in which UNICOR had \$317 million in sales, approximately \$250 million was spent on raw materials, construction, installation, and related contractual services in the private sector. It is important that these positive impacts not be overlooked when discussing the adverse impact of correctional industries on the private sector economy.

*Good Training.* The third category of benefits that is derived from correctional industries is the training that these jobs provide inmates. While it is recognized that these inmates have broken the law, it must also be considered that these individuals will someday return to society. At least two states (Iowa and New York) have conducted studies documenting that inmates employed in correctional industries were less likely to recidivate than other inmates in the general prison population.<sup>14</sup> If we do not make these training opportunities available, all citizens will bear the ultimate burden of the higher costs to society.

#### *Marketing Considerations*

Contrary to what many may lead us to believe, correctional industries do not simply get into a new industry or product line without giving it much thought. Several factors enter into a decision as to whether to move into a new industry area. These factors are listed below. They include, but are not limited to, the following:

- Market Potential
- Profitability

<sup>12</sup>The Organization and Management of County Jails by Guynes, Grier, and Robinson. Report to the National Institute of Justice, April 1983

<sup>13</sup>Ibid.

<sup>14</sup>The Recidivism of Releasees from the Iowa State Penitentiary at Fort Madison, State of Iowa Division of Adult Corrections, January 1983. The New York findings are based on preliminary results only; the full study being conducted by the State University of New York at Albany is yet unpublished.

- Inmate Employment Potential
- Capital Investment
- Impact on Small Business
- Training Value
- Security Considerations.

It is important to note that these decision criteria are not necessarily in order of importance. Rather *all* of these items are considered when making a decision to expand.

*Market Potential.* The potential market is probably the first prerequisite to entering any new industry or product area. No industry will be successful without the market to justify it. Correctional industries increasingly start by determining the needs of the customer. Moreover, correctional industries attempt to identify those markets for new products that are large enough so that potential adverse impact on the private sector is minimized. To date, correctional industries have tried to ensure that they would not capture more than a reasonable share of the market, in order not to impose any undue burden on any particular market segment or business concern. The definition of market share will vary depending upon how competitive the particular industry is. Correctional industries will continue to operate in this manner in the future in accordance with recently passed Federal legislation, which formalized this market share analysis.<sup>15</sup>

*Can Correctional Industries Make a Profit?* While it is the principal goal of correctional industries to employ inmates, this objective must be carried out within a self-sustaining operation. Consequently, the entry into any new product or industry area must also include an analysis determining that it is feasible to produce an item while making a profit. The profits in turn are reinvested into the cost of expansion or used to offset the costs of training and related custodial care of inmates.

*Inmate Employment Levels.* As correctional industries are looking to expand, they are continuously searching for industries that are labor intensive. The principal reason for labor intensity is, of course, the pressing need to reduce inmate idleness in severely crowded correctional facilities. While this is not always possible, these industries are given priority whenever possible.

*Capital Investment.* Like any private sector firm, correctional industries are always cognizant of the outlay that is required to enter a new industrial area.

Though it is not always possible, correctional industries have historically tried to get into labor intensive industries where the capital cost for expansion can be minimized.

*Impact on Small Business.* Given the charter of correctional industries, market research into any new industry includes an analysis of the impact that it might have on the private sector and small business. While it is virtually impossible to enter a new industry without affecting another business, correctional industries will only enter a new industry or product area after a determination is made that any adverse impact will be minimized. For example, if entry into a new industry area would significantly impact one firm (versus taking a small percentage of an overall product class which could be spread across several firms), correctional industries would most likely not enter that market. Furthermore, because of this charge to minimize private sector impact, correctional industries have been forced to diversify and are continuously searching for new products.

*Training Value.* While it is not always possible to establish jobs for inmates that provide the most current training in jobs available in the private sector upon release, the particular skills or training value to be gained from a particular industry operation are another consideration. For the most part, correctional industries have taken the approach that coping in a realistic work setting is often the most important skill that an inmate employed in an industry program can learn.

*Security Considerations.* Another factor which correctional industries must look at carefully before entering a new industry is the security aspect of the particular manufacturing or service endeavor. Consideration of many manufacturing operations is eliminated due to the nature of the machinery or materials that would be involved. Likewise many service-type operations that might otherwise be feasible (e.g., moving services) cannot be initiated due to the lack of minimum security inmates available for work outside of the prison grounds.

Thus we can conclude that the markets of correctional industries are limited in more ways than simply government-use markets. There are a host of factors, many of which do not even enter the picture in the private sector, that must be given consideration prior to entering a particular industry. Nonetheless, it is both the task and the challenge facing correctional industries to continue to diversify and develop new products which minimize the potential impact on the private sector in terms of market share.

<sup>15</sup>Op cit.

### *Examples of Private Sector Partnerships*

The partnership between correctional industries and private industry has recently emerged, partly as a result of the increasing private sector involvement in correctional industries operations. Partnerships can result in shared benefits between correctional industries and private industry and may allay some concerns about unfair competition with the private sector. New York State provides a clear example of this type of model, which has also been called joint venture, licensing, or franchising.

Corcraft Correctional Industries in New York State has developed partnerships with several companies, including Tetrad, Inc., the Gunlocke Corporation, Voyager Emblem Company, and Burlington Industries in the areas of furniture and textile products. In brief, the partnership typically involves a contract with a private firm whereby the firm provides the parts/materials and correctional industries do the assembly/finish work. Correctional industries buy a recognized product name or design in exchange for sharing the benefits of an exclusive government-use market. The benefits to correctional industries include reduced start-up costs of introducing a new product and the potential for generating increased sales, while benefits to the private sector include greater access to the government marketplace. Training, technical assistance, and provision for royalties are generally part of the partnership agreement.<sup>16</sup>

One telling case in point about the mutual benefits to be gained through cooperation between correctional industries and the private sector is the situation that existed between Federal Prison Industries and the Association of Federal Drapery Contractors. What began as an adversarial relationship in 1984 when UNICOR announced it would expand its drapery manufacturing industry turned into a solid working relationship after much compromise. In brief, a series of meetings led to opening channels of communication, whereby UNICOR agreed to utilize private drapery contractors for the raw mate-

rials, installation, and hardware portion of the government contracts it receives. Moreover, both UNICOR and the Federal Drapery Contractors now have a better understanding of each other's concerns. As a result, the Drapery Contractors have been an advocate of correctional industries, speaking out in support of UNICOR on several occasions.

### *Conclusion*

Given the continuing pressure that will be placed upon correctional industries to expand, while at the same time maintain a reasonable share of existing markets, expansion into new product lines can be anticipated. As the more traditional labor-intensive markets become saturated, correctional industries may look toward more capital-intensive industries as future candidates for expansion. As concerns about adverse impact continue to be raised, we can expect that all opportunities to expand into areas where the impact on the private sector (especially small business) is negligible will be vigorously pursued. Correctional industries will continue to search for partners in the private sector where shared benefits to the corrections community and private industry may be found.

As stated at the outset, this article has attempted to dispel some of the myths that are often associated with correctional industries. Correctional industries must continue to be publicly accountable as they have in the past. They need to do a better job at outreach in order to bring about more success stories such as the relationship developed between UNICOR and the drapery manufacturers. Joint ventures between correctional industries and the private sector represent an increasingly desirable option for both industries and their competitors.

The benefits of organizing "advisory councils" as a vehicle to address some of these concerns also merit some discussion. These councils could be comprised of representatives from both the private sector and correctional industries. It is inevitable that correctional industries will be called upon to grow along with the burgeoning prison population. As this occurs, correctional industries will continue to play the balancing act between sensitivity to the private sector and the need to expand.

<sup>16</sup>For a more detailed description of how these partnerships operate, see "Model Approaches: Prison Industry That Works" in *Correctional Times*, August 1988.

HB

168

USE COMMITTEE REPORT

(7)

Date Referred: February 25, 1991

FURTHER REFERRALS:

Judiciary  
Finance

Date of Committee Action: 4-4-91

The LABOR AND COMMERCE Committee Considered

HB 168

HOUSE BILL NO. 168

CHARITABLE GAMING/SALES AGENTS

An Act licensing and regulating pull-tab vendors; authorizing sales of pull-tabs between pull-tab distributors; requiring the giving of notice if a charitable gaming activity location changes; amending the powers of the Department of Commerce and Economic Development to revoke and suspend charitable gaming permits and licenses; restricting the ability of owners, managers, or employees of vendors and persons holding charitable

RECOMMENDATIONS:

is replaced with CS HB 168 (L+C)  the same title

a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the \_\_\_\_\_ Committee

DOPTS: \_\_\_\_\_ letter of Intent

ATTACHES NEW FISCAL NOTE(S):

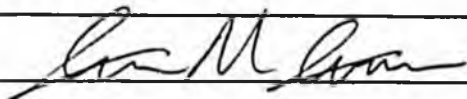
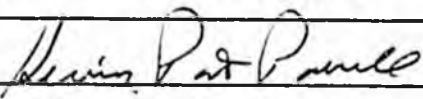
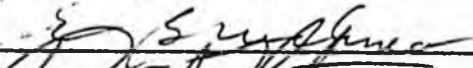

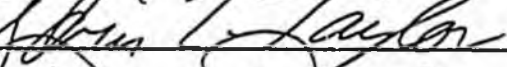
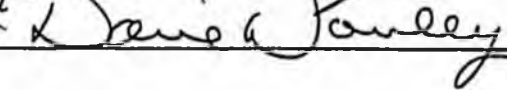
(Dept)

APPROVES PREVIOUS:

(Dept/Date)

fiscal impact Commerce + Econ Development  fiscal note(s) \_\_\_\_\_

zero fiscal note \_\_\_\_\_  zero fiscal note(s) \_\_\_\_\_

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
			✓		
				✓	
				✓	
				✓	
				✓	

  
CHAIRMAN'S SIGNATURE

**FISCAL NOTE**

**STATE OF ALASKA**  
**1991 LEGISLATIVE SESSION**

**BILL NO. HB 168**

Revision Date: \_\_\_\_\_ Department Affected: Commerce & Economic Dev.  
 Title: SEE ATTACHED BRU: Occupational Licensing  
 Component: Administration

Sponsor: Rep. Choquette  
 Requestor: Rep. Choquette COMPONENT SERIAL NO. 

