

ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672

11211 SENATE LABOR & COMMERCE

Becomes Mighty Engine," *Boston Globe*, February 9, 1997, p. A1.

²⁴ Committee on Government Regulations, Massachusetts General Court, "An Act Relative to the Operations of the State Lottery Commission and its Gaming Activities," 1997.

²⁵ Patricia A. McQueen, "Investing in Tomorrow," *International Gaming and Wagering Business*, January 1998, p. 48.

²⁶ Selling Hope, p. 11.

²⁷ Charles T. Clotfelter and Philip J. Cook, "Lotteries in the Real World," *Journal of Risk and Uncertainty*, Vol. 4, pp 227-232, 1991.

²⁸ Selling Hope, p. 188.

²⁹ Charles T. Clotfelter and Philip J. Cook, "Redefining 'Success' in the State Lottery Business," *Journal of Policy Analysis and Management*, Vol. 9, No. 1, 1990, p. 101.

³⁰ Ann Carnahan, "Lottery Analyzing Players' Brains," *Rocky Mountain News*, July 8, 1997, p. 5A.

³¹ Jeff Perlee, "Should Lotteries Advertise?" paper delivered to NASPL Directors' Conference, Wilmington Delaware, May 1997.

³² Selling Hope, p. 206.

³³ Ellen Perlman, "Lotto's Little Luxuries," *Governing*, December 1996, p. 18.

³⁴ Conversation with Michael Jones, former Director of the Illinois State Lottery, February 6, 1998.

³⁵ Selling Hope, p. 223

³⁶ Charles T. Clotfelter and Phillip J. Cook, "On the Economics of State Lotteries," *Journal of Economic Perspectives*, vol. 4, No. 4, Fall 1990, p. 112

³⁷ *Ibid.*, p.99

³⁸ Pamela Mobilia, "A Little Bit More Evidence of Lottery

Regressivity: The Kansas State Lottery," *Journal of Gambling Studies*, Vol. 8, No. 4, Winter 1992, p.361.

³⁹ Selling Hope, p. 241.

⁴⁰ Tim Novak and Jon Schmid, "Lottery Picks Split by Race, Income," *Chicago Sun-Times* June 22, 1997, p. 1.

⁴¹ Massachusetts Lottery Handout, February 1998

⁴² David M. Halbfinger and Daniel Golden, "the Lottery's Poor choice of Locations," *Boston Globe*, February 12, 1997, p. A1.

⁴³ Ibid.

⁴⁴ Daniel Golden and David M. Halbfinger, "Lottery Addiction Rises, and Lives Fall," *Boston Globe*, February 11, 1997, p. A1.

⁴⁵ R.D. Carr, J.E. Buchkoski, and T.J. Morgan, "'Video Lottery' and Treatment for Pathological Gambling: A Natural Experiment in South Dakota," *South Dakota Journal of Medicine*, January 1996, p. 31.

⁴⁶ Perlee, op.cit.

⁴⁷ Michale Jones, "Lotteries Must Strike Balance Between Letter of the Law and Unwritten Contract with Players," *Gaming Law Review*, Volume 2, No. 1, February 1998, p. 10.

⁴⁸ Daniel Golden and David M. Halbfinger, "Lottery Addiction Rises, and Lives Fall," *Boston Globe*, February 11, 1997, p. A1

⁴⁹ Ibid.

⁵⁰ Robyn Gearey, "The Numbers Game," *The New Republic*, May 19, 1997, p. 19.

⁵¹ Joe Gyan, Jr., "More Louisiana Youths Try Gambling than Drugs," [Baton Rouge, La.] *Advocate*, August 8, 1997; Lynn S. Wallisch, "Gambling in Texas: 1995 surveys of Adult and Adolescent Gambling Behavior," Texas Commission on Alcohol and Drug Abuse, August 1996, p. 78; Lyn bixby, "Lottery Pitch Seen as Luring Kids," *Hartford Courant*, October 23, 1997, p. A4.

⁵² Comment made to author, Boston, February 1998.

⁵³ Scott Harshbarger, Attorney General of the Commonwealth of Massachusetts, "Report on the Sale of Lottery Tickets to Minors in Massachusetts," July 1994, pp 3-4; Scott Harshbarger, Attorney General of the Commonwealth of Massachusetts, "Kids and Keno are a Bad Bet: A Report on the Sale of Keno Tickets to Minors in Massachusetts," October 1996, p. 1; Howard J. Shaffer, "The Emergence of Youthful Addiction: The Prevalence of Underage Lottery Use and the Impact of Gambling," Massachusetts Council on Compulsive Gambling, January 13, 1994, p. 9.