	3	5	6
--	---	---	---

**Expenditures/Revenues: (Thousands of Dollars)**

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES	203.0	203.0	203.0	203.0	203.0	203.0
TRAVEL	10.0	10.0	10.0	10.0	10.0	10.0
CONTRACTUAL	44.0	25.0	25.0	25.0	25.0	25.0
SUPPLIES	4.0	2.0	2.0	2.0	2.0	2.0
EQUIPMENT	40.0	5.0	5.0	5.0	5.0	5.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>301.0</b>	<b>245.0</b>	<b>245.0</b>	<b>245.0</b>	<b>245.0</b>	<b>245.0</b>

<b>CAPITAL</b>						
----------------	--	--	--	--	--	--

<b>REVENUE</b>	325.0	350.0	350.0	350.0	350.0	350.0
----------------	-------	-------	-------	-------	-------	-------

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	301.0	245.0	245.0	245.0	245.0	245.0
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	<b>301.0</b>	<b>245.0</b>	<b>245.0</b>	<b>245.0</b>	<b>245.0</b>	<b>245.0</b>

**POSITIONS:**

FULL-TIME	4	4	4	4	4	4
PART-TIME						
TEMPORARY						

Estimate of current year impact: -0-

**ANALYSIS: (Attach a separate page if necessary.)**

SEE ATTACHED

Prepared By: Ann Boudreaux, Director Phone: 465-2581  
 Division: Occupational Licensing Date: 3/1/91  
 Approved by Commissioner: Glenn A. Olds *[Signature]* Spec. Asst. IT  
 Agency: Department of Commerce & Economic Development Date: 3/1/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE ATTACHMENT

HB 168

TITLE:

An Act licensing and regulating pull-tab vendors; authorizing sales of pull-tabs between pull-tab distributors; requiring the giving of notice if a charitable gaming activity location changes; amending the powers of the Department of Commerce and Economic Development to revoke and suspend charitable gaming permits and licenses; restricting the ability of owners, managers, or employees of vendors and persons holding charitable gaming permits or licenses to purchase certain pull-tabs; authorizing the Department of Commerce and Economic Development to prohibit violations of the charitable gaming laws; relating to false statement in charitable gaming license and permit application; relating to maximum annual prize awards; relating to the collection of the pull-tab tax; and providing for an effective date.

## FISCAL NOTE ATTACHMENT - HB 168

### EXPENDITURES AND REVENUES

This program was transferred from the Department of Revenue to the Department of Commerce and Economic Development effective July 1, 1989 through Executive Order #74. The total number of employees who transferred with the program was five: one auditor and one investigator located in Anchorage, one auditor, one tax examiner and one clerk typist located in Juneau. Since that time, the following new positions have been filled: a Gaming Program Manager located in Juneau, one investigator located in Fairbanks, a Chief of Gaming Compliance located in Anchorage, and a Licensing Examiner located in Juneau.

The bill would authorize the licensing and regulating of pull-tab vendors, authorize sales of pull-tabs from one distributor to another distributor, require the permittee and operator provide notification prior to changing the location(s) of gaming activities, amending the powers of the department to suspend or revoke permits or licenses, place restrictions on who may participate as a player of pull-tabs, authorize the department to issue orders prohibiting violations, provisions relating to making false statements in license and permit applications, amend the current prize awards limitation, specify when the pull-tab tax must be collected and who may distribute pull-tabs.

Charitable gaming activity in the state has rapidly grown beyond the capacity of the current staff especially in the area of audits and investigations. Presently, the gaming program has only two investigators and is woefully inadequate given the number of permittees and the geographical size of the state. While the two auditors may conduct desk audits at their workstations and obtain documentation by way of correspondence, the number of audits that can be accomplished during the year is limited by the number of permittees, operators, and distributors. We are, therefore, submitting a fiscal note requesting funding for an additional investigator and auditor. Also contained in the fiscal note is a request for funding of a licensing examiner and a records and licensing supervisor to oversee the licensing staff. Given the number of permittees, and the number that would use vendor locations, an additional licensing examiner is necessary if the vendor endorsements are to be issued in a timely manner.

The \$301.0 required includes \$10.0 in travel, to fund the cost of widespread travel to various communities throughout the state, as well as \$40.0 to purchase the necessary workstations, computers and software. The required \$5.0 for equipment for FY 93 through FY 97 represents computer upgrades and programming. This is based on the assumption that charitable gaming will steadily continue to increase as more and more charitable organizations search for other sources of revenue.

With the additional auditor and investigator positions, we estimate that \$75.0 in additional revenue based on the 1% net proceeds fee will be generated in addition to \$250,000 generated by the \$50 vendor endorsement fee. We estimate that 5,000 such vendor endorsements will be applied for. Additionally, with the amount of travel that will be required to effectively administer this program, the auditors and investigators can also use the opportunity to educate the licensees and to help them strive toward voluntary compliance.

FISCAL NOTE ATTACHMENT  
HB 168

OPERATING EXPENDITURES

<u>Position</u>	<u>Range</u>	<u>Cost</u>	<u>Subtotal</u>
<u>Personal Services:</u>			
Investigator III	18	\$56.4	
Auditor III	18	\$56.4	
Records and Licensing Supervisor	16	\$50.0	
Occupational Licensing Examiner I	12	\$40.2	
			\$203.0
<u>Travel:</u>			
Investigator		\$ 5.0	
Auditor III		\$ 5.0	
			\$ 10.0
<u>Contractual:</u>			
Lease Space		\$ 20.0	
Printing and Postage		\$ 24.0	
			\$ 44.0
<u>Supplies:</u>			
Investigator III		\$ 1.0	
Auditor III		\$ 1.0	
Records and Licensing Supervisor		\$ 1.0	
Occupational Licensing Examiner I		\$ 1.0	
			\$ 4.0
<u>Equipment:</u>			
Investigator III		\$10.0	
Auditor III		\$10.0	
Records and Licensing Supervisor		\$10.0	
Occupational Licensing Examiner I		\$10.0	
			\$ 40.0
TOTAL COST			\$301.0

Lease Space is for locating the Gaming staff into their own office space. Currently located in Occupational Licensing on the 9th floor of the State Office Building in 450 sq. ft., this space is inadequate for current needs and, with the increased personnel, new space is a requirement.

The majority of the printing and postage cost is for the vendor endorsement license.

Equipment represents the cost for a workstation and computer.

## REQUEST FOR NEW HIRE

POSITION TITLE: Investigator III  
RANGE/STEP: 18a  
SERVICE: Classified  
TYPE OF POSITION: PFT  
STAFF MONTHS: 12 Months

### TYPE OF EXPENDITURE:

#### PERSONAL SERVICES:

SALARY:	\$40.5
BENEFITS	\$15.9

TOTAL PERSONAL SERVICES:        \$56.4

TRAVEL:	\$ 5.0
COMMODITIES:	\$ 1.0
EQUIPMENT:	\$10.0

TOTAL COST                                \$71.9

### FUNDING SOURCE:

GENERAL FUND                                \$71.9

### POSITION DUTIES:

- o Conduct investigations of permit or license violations and complaints.
- o Conduct inspections of premises, observe gaming activity to ensure compliance with statutes and regulations.
- o Issue Notices of Violations when appropriate and necessary.
- o Educate the participants with regard to statutes and regulations.
- o Assist the participants by providing the correct forms, and answering inquiries.
- o Occasionally assist the auditor(s) in gathering information/documentation.

### IMPACT TO DIVISION/PROGRAM IF POSITION IS NOT FILLED:

Because of the numerous number of permittees and licensees, the expanse of the state, and the limited funding for travel purposes, many complaints and/or allegations could not be investigated.

## REQUEST FOR NEW HIRE

POSITION TITLE: Auditor III  
RANGE/STEP: 18a  
SERVICE: Classified  
TYPE OF POSITION: PFT  
STAFF MONTHS: 12 Months

### TYPE OF EXPENDITURE:

#### PERSONAL SERVICES:

SALARY: \$40.5  
BENEFITS \$15.9

TOTAL PERSONAL SERVICES: \$56.4

TRAVEL: \$ 5.0  
COMMODITIES: \$ 1.0  
EQUIPMENT: \$10.0

TOTAL COST \$71.9

#### FUNDING SOURCE:

GENERAL FUND \$71.9

### POSITION DUTIES:

- o Plan, organize and complete audits of permittees, operators and distributors.
- o Provide technical assistance to permittees, operators and distributors.
- o Provide information to inquiring persons regarding statutes and regulations.
- o Assist the investigator(s) when necessary.

### IMPACT TO DIVISION/PROGRAM IF POSITION IS NOT FILLED:

Because of the numerous number of permittees and licensees, the expanse of the state, and the limited funding for travel purposes, many audits could not be done, thus, reducing the 1% net proceeds fee due the state.

REQUEST FOR NEW HIRE

POSITION TITLE: Records and Licensing Supervisor  
RANGE/STEP: 16a  
SERVICE: Classified  
TYPE OF POSITION: PFT  
STAFF MONTHS: 12 Months

TYPE OF EXPENDITURE:

PERSONAL SERVICES:

SALARY: \$35.5  
BENEFITS \$14.5

TOTAL PERSONAL SERVICES: \$50.0

COMMODITIES: \$ 1.0  
EQUIPMENT: \$10.0

TOTAL COST \$61.1

FUNDING SOURCE:

GENERAL FUND \$61.1

POSITION DUTIES:

- o Review the operator and distributor license applications, issue licenses for same as well as review the operator quarterly and annual reports, the pull-tab manufacturer and distributor monthly reports.
- o Supervise and monitor the licensing of permittees, operators and distributors.
- o Direct and guide procedures for actual issuance of permits and licenses and computer entry of same. Responsible for the overall recording and establishment of the licensing record and maintenance of these records.
- o Provide information technical assistance to the public and organizations regarding application of statutes, regulations and policies.
- o Responsible for form control and review of public handouts and applications to ensure proper format and content.

IMPACT TO DIVISION/PROGRAM IF POSITION IS NOT FILLED:

Responsibility for the day-to-day operations will be shouldered by the Gaming Program Manager.

**REQUEST FOR NEW HIRE**

**POSITION TITLE:** Occupational Licensing Examiner I  
**RANGE/STEP:** 12  
**SERVICE:** Classified  
**TYPE OF POSITION:** PFT  
**STAFF MONTHS:** 12 Months

**TYPE OF EXPENDITURE:**

**PERSONAL SERVICES:**

**SALARY:** \$27.8  
**BENEFITS:** \$12.4

**TOTAL PERSONAL SERVICES:** \$40.2

**SUPPLIES:** \$ 1.0  
**EQUIPMENT:** \$10.0

**TOTAL COST** \$51.2

**FUNDING SOURCE:**

**GENERAL FUND** \$51.2

**POSITION DUTIES:**

- o The review of permit applications, vendor endorsement applications, quarterly and annual financial statements.
- o Update and maintain computerized licensing and financial records as well as the licensing files.
- o Provide information and technical assistance to the public and organizations regarding application of statutes and regulations.

**IMPACT TO DIVISION/PROGRAM IF POSITION IS NOT FILLED:**

Responsibility for the above-listed duties would be shouldered by the current staff.

Alaska State Legislature  
House of Representatives



INTERIM  
3111 C Street  
Anchorage, Alaska 99503  
(907) 561-2032

SESSION  
P.O. Box V  
Juneau, Alaska 99811  
(907) 465-2995

Representative Dave Choquette

SPONSOR STATEMENT

Sponsor: Dave Choquette

Subject: HB 168 -- An act licensing and regulating pull tab vendors

Date: March 5, 1991

-----  
I introduced HB 168 to meet the needs and interests of charitable organizations in the State of Alaska. The bill does so in one key way. Namely, it authorizes vendor sales of pull tabs on behalf of the charity.

The "third party vendor" issue entered the limelight October 24, 1990, when the Attorney General wrote an opinion stating that use of vendors (e.g. retail outlets, bars, restaurants) for the sale of pull tabs was not provided by statute. Vendor sales of pull tabs stopped January 1, 1991, crippling those charities that self direct their pull tabs activities, and curtailing the profits returned to charities whose operators contracted with vendors for the sale of pull tabs. Should legislation recognizing vendors not pass this session, vendors cannot be authorized by regulation to conduct gaming activities. This would mean a tremendous loss for the not-for-profits.

HB 168 authorizes vendor sales of pull tabs by: ★

a. requiring a written contract between the vendor and the permittee or operator which requires a return of at least★60% ★

★ ★

★ ★

of the ideal net to the permittee or operator. This will allow a charity to conduct their own pull tab activities if they so desire;

b. requiring the permittee or operator to apply to DCED for a vendor endorsement, with the \$50 collected vendor endorsement fee coming from the vendors;

c. providing DCED with the authority to approve or disapprove the vendor endorsement application based upon regulatory and statutory authority; and

d. creating a revenue generating program that will fund additional enforcement authority within DCED to combat vendor, operator, and permittee violations of gaming laws, and will provide additional revenue to the general fund.

HB168 also:

a. authorizes the distributor to distributor sale of pull tabs; and

b. increases the pay out limit in prizes for permittees using operators from \$500,000 to \$1 million.

HB 168 addresses a terrible void facing not-for-profits today. As they confront continued decline in resources due to diminishing block grant revenues, they need to have the option to solicit funds from the private sector. Vendor sales of pull tabs is a proven way of increasing their resources. With the increased enforcement authority this bill provides (at no cost to the operating budget I might add), it is a safe way of doing so as well. I believe HB168 will go far to keep not-for-profits an active voice and provider of service in this State.

Alaska State Legislature  
House of Representatives

INTERIM

3111 C Street  
Anchorage, Alaska 99503  
(907) 561-2032



SESSION

P.O. Box V  
Juneau, Alaska 99811  
(907) 465-2995

Representative Dabe Choquette



Amendment Number One to HB 168

Offered by Representative Choquette

page 3, line 27, following "The"

delete "commission"

insert "commissioner"

Position: technical amendment

(All 7 of Rep. Choquette's  
amendments were adopted  
on March 26<sup>th</sup>)



AMENDMENT #2

OFFERED IN THE HOUSE

BY REPRESENTATIVE CHOQUETTE

TO: HB 168

Page 5, line 19, following "pull-tabs.":

Insert "The endorsement fee shall be paid by the vendor by check, and the vendor may not be reimbursed for the fee by the permittee or operator."

Page 6, line 14:

Delete "a registration"

Insert "an endorsement renewal"

Page 6, line 15, following "location.":

Insert "The endorsement renewal fee shall be paid by the vendor by check, and the vendor may not be reimbursed for the fee by the permittee or operator."

Position: This change will insure that the vendor pays the vendor endorsement fee, and thus will remove any undue costs placed upon the permittee. The sponsor, the department, and not-for-profits agree to this change.

Alaska State Legislature  
House of Representatives

INTERIM

3111 C Street  
Anchorage, Alaska 99503  
(907) 561-2032



SESSION

P.O. Box V  
Juneau, Alaska 99811  
(907) 465-2995

Representative Dabe Choquette



Amendment Number Three to HB 168

Offered by Representative Choquette

Page 5, line 29, following "location"

delete "and a copy of the permit or license have"

insert "has"

page 5, line 30, following "posted"

delete "by the permittee or operator in"

insert "at"

Position: As subsection (d) now stands, the Department will be requiring three separate permits or licenses to be posted at the vendor location. It is agreed by the sponsor and DCED that this provision is too burdensome and duplicative. In turn, the vendor will only be required to post the vendor endorsement.



Alaska State Legislature  
House of Representatives

INTERIM

3111 C Street  
Anchorage, Alaska 99503  
(907) 561-2032



SESSION

P.O. Box V  
Juneau, Alaska 99811  
(907) 465-2995

Representative Dabe Choquette

Amendment Number Four to HB 168



Offered by Representative Choquette

page 6, line 17, following "vendor."

insert ", and a copy of the contract must be submitted to the department for approval."

delete "The department may inspect this contract."

page 6, line 19 following "may"

delete "declare the contract void and may suspend or revoke"

insert "refuse to issue"

page 6, line 20,

delete "and the license of the operator or the permit of the permittee."

insert "for that location."

Position: As subsection (g) now stands, the department may only inspect the written contract between the vendor and permittee or between the vendor and an operator. This change will provide the Department with the authority to review the contract for violations of the gaming chapter and gaming regulations. If the contract violates either the statute or the regulations, the Department may refuse to issue the vendor endorsement for that location.

Both the Department and the sponsor agree to this change.



Alaska State Legislature  
House of Representatives

INTERIM

3111 C Street  
Anchorage, Alaska 99503  
(907) 561-2032



SESSION

P.O. Box V  
Juneau, Alaska 99811  
(907) 465-2995

Representative Dabe Choquette



Amendment Number Five to HB 168

Offered by Representative Choquette

Page 7, lines 1 through 4:

delete subsection (k)

page 7, line 5:

delete (l)

insert (k)

Position: After consultation with not-for-profits in the state, the sponsor finds that inclusion of this subsection may work a hardship on small, rural communities. It is highly likely that community leaders in these areas may also be owners or managers of local businesses capable of selling pulltabs. Since community leaders often wear several hats the deletion of this section should remove an undue burden.

The department has no objection to this change.



Alaska State Legislature  
House of Representatives

INTERIM

3111 C Street  
Anchorage, Alaska 99503  
(907) 561-2032



SESSION

P.O. Box V  
Juneau, Alaska 99811  
(907) 465-2995

Representative Dabe Choquette

Amendment Number Six to HB 168

offered by Representative  
Choquette

page 3, line 23, following prohibit:

delete "an operator or a vendor"

insert "all operators or all vendors"

Position: The intent of this provision is to provide a municipality with the option to prohibit all operators or all vendors from selling pulltabs within the municipality. Leaving the words in the singular may provide municipality's with the option to prohibit one vendor or one operator while allowing others. While wording in the singular is a preferred practice in legislative drafting, we suggest use of the plural form in this instance.



Alaska State Legislature  
House of Representatives

INTERIM

3111 C Street  
Anchorage, Alaska 99503  
(907) 561-2032



SESSION

P.O. Box V  
Juneau, Alaska 99811  
(907) 465-2995

Representative Dabe Choquette



Amendment Number Seven to HB 168

Amendment AS 05.15.095(a) to read:

(6) the owner or owner's agent of a vendor

Position: This amendment, at the request of the department, will provide that owners of a vendor location shall sign all reports and applications under penalty of unsworn falsification. This is an attempt to technically cleanup the Gaming Reform Act of 1988 provisions to include the vendor scenario.



(Amendment #1 failed)

7-LS0678ND.4 ✓  
Gaguinc  
03/14/91

A M E N D M E N T /

OFFERED IN THE HOUSE  
TO: HB 168

BY REPRESENTATIVE TAYLOR

Page 2, lines 23 - 26:

Delete all material and insert:

"(6) exclusion from participation as a permittee, licensee, vendor, or employee of a permittee, [OR] licensee, or vendor, of a person convicted of [, IN PRISON FOR, OR ON PAROLE FOR] a felony, [WITHIN THE PRECEDING FIVE YEARS, OR CONVICTED OF] a crime involving theft or dishonesty, or [OF] a violation of a municipal, state, or federal gambling law:"

Page 4, line 9, following "under":

Insert "(a)(1), (2), or (4) of"

Page 4, line 11, following "years.":

Insert "If the department revokes a permit, license, or vendor endorsement under (a)(3) of this section, it shall permanently prohibit the permittee or licensee from reapplying for a permit or license or, if a vendor endorsement was revoked because of conduct by the vendor set out in (a)(3) of this section, from reapplying for a vendor endorsement for that vendor."

(Amendment 2 passed)

7-LS0678D.2  
Gaguine  
03/13/91

AMENDMENT 2

OFFERED IN THE HOUSE  
TO: HB 168

BY REPRESENTATIVE TAYLOR

Page 4, line 5:

Delete "or"

Page 4, line 8, following "endorsement":

Insert "; or

(5) is required to collect a sales tax on charitable gaming activity under a municipal ordinance and fails to collect that tax or to transmit the proceeds of the tax to the municipality in the manner and in the time required by municipal law"

(Amendment passed) DONLEY

AMENDMENT

#10

TO HB 168

Sec. 12 AS 05.15.188 (e)

Page 6, line 3

after "the department"... insert " and the governing body of the municipality,"...

# REPRESENTATIVE DAVE DONLEY

ALASKA STATE LEGISLATURE  
DISTRICT ELEVEN  
SEAT A

3111 "C" STREET, SUITE 450  
ANCHORAGE, ALASKA 99503  
(907) 561-7629 (FAX) 562-4376

ALASKA LANDINGS • BENTZEN • BIRCHWOOD • CHESTER CREEK • HEATHER MEADOWS • LINCOLN PARK • MIDTOWN • NORTHSTAR  
NORTHWOOD • ROMIG • ROOSEVELT PARK • SPENARD • THOMPSON • TURNAGAIN • WYNDMERE • WOODLAND PARK



CHAIRMAN  
JUDICIARY COMMITTEE

VICE CHAIRMAN  
REGULATION REVIEW COMMITTEE

MEMBER  
RULES COMMITTEE  
LABOR AND COMMERCE COMMITTEE

## Description of Proposed Charitable Gaming Amendments

- Amendment One
- a.) Permits distributor to distributor sales;
  - b.) Requires distributors to report sales to operators and other distributors and;
  - c.) Requires an operator who is also a distributor to sell as a distributor to others besides themselves
- Amendment Two
- Requires permittees to designate at least one member in charge and one alternate member in charge who are required to be knowledgeable about state gaming laws and pass an exam to demonstrate that knowledge
- Amendment Three
- Directs the department to adopt regulations consistent with the standards of the North American Gaming Regulators Association
- Amendment Four
- a.) Alter the payout percentage
  - b.) Prohibits prizes spread across more than one game series
  - c.) Sets prize limit at \$500
- Amendment Five
- Requires the licensing of out of state pull tab manufacturers



March 13, 1991

Amendment 1 By Donley



\* Section 1. AS 05.15.183(d) is amended to read:

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

\* Sec. 2. AS 05.15.185 is amended to read:

Sec. 05.15.185. DISTRIBUTION OF PULL-TAB GAMES. Each series of pull-tabs distributed in the state must be sealed and have a serial number label issued by the National Association of Fundraising Ticket Manufacturers or other serial number label approved by the department and may be distributed only to a municipality or a qualified organization that has obtained a permit issued under this chapter, [OR] to an operator on behalf of an authorizing permittee, or to a pull-tab distributor licensed under AS 05.15.183.

\* Sec. 3. AS 05.15.187 is amended by adding a new subsection to read:

(i) An operator may not purchase a pull-tab series from a distributor that is owned in whole or in part, directly or indirectly, by the operator, unless more than 50 percent of the distributor's sales of pull-tab series are made to permittees, operators, or distributors that are wholly independent from the distributor.

March 13, 1991

Amendment 2 By Donley

12

\* Section 1. AS 05.15.020(a) is amended to read:

(a) A municipality or qualified organization may conduct an activity permitted under this chapter, if the municipality or qualified organization

(1) applies for a permit, pays the appropriate permit fee, and receives an annual permit issued by the department; and

(2) designates a member in charge and at least one alternate member in charge under AS 05.15.112 who have passed the examination required by AS 05.15.112

[THE ANNUAL PERMIT FEE IS

(1) \$20 FOR AN APPLICANT THAT DID NOT HOLD A PERMIT DURING THE PRECEDING YEAR;

(2) \$20 FOR AN APPLICANT THAT HAD GROSS RECEIPTS OF LESS THAN \$20,000 FROM ACTIVITIES CONDUCTED UNDER THIS CHAPTER DURING THE PRECEDING YEAR;

(3) \$50 FOR AN APPLICANT THAT HAD GROSS RECEIPTS OF \$20,000 OR MORE BUT NOT EXCEEDING \$100,000 FROM ACTIVITIES CONDUCTED UNDER THIS CHAPTER DURING THE PRECEDING YEAR; OR

(4) \$100 FOR AN APPLICANT THAT HAD GROSS RECEIPTS EXCEEDING \$100,000 FROM ACTIVITIES CONDUCTED UNDER THIS CHAPTER DURING THE PRECEDING YEAR].

\* Sec. 2. AS 05.15.020 is amended by adding a new subsection to read:

(c) The annual permit fee under (a) of this section is

(1) \$20 for an applicant that did not hold a permit during the preceding year;

(2) \$20 for an applicant that had gross receipts of less than \$20,000 from activities conducted under this chapter during the preceding year;

(3) \$50 for an applicant that had gross receipts of \$20,000 or more but not exceeding \$100,000 from activities conducted under this chapter during the preceding year; or

(4) \$100 for an applicant that had gross receipts exceeding \$100,000 from activities conducted under this chapter during the preceding year.

• **Sec. 3.** AS 05.15.112(a) is amended to read:

(a) Each municipality or qualified organization that applies for [RECEIVES] a permit under this chapter shall designate a member in charge and at least one alternate member in charge. The member in charge and alternate members in charge designated must have passed a test formulated by the department on the contents of this chapter and the regulations adopted under this chapter. The department shall administer the test at least four times a year.

\* **Sec. 4.** AS 05.15.112(b) is amended to read:

(b) The member in charge is responsible for preparation, maintenance, and transmittal of all records and reports required of the permittee, and, if the permittee has entered into a contract with an operator under AS 05.15.115, for monitoring the operator's performance under and compliance with that contract. The alternate members in charge are responsible for the duties of the member in charge in the absence of the member in charge. The member in charge and the alternate members in charge shall be members [A MEMBER] of the qualified organization or the board of directors of the qualified organization or employees [AN EMPLOYEE] of the municipality.

\* **Sec. 5.** AS 05.15.112 is amended by adding a new subsection to read:

(c) If a permittee's designated member in charge or sole alternate member in charge resigns or is no longer able to serve as member in charge or alternate member in charge, the permittee has six months to replace the member in charge or alternate member in charge with a person who meets the requirements of this section, and to notify the department of the replacement. If after six months the permittee has not replaced the member in charge or alternate member in charge with a person who meets the requirements of this section, or has not notified the department of the replacement, the permittee's permit is suspended until the requirements of this subsection are met.

\* **Sec. 6.** AS 05.15.122(b) is amended to read:

(b) The department may issue an operator's license to a natural person, municipality, or qualified organization that

- (1) applies on the form provided by the department;
- (2) pays the annual fee of \$500;
- (3) discloses the identity of persons employed by the applicant in a managerial or supervisory capacity;
- (4) submits proof of liability insurance satisfactory to the department; [AND]
- (5) posts a bond or security satisfactory to the department in the amount of \$25,000 for each permit under which the operator operates up to a maximum of \$100,000; and

(6) if a natural person, has passed a test formulated by the department on the contents of this chapter and the regulations adopted under this chapter and administered by the department at least four times a year; or, if a municipality or qualified organization, has designated a municipal employee or member of the organization who has passed this test.

\* Sec. 7. TRANSITIONAL PROVISION. The Department of Commerce and Economic Development shall prepare the tests required by AS 05.15.112(a), as amended by sec. 3 of this Act, and by AS 05.15.122(b), as amended by sec. 6 of this Act, so that they may first be offered no later than January 1992.

\* Sec. 8. Except for sec. 7 of this Act, this Act takes effect January 1, 1993.

March 13, 1991

Amendment 3 By Donley

13

\* Section 1. AS 05.15.060 is amended by adding a new subsection to read:

(b) Regulations adopted by the department under this section relating to charitable gaming activity involving pull-tabs shall be consistent with the standards on pull-tabs of the North American Gaming Regulators Association, as amended from time to time.

Withdrawn & replaced with a variation

March 13, 1991

Amendment 4 by Donley



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

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

(1) report an adjusted gross income of at least <sup>25</sup>~~15~~ percent of gross income for two consecutive quarters based on the total operation of the operator; or

(2) pay to each authorizing permittee for two consecutive quarters at least

(A) <sup>25</sup>~~15~~ percent of the adjusted gross income, as determined under (1) of this subsection, received from activities conducted on behalf of the authorizing permittee, if more than 50 percent of the dollar amount of prizes distributed as a result of those activities are distributed as prizes in bingo games; or

(B) 50 percent of the adjusted gross income received from activities conducted on behalf of the authorizing permittee, if 50 percent or less of the dollar

amount of prizes distributed as a result of those activities are distributed as prizes in bingo games.

\* Sec. 2. AS 05.15.187(g) is amended to read:

(g) A [NOTWITHSTANDING OTHER PROVISIONS OF THIS CHAPTER, A] pull-tab game may not be conducted in the state if the game

(1) [THAT] confers an additional right upon all or some of the purchasers of a pull-tab series to participate in a lottery for additional prizes;

(2) has a prize structure that is spread across more than one series in that game; or

(3) has a single prize that exceeds \$500 [MAY NOT BE CONDUCTED IN THE STATE UNLESS A SURETY BOND IN THE AMOUNT OF \$250,000 CONDITIONED UPON PAYMENT OF ALL PRIZES AND AWARDS WHEN DUE IS SUBMITTED TO THE DEPARTMENT BY THE OPERATOR OR AUTHORIZING PERMITTEE AND APPROVED BY THE ATTORNEY GENERAL].

# 14 - Passed 4-3-91

7-LS0678ND.6  
Gaguine  
04/03/91

A M E N D M E N T

OFFERED IN THE HOUSE  
TO: HB 168

BY REPRESENTATIVE DONLEY

Page 3. following line 24:

Insert a new bill section to read:

\*\* Sec. 6. AS 05.15.128(a) is amended to read:

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

(1) report an adjusted gross income of at least 15 percent of gross income for two consecutive quarters based on the total operation of the operator; or

(2) pay to each authorizing permittee for two consecutive quarters at least

(A) 20 [15] percent of the adjusted gross income [, AS DETERMINED UNDER (1) OF THIS SUBSECTION,] received from activities conducted on behalf of the authorizing permittee, if the operator's primary method of conducting activities on behalf of the permittee is through a bingo hall:

(B) 50 percent of the adjusted gross income received from activities conducted on behalf of the authorizing permittee, if the operator's primary method of conducting activities on behalf of the permittee is through the sale of pull-tabs at a retail outlet whose primary purpose is the sale of pull-tabs or through the sale of pull-tabs by contract with vendors; or

(C) 50 percent of the adjusted gross income received from activities conducted on behalf of the authorizing permittee, if the operator's primary method of conducting activities on behalf of the permittee is by a means other than those described in 'B) or (C) of this paragraph."

Renumber following bill sections accordingly.

#15

Page 6 line 25 change 60% to 70%

March 13, 1991

Amendment 5 by Donley

# 16

\* Section 1. AS 05.15.181(a) is amended to read:

(a) A person may not manufacture pull-tabs in the state, and may not sell or supply a pull-tab that the person has manufactured outside of the state to persons in the state, unless the person has received a pull-tab manufacturer's license issued by the department.

(# 17 withdrawn)

# 18

7-LS0678D.7  
Gaguine  
04/04/91

A M E N D M E N T

OFFERED IN THE HOUSE  
TO: HB 168

BY REPRESENTATIVE DONLEY

Page 7, following line 30:

Insert a new paragraph to read:

"(36) "managerial or supervisory capacity" means that the employee

(A) is responsible for gaming receipts;

(B) has the authority to hire employees or to dismiss or otherwise discipline them;

(C) prepares financial reports required under this chapter;

(D) is responsible for keeping the accounts for activities under this chapter; or

(E) is responsible for conducting activities under this chapter, including the arranging for locations at which those activities will occur."

Renumber the following paragraphs accordingly.

# 17

7-LS0678ND.5  
Gaguine  
04/03/91

A M E N D M E N T

OFFERED IN THE HOUSE  
TO: HB 168

BY REPRESENTATIVE DONLEY

Page 3, following line 20:

Insert a new bill section to read:

"\* Sec. 5. AS 05.15.122(d) is amended to read:

(d) A licensee may not employ a person in a managerial or supervisory capacity if the person has been convicted of, in prison for, or on parole for a felony within the preceding five years, or convicted of a crime involving theft or dishonesty or of a violation of a municipal, state, or federal gambling law. A licensee should exercise caution in considering the employment of a person in a managerial or supervisory capacity if the person has been convicted of a felony that would not disqualify the person from employment under this subsection."

Renumber the following bill sections accordingly.

Page 3, following line 24:

Insert a new bill section to read:

"\* Sec. 7. AS 05.15.140(c) is amended to read:

(c) The commissioner may not issue a permit for an activity operated by a person who has been convicted of, in prison for, or on parole for a felony within the preceding five years, or convicted of a crime involving theft or dishonesty or of a violation of a municipal, state, or federal gambling law. A permittee should exercise caution in considering whether to entrust responsibility for the operation of an activity to a person who has been convicted of a felony that would not disqualify the person from operation of the activity under this subsection."

Renumber following bill sections accordingly.

Page 7, following line 6:

Insert new subsections to read:

"(m) The department may not issue a vendor registration for a person who would be ineligible for issuance of an operator's license because of AS 05.15.122(c) or who employs in a managerial or supervisory capacity a person who would be ineligible for issuance of an operator's license because of AS 05.15.122(c).

(n) A registered vendor may not employ a person in a managerial or supervisory capacity if the person would be ineligible for issuance of an operator's license because of AS 05.15.122(c). A licensee should exercise caution in considering the employment of a person in a managerial or supervisory capacity if the person has been convicted of a felony that would not disqualify the person from employment under this subsection."

# 18

7-LS0678ND.7  
Gaguine  
04/04/91

AMENDMENT

OFFERED IN THE HOUSE  
TO: HB 168

BY REPRESENTATIVE DONLEY

Page 7, following line 30:

Insert a new paragraph to read:

- "(36) "managerial or supervisory capacity" means that the employee
- (A) is responsible for gaming receipts;
  - (B) has the authority to hire employees or to dismiss or otherwise discipline them;
  - (C) prepares financial reports required under this chapter;
  - (D) is responsible for keeping the accounts for activities under this chapter, or
  - (E) is responsible for conducting activities under this chapter, including the arranging for locations at which those activities will occur."

Renumber the following paragraphs accordingly.

# REPRESENTATIVE DAVE DONLEY

ALASKA STATE LEGISLATURE  
DISTRICT ELEVEN  
SEAT A

ALASKA LANDINGS • BENTZEN • BIRCHWOOD • CHESTER CREEK • HEATHER MEADOWS • LINCOLN PARK • MIDTOWN • NORTHSTAR  
NORTHWOOD • ROMIG • ROOSEVELT PARK • SPENARD • THOMPSON • TURNAGAIN • WYNDEMERE • WOODLAND PARK

3111 "C" STREET, SUITE 450  
ANCHORAGE, ALASKA 99503  
(907) 561-7629 (FAX) 562-4376



CHAIRMAN  
JUDICIARY COMMITTEE

VICE CHAIRMAN  
REGULATION REVIEW COMMITTEE

MEMBER  
RULES COMMITTEE  
LABOR AND COMMERCE COMMITTEE

## Principles for Charitable Gaming

### 1. Maximum return to the charities

When the original statutes were written which allowed charitable gaming, gaming was allowed so that charities could raise funds. There is absolutely no indication that at any time the legislature set out to establish a "gaming industry" in the Alaska economy. As recently as the 1990 primary, the voters of Alaska rejected an initiative that would have legalized casino gambling and a wide range of other gaming activities.

It is clear that since gaming was legalized for the purpose of charitable fund raising, maximum return should go to the charities.

### 2. Gambling should not be made glamorous

As has been clearly demonstrated in states that have state lotteries, high payouts and heavy advertising induce people who would not normally gamble to gamble and induce those who do gamble to spend more. At no point has the legislature or the people of the state of Alaska indicated that they are interested in encouraging gambling. As the state regulates gaming, it should avoid encouraging gambling.

### 3. Charitable gaming activity should be conducted for the benefit of the greatest number of charities

Since the purpose of charitable gaming is to ensure that non-profit organizations have a funding base, it is in the best interests of the state to encourage equitable distribution of gaming related income. It would not be good public policy to allow a small number of charities or operators acting on behalf of a group of charities to monopolize this funding source.

DD/bb



JUNEAU OFFICE  
(During Legislative Session January through May)  
P.O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3892 (FAX) 463-5661





# **GAMBLING AND CHARITABLE GAMING**

## **Issues for the 1990's**

Prepared by  
Representative Dave Donley, Chair  
House labor and Commerce Committee  
October 1, 1990

In the last ten years Alaska has seen a great deal of attention focused on **gambling and charitable gaming issues** in the state. During the past legislative session alone there were over 20 gaming related bills introduced in the Alaska legislature. In addition, primary election voters considered and rejected a sweeping initiative that would have legalized casino gambling in Alaska along with a wide range of other gaming activities.

Following is a brief history of charitable gaming in Alaska outlining some of the reasons for this sudden upsurge of interest and laying out the areas of concern that need to be addressed by the legislature and state regulatory agencies in the next several months.

### **A HISTORY OF CHARITABLE GAMING IN ALASKA**

Since the 1960's, nonprofit charitable, religious, and educational organizations in Alaska have been permitted to conduct gaming activities to raise money for their programs.

Until the last five years, those activities have consisted almost entirely of bingo games and to a lesser extent, raffles and ice classics. Because of the inherent limitations on bingo games - they require a substantial capital investment in equipment, space and

convenience stores. The most common arrangement was for a permittee to place pulltabs purchased under their license in a local bar or grocery store. where they were sold to the general public. When permittees first started using vendors in the mid 1980's, it was not unusual for a business to sell the pulltabs free of charge. That practice quickly fell by the wayside, however, and vendors today are routinely charging charities forty percent or more of the adjusted gross in order to sell their pulltabs.

In early 1989 the Governor ordered responsibility for the regulation of charitable gaming to be transferred from the Department of Revenue to the Department of Commerce. The temporary chaos that resulted from the switch, coupled with the heightened competition between charitable organizations and the phenomenal profits to be made by private retail outlets through the sale of pulltabs, caused the use of vendors to proliferate across the state.

However, since "vendors" are not permitted under law, they cannot be effectively regulated and are not subject to action by the Department. Because vendors work without regulation and without licenses, they offer a competitive edge impossible for a licensed operator or an organization that runs their own game to meet.

More importantly, vendors sell only pulltabs, which are not subject to the checks and balances inherent in bingo games. State law prohibits bingo from being played where alcohol is served. No such restrictions apply to pulltabs. Pulltabs can and are being sold where alcohol is served. They require little overhead and virtually no capital investment. The average payout on pulltabs is very high which creates a strong incentive to gamble. Finally, the Gaming Reform Act required an operator to make a minimum payback to permittees or face loss of licensure. This minimum was established as a floor, not a ceiling, and was based on a combined pulltab/bingo operation where the profit margin is significantly lower than with straight pulltabs. However, some say this minimum has become the "industry norm" even though it is clearly too low for a pulltab game.

One of the thorniest problems with vendors is that even though they routinely take half or better of the profits generated through pulltab sales, charities still make much more than they would if they ran

# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**



# **GAMBLING AND CHARITABLE GAMING**

## **Issues for the 1990's**

Prepared by  
Representative Dave Donley, Chair  
House labor and Commerce Committee  
October 1, 1990

In the last ten years Alaska has seen a great deal of attention focused on **gambling and charitable gaming issues** in the state. During the past legislative session alone there were over 20 gaming related bills introduced in the Alaska legislature. In addition, primary election voters considered and rejected a sweeping initiative that would have legalized casino gambling in Alaska along with a wide range of other gaming activities.

Following is a brief history of charitable gaming in Alaska outlining some of the reasons for this sudden upsurge of interest and laying out the areas of concern that **need to be addressed** by the legislature and state regulatory agencies in the next several months.

### **A HISTORY OF CHARITABLE GAMING IN ALASKA**

Since the 1960's, nonprofit charitable, religious, and educational organizations in Alaska have been permitted to conduct gaming activities to raise money for their programs.

Until the last five years, those activities have consisted almost entirely of bingo games and to a lesser extent, raffles and ice classics. Because of the inherent limitations on bingo games - they require a substantial capital investment in equipment, space and

personnel, players will purchase only the number of cards they can keep track of, there are statutory limits on prizes and number of games etc. - the profit margin is low and the competition is high. As a result, gaming activity had been kept at a minimum, confined to a few major bingo halls in urban areas and local community centers in rural Alaska, and the non-gaming public remained largely unaware of charitable gaming activity in the state.

In the 1980's, two things occurred that significantly changed the profile of charitable gaming in Alaska. The first was when pulltabs, authorized by regulations adopted in 1982, began to make up an ever increasing portion of charitable gaming proceeds. The second was the decline in state revenues in the late 1980's which served to 'up the ante' in that charitable organizations were hard pressed to obtain the funding needed to conduct their programs. For many of these organizations charitable gaming became the primary source of revenue. Because of the complexity of the gaming law and reporting requirements, many had hired "operators" to run their permits for them. However, under the law "operators" were not recognized and therefore, could not be regulated.

By 1987, regulation of charitable gaming in Alaska was in a state of chaos. The Department of Revenue, the agency responsible for regulating charitable gaming in the state, failed to get a handle on the situation by implementing new regulations or effectively working with the legislature to adopt the statutory changes that were necessary to accomplish meaningful control.

Finally, in 1987 the House Labor and Commerce Committee, working with the Department, introduced HB 299, the Alaska Charitable Gaming Reform Act, which was adopted by a near unanimous vote in 1988. HB 299 established strict licensing requirements for operators, including bonding, insurance, and criminal background checks, streamlined reporting requirements, set up an audit trail to track pulltab sales in the state, and generally provided for more accountability by the gaming industry across the board.

In the fall of 1988 and throughout 1989, before regulations implementing the Reform Act went into effect, organizations greatly increased the practice of placing their permits with "third party vendors" in retail sales outlets such as bars, restaurants and

convenience stores. The most common arrangement was for a permittee to place pulltabs purchased under their license in a local bar or grocery store, where they were sold to the general public. When permittees first started using vendors in the mid 1980's, it was not unusual for a business to sell the pulltabs free of charge. That practice quickly fell by the wayside, however, and vendors today are routinely charging charities forty percent or more of the adjusted gross in order to sell their pulltabs.

In early 1989 the Governor ordered responsibility for the regulation of charitable gaming to be transferred from the Department of Revenue to the Department of Commerce. The temporary chaos that resulted from the switch, coupled with the heightened competition between charitable organizations and the phenomenal profits to be made by private retail outlets through the sale of pulltabs, caused the use of vendors to proliferate across the state.

However, since "vendors" are not permitted under law, they cannot be effectively regulated and are not subject to action by the Department. Because vendors work without regulation and without licenses, they offer a competitive edge impossible for a licensed operator or an organization that runs their own game to meet.

More importantly, vendors sell only pulltabs, which are not subject to the checks and balances inherent in bingo games. State law prohibits bingo from being played where alcohol is served. No such restrictions apply to pulltabs. Pulltabs can and are being sold where alcohol is served. They require little overhead and virtually no capital investment. The average payout on pulltabs is very high which creates a strong incentive to gamble. Finally, the Gaming Reform Act required an operator to make a minimum payback to permittees or face loss of licensure. This minimum was established as a floor, not a ceiling, and was based on a combined pulltab/bingo operation where the profit margin is significantly lower than with straight pulltabs. However, some say this minimum has become the "industry norm" even though it is clearly too low for a pulltab game.

One of the thorniest problems with vendors is that even though they routinely take half or better of the profits generated through pulltab sales, charities still make much more than they would if they ran

their own games or contracted with a licensed operator who combines pulltabs and bingo games.

### CHANGES IN FEDERAL GAMING LAWS

To further complicate the picture, several significant changes in federal law have greatly impacted charitable gaming operations. The first was implementation of a federal income tax on pulltab sales under IRS code section 511, a part of the 1986 federal tax reform act. The second was a lifting of the federal ban on advertising or conducting gaming activity over the airways (T.V., radio etc.) through the Charitable Gaming Advertising Clarification Act of 1988.

Under the changes in the tax code, income derived from pulltab sales may be subject to the unrelated business income tax (UBIT). Considerable controversy and confusion exists as to whether and in what circumstances the tax applies. Chairman Donley has requested a written determination from the IRS which will be distributed to Committee members upon receipt.

The Advertising Clarification act of 1988 lifted the FCC ban on use of the airways for gaming promotion, effective May 8, 1990 unless state law provides otherwise. Because advertising on the airways had always been a moot question under the federal ban, Alaska had no laws concerning the issue. The House Labor and Commerce Committee was concerned that charitable organizations would be at risk because of the lack of rules and regulations governing use of the airways for advertising. Because of this, the Committee introduced HB 587, a measure that simply extended the federal ban until the legislature adopts statutes governing the use of the airways. HB 587 gives the state and our non-profit organizations time to decide whether we want gaming activities to expand onto T.V. and radio and if so, under what circumstances. HB 587 was adopted by the legislature and signed into law on May 8, 1990.

Finally, persons involved in gambling whose compensation is based on a "percentage of the take" are subject to a federal excise tax on wagering. In addition, sales agents are required to file with the IRS and pay a filing fee. Few of the agents in Alaska who are selling

pulltabs on behalf of charitable organizations are currently in compliance with the federal gambling tax.

## PUBLIC POLICY ISSUES

### VENDORS

State law specifically allows two classes of people to conduct gaming activities: permitted organizations and their employees and licensed operators and their employees. Since all other gaming activity is prohibited by law except that which is specifically authorized, it is the position of the chairman of the committee that sponsored the Reform Act, legislative legal services, and a 1987 Attorney General's opinion that sale of pulltabs by any other entity (vendors) is in violation of the law.

Since the proliferation of vendor sales was allowed to occur by the Department of Revenue, the Department of Commerce inherited the problem when responsibility to regulate gaming in the state was transferred to them in the summer of 1989. In the fall of 1989, the Department of Commerce, after reviewing the law and the vendor issue, agreed that vendors were not provided for under the law and attempted to issue emergency regulation prohibiting their activities. Lt. Governor MacAlpine refused to sign the regulations, reasoning that an "emergency" did not exist in that the activities had been going on for some time and that issuing emergency regulations would circumvent the public process.

The department then went to public hearings on proposed regulations that would have prohibited vendors after May 15, 1990. In doing so, the department said they were allowing enough time for the legislature to again consider the question of vendors and decide if they wanted to make any changes in law that would permit their continued existence.

The legislature considered the vendor issue in numerous measures but no final action was taken and the law was not amended. Since

adjournment, the department, with an apparent change of heart, has expressed reluctance to change the "status quo" and has steadfastly refused to enforce the law. Instead they have indicated their decision to seek another Attorney General opinion as to whether they can authorize vendors through regulation.

As a result, we have millions of dollars of pulltab sales occurring in the state each month through agents that are not authorized by law. Charities are at the mercy of these unlicensed operators and vendors and their activities cannot be effectively policed since there is no statutory authority for them to occur in the first place.

This is an untenable situation for all parties concerned. Currently licensed operators are threatening to file a writ of mandamus to force the state to enforce the law. That option is also open to the legislature. An individual legislator can file as a private person or the Legislative Council can be petitioned to file on behalf of the legislature. Short of that it is likely that nothing will be done and the legislature will be left to deal with the question during the next session.

#### ALCOHOL AND GAMING

State law (AS 04.11.370) requires the Alcohol Beverage Control Board to suspend or revoke a liquor license if illegal gambling activities occur on the licensed premises. The Board can and should notify license holders that their licenses may be endangered if they are acting as vendors for pulltab sales. However, since the Board knows that pulltab sales are legal in the state and that the Department certainly knows that license holders are selling pulltabs on licensed premises, they will take no action until they are informed that such activity is illegal.

A similar situation exists for licensees who may be in violation of federal filing requirements under the excise tax discussed above. Without such filings, their activities are illegal but until the Board is officially informed by the IRS of that fact, they will take no action.

Again, an option exists for the legislature to inform the Board of their position that sales of pulltabs in a licensed establishment by

an entity other than a permittee or a licensed operator is in violation of the law.

### WHERE DO WE GO FROM HERE

Following is a listing of the issues that should be addressed by the next legislature:

\* **Policy Issues** - The high profile sale of pulltabs in retail outlets in the last few years has completely changed the scope and nature of charitable gaming in Alaska and has raised a major public policy question of whether the state should encourage gambling and if not, what changes in law are necessary to take a more neutral posture:

1. Should the payout on pulltabs be limited by law so as to discourage gambling?
2. Should we limit the availability of pulltabs by limiting locations where they can be sold and the entities that can sell them?
3. Should we require that bingo games pay for themselves and disallow the practice of using bingo as a "loss leader" to encourage people to play pulltabs?
4. Should we sever the connection between gaming and alcohol by prohibiting all gaming activities where alcohol is sold or consumed?

\* **Vendors** - Should we license vendors and allow permitted organizations to use them? If so, the following questions should be addressed:

1. Should vendors be licensed to work directly with permittees or only as an agent/s of a licensed operator?
2. If vendors are independent agents, should they be subject to the same, lesser, or more restrictions than are currently placed on operators (bonding, insurance, background checks etc. )?
3. Should we limit the number of vendors and/or the number of locations an operator or a permittee may use.?

4. Should we limit the amount a vendor can charge a permittee/operator for selling pulltabs? If so, what is a reasonable limit?

### PAST LEGISLATION

The measures discussed below were part of the legislatures' response to the issues raised in the the last several years about charitable gaming in Alaska. These measures were introduced during the last legislative session and will have to be reintroduced if they are to be considered by the 1991 legislature.

## CHARITABLE GAMING AND GAMBLING LEGISLATION

(1989-1990)

HB 261/SB 274 - Alaska-Soviet Ice Classic (By Foster/Duncan) - Authorizes Camai, Inc. and the City of Diomedes to operate an Alaska-Soviet Ice Classic (a game of chance where a prize of money is awarded for the closest guess of the time the ice moves in a body of water or watercourse). HB 261 passed into law in 1989 (76 SLA 89).

HB 323 - Big Lake Ice Classic (By Menard) - Authorizes the Houston Junior-Senior High School Booster Club and the Big Lake Chamber of Commerce to jointly or individually operate a Big Lake Ice Classic. HB 323 passed into law in 1990.

HB 587 - Prohibiting use of electronic media for gaming - (By the House Labor and Commerce Committee) - Prohibits advertising or conducting gaming activities through the electronic media such as television or radio. Such broadcasts have previously been banned under federal prohibitions that was repealed in May of 1990. HB 587 passed into law. (See discussion above under "Changes in Federal Law".

**HB 29/SB279- Parimutuel Racing/Alaska Racing**

**Commission** (By Larson/Szymanski) - Allows parimutuel betting on horse racing in Alaska. Can only be authorized after a "local option" vote where over 50 percent of the local voters authorize this kind of gambling activity. HB 29 is currently in the Senate Judiciary Committee, chaired by Senator Jan Faiks. SB 279 did not pass.

**HB 512/SB 501 - Retail sales of pulltab** (By Boucher/Senate Finance Committee) - Authorizes sales agents or "third party vendors" to sell pulltabs for charitable organizations in retail outlets such as bars, restaurants, package and convenience grocery stores. Neither HB 512 nor SB 501 passed the legislature..

**HB 521/SB 484 - Permittees working together** (By Boyer/Senate Finance Committee) - Authorizes permittees to work together to conduct gaming activities without having to become an operator. Neither HB 521 nor SB 484 passed the legislature.

**HB 524 - Revocation of operator's licenses** (By Taylor) - Raises the minimum payback a licensed operator must give a permittee. HB 524 did not pass.

**HR 7/SR 11- Gaming regulations** (By Donley/Rodey) - Asks the Department of Revenue to delay implementation of 1988 proposed charitable gaming regulations because they were not stringent enough in protecting charities from unlicensed and unregulated sales agents. This bill is moot since the regulations have since been redrafted and responsibility for regulating charitable gaming has been transferred from the Department of Revenue to the Department of Commerce and Economic Development. Neither measure passed.

**SB 146 - Gaming Devices on State Ferries** (By Szymanski) - Authorizes the Alaska State Ferry system to conduct gaming aboard state ferries with a percentage of the proceeds being dedicated to operating costs of the ferry system. SB 146 did not pass.

**SB 168 - Gambling enterprises by Municipalities** (By Fahrenkamp) Also called the "historical gambling" bill, SB 168 authorizes municipalities largely dependent on tourism that have a past of "historical gambling", to conduct card, dice and roulette-type games after adopting a municipal ordinance ratified by a majority of the local voters. SB 169 did not pass.

**SB 176 - Auctions and raffles for bison harvest permits**  
(By Frank) Authorizes the Department of Fish and Game to permit a qualified organization to raffle off one bison harvest permit per year with a percentage of the proceeds earmarked for the Fish and Game Fund. Passed into law in 1989 (30 SLA 89).

**SB 263 - Video Gaming Devices** (By Pourchot) - Sponsor substitute for SB 263 creates the Alaska Gaming Commission and authorizes regulation of video gaming devices operated in premises licensed to serve alcohol. SB 263 did not pass.

**SB 311 - Establishing the Alaska Gaming Commission** (By Zharoff) - Establishes a five member commission, appointed by the Governor and confirmed by the Legislature, to regulate gaming in the state. SB 311 did not pass.

**SB 429 - Surety fund and bonding for operators** (By the Governor) Creates a surety fund that operators and other licensees pay into to protect charities in cases of insolvency or fraud. Would make it easier to become a licensed operator by reducing bonding costs. SB 429 did not pass.

**SR 17 - Forms of charitable gaming** (By Fischer) Asks the Department of Commerce and Economic Development to expand the types of gaming permitted organizations are allowed to conduct. SR 17 did not pass.

**House Bill 168:** "An Act licensing and regulating pull-tab vendors; authorizing sales of pull-tabs between pull-tab distributors; requiring the giving of notice if a charitable gaming activity location changes; amending the powers of the Department of Commerce and Economic Development to revoke and suspend charitable gaming permits and licenses; restricting the ability of owners, managers or employees of vendors and persons holding charitable gaming permits or licenses to purchase certain pull-tabs; authorizing the Department of Commerce and Economic Development to prohibit violations of the charitable gaming laws; relating to false statements in charitable gaming license and permit applications; relating to maximum annual prize awards; relating to the collection of the pull-tab tax; and providing for an effective date."

The Department of Commerce and Economic Development supports passage of HB 168.

We have some concerns we would like addressed in public testimony and they are so noted.

The proposed legislation in HB 168 by recognizing and setting standards for "third party vendors" will greatly aid in bringing stability and equality of enforcement to the charitable gaming industry.

The department was given responsibility for administration of the Alaska Gaming Reform Act in July of 1989.

Of major concern to the department has been the so-called "third party vendor" issue. Prior to January 1, 1991 and the issuance of the Attorney General's opinion of October 24, 1990, both permittees and operators used vendors (e.g., retail outlets, bars, restaurants) to sell pull-tabs on their behalf. That activity has stopped, except for a very limited basis. The concerns addressed below are directly related to the Bill Analysis and outlines what the department feels is minimally necessary to properly administer, license, and regulate vendors. For those sections that we feel need modifications, we have prepared draft language. Should legislation recognizing vendors as an authorized class not be passed this session, the emergency regulations adopted January 16, 1991 will be made permanent as well as those proposed regulations of November 6, 1990 on which we have already held public hearings. Vendors cannot be authorized by regulation to conduct gaming activity.

Section 4. AS 05.15.095. GENERAL PROVISIONS RELATING TO THE FILING OF APPLICATIONS AND REPORTS AND PAYMENT OF FEES.

We feel that subsection (a) should also be amended to include who may sign the vendor endorsement application and any other required documentation. This is an opportunity to technically clean up the existing Gaming Reform Act of 1988. We propose the following language:

AS 05.15.095(a) is amended to read:

(6) the owner or owner's agent of a retail establishment, an eating establishment, or an establishment licensed under AS 04.11.

Section 7. AS 05.15.180. LIMITATIONS ON AUTHORIZED ACTIVITY.

(g) This section would eliminate the prize awards limitation placed on permittees that contract with a licensed operator to conduct the gaming activities on their behalf and would make equal the allowable prize awards for both the permittee and operator. Prior to passage of the Gaming Reform Act of 1988, the prize limitation was set at \$200,000. The possibility exists that some operators might cut down on the number of charities they represent if they can make their profit goal from a smaller number of charities.

We recommend that the charities (permittees) have an opportunity for public testimony on this issue.

Section 12. AS 05.15.188. PULL-TAB SALES BY VENDORS ON BEHALF OF PERMITTEES AND OPERATORS; VENDOR ENDORSEMENT.

Subsection (d) allows a copy of the permit. To eliminate numerous infractions, the department now issues only site-specific permits or licenses. The word "copy" should be stricken. This section which was originally proposed by the department requires three separate permits or licenses in the instance of a permittee contracting with an operator who also contracts with a vendor. After consultation with the sponsor of HB 168, we suggest this is burdensome and costly for all parties and now believe only the vendor endorsement should be required to be posted at the vendor locations. Therefore, we propose the following language:

(d) The endorsement issued under (c) of this section is an extension of the permittee's or operator's privilege under AS 05.15.100 to conduct pull-tab sales. A vendor may not sell a pull-tab series until the endorsement for the new vendor location and the permit or license has been posted at the vendor location for which the endorsement was issued. The endorsement must be clearly visible to the gaming public.

Subsection (g) requires a written contract between the vendor and permittee or operator. However, it only allows that the department MAY inspect the contract.

The department proposes the following language:

(g) A permittee or operator that uses a vendor to sell pull-tabs on its behalf shall enter into a written contract with that vendor and a copy of the contract must be submitted to the department for approval. If the contract contains provisions that violate this chapter or the regulations adopted under it, the department may declare the contract void and refuse to issue a vendor endorsement for that location.

Subsection (i) requires that the contract between the vendor and permittee or operator must provide that the permittee or operator receive no less than 60 percent of the ideal net. It is conclusive that, where the permittee and vendor have entered into a contract, the permittee will receive no less than 60 percent of the ideal net. However, when a permittee contracts with an operator that uses vendors, the 60 percent of ideal net received by the operator is not required to be turned over in whole to the permittee. The operator is then allowed to deduct expenses from this amount and turn over the remaining proceeds to the permittee or simply pay the permittee the minimum 15% of adjusted gross receipts, with the operator retaining the balance as their operator fee. To safeguard the intent of the portion of proceeds that is received by the charity (permittee), we would encourage public testimony from the charities on minimum percentage they would earn if a "third party vendor" were used by the operator. We would endorse limiting the third party vendor to 30-35 percent. If the minimum percentage of adjusted gross receipts method is used, the department suggests 20 percent instead of the current 15 percent would be more appropriate.

At this time, the department also feels that the minimum 15 percent of adjusted gross income required to be paid to the permittee is insufficient for pull-tabs.

If this bill fails to pass this session, as SB 501 and HB 512 failed to pass last session, we will adopt proposed regulations accordingly and set expense limitations to ensure expenses are kept to a reasonable limit as provided by Alaska Statute 05.15.160..

As a whole, this bill may not address all the gaming issues the department has concerns with, but it would clearly authorize the use of vendors and provides the necessary authority for the department to implement those provisions.

  
Glenn A. Olds, Commissioner

Date: 3/5/91

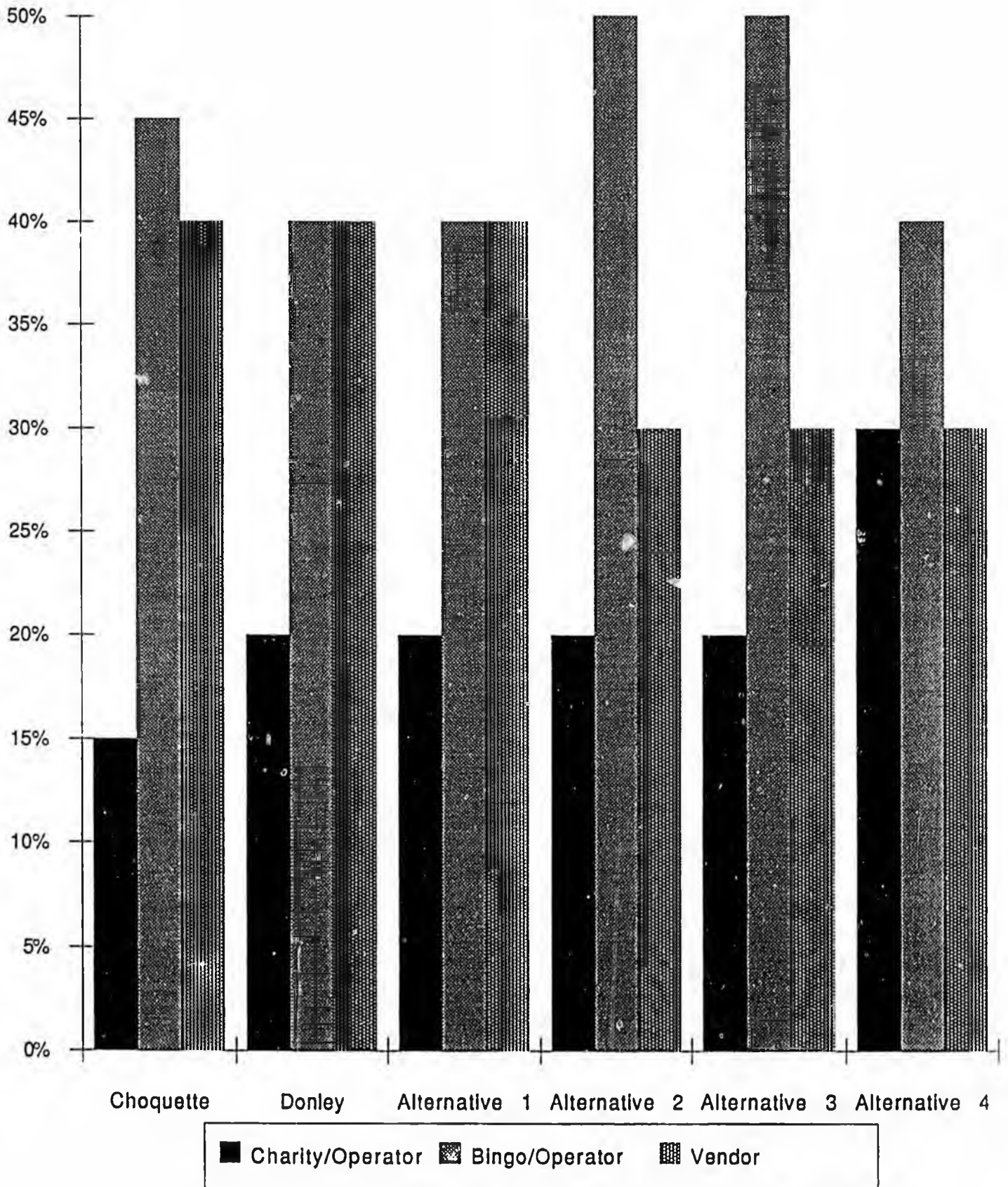
% GAMING BILL

	A	B	C	D	E	F	G	H
1	Charity/Operator	Charity/SD	Bingo/Operator	Rippie/Operator	Vendor			
2								
3	15%		45%		40%			
4	15%			45%	40%		CHOQUETTE	ORIGINAL
5		60%			40%			
6								
7								
8	20%		40%		40%			
9	50%			10%	40%			
10		60%			40%		DONLEY	AMENDMENT
11								
12	20%		40%		40%			
13	40%			20%	40%	ALTERNATIVES		
14		60%			40%			
15								
16	20%		50%		30%			
17	50%			20%	30%			
18		70%			30%			
19								
20	20%		50%		30%			
21	40%			30%	30%			
22		70%			30%			
23								
24	30%		40%		30%			
25	50%			20%	30%			
26		70%			30%			

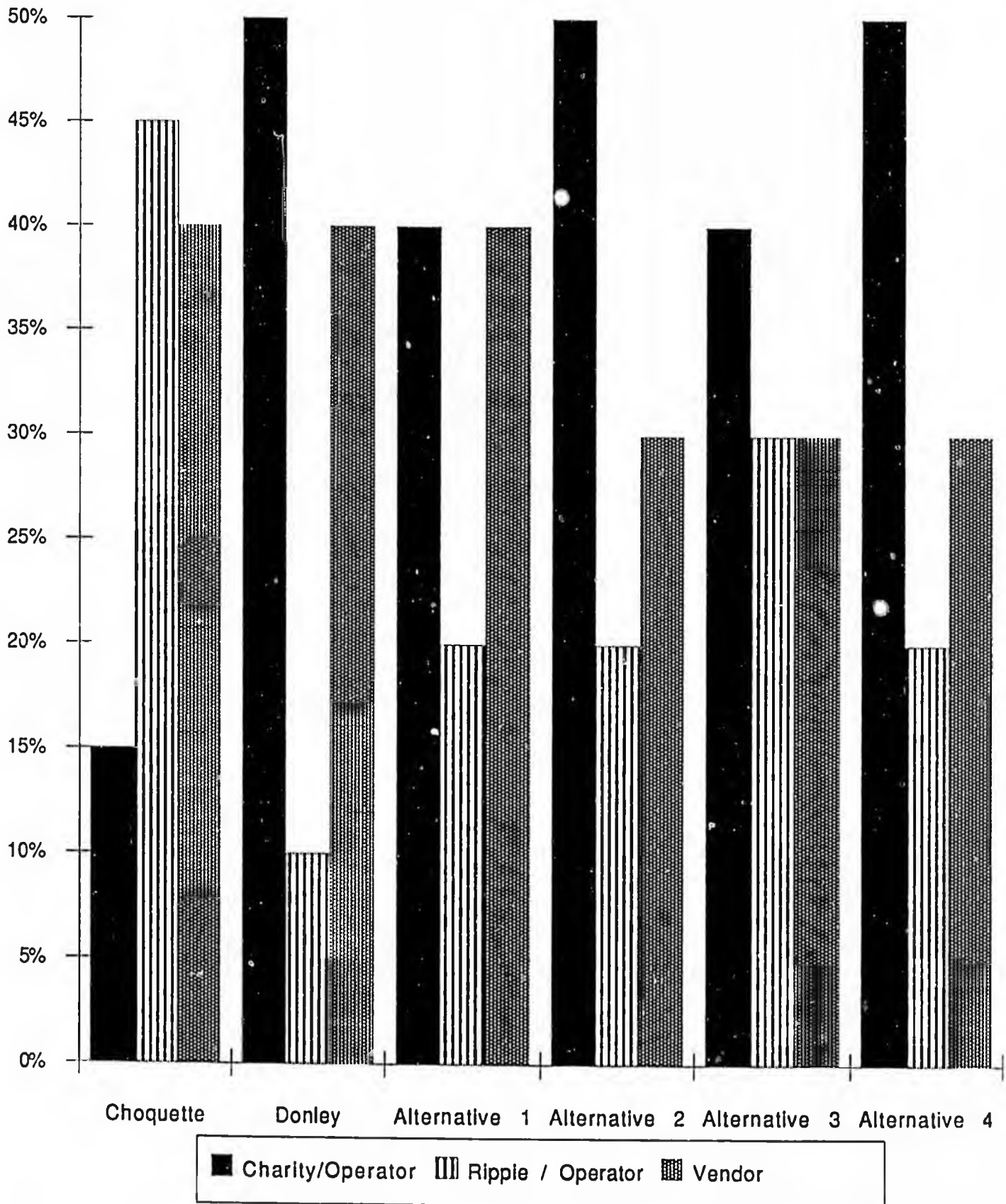
% GAMING BIL2

	A	B	C	D
1	Bill	Charity/Operator	Bingo/Oper.	Vendor
2	Choquette	15%	45%	40%
3	Donley	20%	40%	40%
4	Alternative 1	20%	40%	40%
5	Alternative 2	20%	50%	30%
6	Alternative 3	20%	50%	30%
7	Alternative 4	30%	40%	30%
8				
9		Charity/Operator	Rippie/Oper.	Vendor
10	Choquette	15%	45%	40%
11	Donley	50%	10%	40%
12	Alternative 1	40%	20%	40%
13	Alternative 2	50%	20%	30%
14	Alternative 3	40%	30%	30%
15	Alternative 4	50%	20%	30%
16				
17	Bill	Charity/Self Dir.	Vendor	
18	Choquette	60%	40%	
19	Donley	60%	40%	
20	Alternative 1	60%	40%	
21	Alternative 2	70%	30%	
22	Alternative 3	70%	30%	

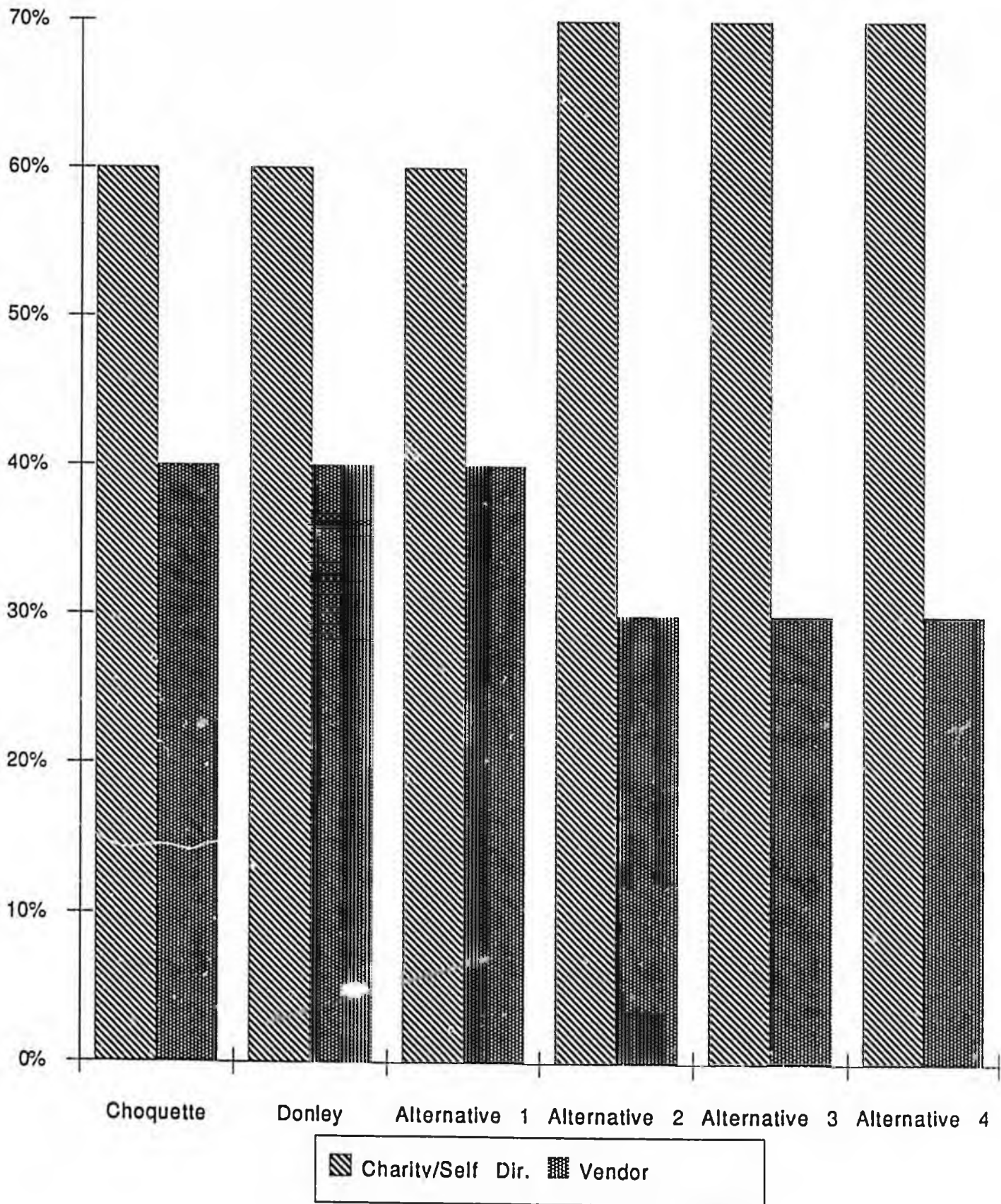
# Charities Using Bingo Halls



## Charities Using Ripple Stores



# Self-Directed Charities Using Vendors



### CALENDAR YEAR 1989

OPERATOR	GROSS RECEIPTS	PRIZES AWARDED	ADJUSTED GROSS INCOME	EXPENSES	OPERATOR FEE	NET PROCEEDS	# OF PERMITEES	BINGO	10 RAFFLES (DARTS)	11 PULL TABS	12 FISH DERBY	13
JOE NYQUIST	5876072.80	465820254	1217870.26	611970.28	413184.42	192715.56	11			✓		
JOHN BLOMFIELD	1761047 -	1310592 -	450455 -	512308 -	70160 -	67987 -	3			✓		
JAY HUNISON JR	4574822 -	3561415 -	1013407 -	61364854	14217510	25758336	10			✓		
EDWARD DILLEY	952166267	737097746	2150685.21	144567150	36521663	33979708	25		✓ (1)	✓		
BOB THOMAS	7084200 -	3854898 -	3229302 -	2081496 -	558074 -	589732 -	10			✓		
PETE KRAEMER	5537279.50	4653457 -	883822.50	766373.57	*	11744893	12	✓	✓	✓		
SUE GRIFFIN	16960378 -	13667221 -	3293157 -	2141782 -	332607 -	818768 -	27	✓	✓	✓		
DWIGHT MCBRIDE	2631174 -	2030929 -	600245 -	296006 -	214201 -	90338 -	5			✓		
STEVE CODPER	42466150	31982051	10484099	7534821	2949278	1073273	1			✓		
RUTH SHANNON	677195 -	527759 -	149436 -	98560 -	28461 -	22415 -	2			✓		
KEN DOLE	15500 -	25500 -	<9500 ->	110213	*	34875	1				✓	
SHIZUE RUEBEL	243443 -	20037850	4506450	26996.27	*	1606824	1			✓		

\*: OPERATOR FEE NOT SEPARATED OUT FROM OTHER EXPENSES

STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

**DEPARTMENT OF COMMERCE &  
ECONOMIC DEVELOPMENT**

P O BOX D  
JUNEAU, ALASKA 99811-0800  
PHONE: (907) 465-2534

*DIVISION OF OCCUPATIONAL LICENSING*

December 21, 1990

Dear Permittee/Operator:

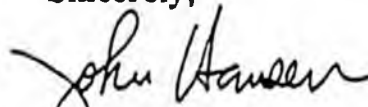
The Attorney General has advised the Department of Commerce and Economic Development, Division of Occupational Licensing, in an opinion dated October 24, 1990, that pull-tab sales by other than permittees and licensees are not authorized. The opinion holds that the department does not have authority to authorize vendor participation in pull-tab sales. Accordingly, this week the Department of Law notified the Division of Occupational Licensing's Gaming Section that permits or licenses are not to be issued by the department to, or for the use of, anyone except a qualified permittee or licensee.

Effective January 1, 1991, pull-tab sales at vendor locations may no longer occur. Therefore, on or before December 31, 1990, all unopened pull-tab games held by a vendor(s), and all pull-tab games in play at a vendor location, must be collected by the permittee or operator on whose behalf the pull-tab games are being conducted.

As of January 1, 1991, no pull-tab sales may occur at any location other than the licensed gaming premises of a permittee or operator. Gaming activity that occurs at any unlicensed premises or locations will be considered a violation of gaming statutes.

We very much regret this short notice and thank you in advance for your cooperation. A letter providing details regarding implementation of this directive will follow.

Sincerely,



John Hansen  
Gaming Program Manager

JH/lis9718s  
122190a

# STATE OF ALASKA

## DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

### DIVISION OF OCCUPATIONAL LICENSING

January 16, 1991

what parties can do  
Section F - upset  
WALTER J. HICKEL, GOVERNOR

P.O. BOX D  
JUNEAU, ALASKA 99811-0800  
PHONE: (907) 465-2534

Attention Charitable Gaming Permittees, Operators, and Distributors:

Re: Emergency Regulations  
Location of of Certain Gaming Activities

The Attorney General's office decision to halt vendor participation in the sale of pull-tabs raised a related question: Under what circumstances may a permittee which prefers not to contract with an operator, or an operator who uses retail outlets continue to utilize these locations to conduct its gaming activities?

Under current law, an organization granted a gaming permit may either conduct its gaming activities using its own employees or members or it may contract with an operator to conduct gaming activities on its behalf. For the past two years, however, both permittees and operators alike have utilized vendor locations and the vendors' employees to actually conduct gaming activities on their behalf. The Attorney General's recent action clarified that neither permittees nor operators may allow vendors or their employees to actually participate in the conduct of gaming activities (e.g., sell pull-tabs directly for an operator or a permittee).

In view of the AG's decision, a vendor and its employees can no longer be involved in any way in the actual conduct of a gaming activity. For our purposes, the term "vendor location" refers to any location or space not owned or leased exclusively by a permittee or operator for its permitted or licensed gaming activities.

Because permittees and operators rent or lease space from a variety of locations, including local municipal halls, local fraternal halls, other permittee-owned locations, as well as bars, restaurants, and other retail outlets, the department needed an answer to the question of where gaming activities could be conducted outside of permittee- or operator-owned and operated locations. Many different scenarios were presented to the department in the last two weeks, as permittees and operators sought licensure for their 1991 gaming activities. Because of the AG's opinion, before issuing permits, the department sought guidance from the Governor. Those questions have been answered and are now incorporated in the emergency regulations enclosed.