⁵⁴ David M. Halbfinger and Daniel Golden, "Charitable Games th Losers," *Boston Globe*, February 12, 1997, p. A22.

⁵⁵ Robyn Gearey, "The Numbers Game," *The New Republic*, May 19, 1997, p. 19.

⁵⁶ Daniel Golden, "Panel Blasts Lottery for Evading Cap," *Boston Globe*, December 30, 1997, p. A1.; Massachusetts Senate Committee on Post Audit and Oversight, "Gambling with the Public Trust," December 1997, p. i.

⁵⁷ David Warsh, "A Rising gorge," *Boston Globe*, March 4, 1997, p. D1.



FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: SB 178
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: _____
Title State Lottery BRU Revenue Operations
Component Tax Division
Sponsor Senator Taylor
Requester Senate Labor & Commerce Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	*	*	*	*	*	*
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FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2004) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time	*	*	*	*	*	*
Part-time	*	*	*	*	*	*
Temporary	*	*	*	*	*	*

Analysis: *DOR was not able to estimate the revenue and expenses associated with passage of this bill. The expense and revenue associated with a state lottery are contingent upon a number of factors including the type and number of games regulated. There is a great deal of variation among states in the type and number of games that their state lotteries administer. For example, the Montana state lottery administers the following four types of games: (1) instant games, (2) powerball, (3) tri-west lotto and (4) cash lotto, but the Oregon state lottery administers the following eight types of games: (1) instant games, (2) pull-tabs, (3) 4-digit, (4) lotto, (5) powerball, (6) keno, (7) sport pools and (8) electronic gaming. Please see attached analysis for some revenue/expenditure information from other states.

Prepared by: Brett Fried Phone 465-3682
Division Tax Date/Time 9/30/03 3:30 PM
Approved by: Steve Porter, Deputy Commissioner Date 9/30/2003
Agency Revenue

Revenue/Expenditures

Operating expenditures and revenues will vary from state to state depending on many factors including the number and type of games, size of maximum payoff, payoff percentage, state and local regulations, size of population, geography, population density, propensity to gamble, personal disposable income and history of gaming. For example, according to La Fleur's 2003 World Lottery Almanac, net income (total sales – prizes - expenses) to lotteries (excluding electronic gaming) varies between \$8 per person in South Dakota and Montana to \$140 per person in Massachusetts.

Even if it was possible to know the exact games that the Alaska State Lottery Corporation would choose, it would still be very difficult to estimate the operating expenses and revenue because of how hard it is to adjust for difference in demographic and socioeconomic characteristics. However, without knowing what type and number of games will be chosen, it is impossible to obtain any useful estimates.

Because South Dakota is the state closest to Alaska in total personal income (\$20.3 vs. \$20.7 billion) and very close to Alaska in population (761,063 vs. 643,786) it may represent the best proxy for gambling revenues in Alaska. In FY 2002 the net income to South Dakota from lottery games and instant tickets was \$6.3 million. This includes powerball (the most popular multi-state game), cash lotto (South Dakota's in-state lottery game) and instant tickets and other lottery games, but does not include electronic gaming machines. If we adjust for the number of potential players in Alaska then our after-prize income estimate would be \$10 million. If we then adjust expenses using the average annual pay differential from the Bureau of Labor Statistics then the total expense estimate for Alaska would be \$8.7 million. The Alaska lottery would then only generate an estimated net income of \$1.3 million. In addition, a lottery will have an effect on charitable gaming. This is particularly true of instant tickets that are very similar to pull-tabs. In fiscal year 2002 the state received \$2.5 million from fees and taxes levied on the charitable gaming industry. We expect that a lottery (particularly if it included instant tickets) would reduce this amount.

Of course there are states with higher per person lottery sales and it is possible that Alaska would be closer to the median powerball or instant ticket per person sales. Using the medians, the estimated net income to Alaska from instant tickets (\$7.0 million) and powerball (\$3.0 million) would then be closer to \$10 million a year. This estimate is probably high because it is skewed upwards by those states that attract cross-border traffic and does not account for higher costs in Alaska.

Alaska Synod of the Evangelical Lutheran Church in America

RESOLUTION TO 2003 ALASKA SYNOD ASSEMBLY

A resolution concerning: A commitment to oppose the legalization of gambling in the State of Alaska as a solution to the state's fiscal problems.

Whereas, as budget deficits loom over the governing of the State of Alaska; and

Whereas, expansion of legalized gambling, including lotteries and video poker, have been proposed as a way to help solve Alaska's fiscal problems; and

Whereas, proponents of gambling will promote it as a voluntary activity that does not unfairly impact people, and will generate great amounts of money for the state; and

Whereas, studies have shown that costs to society significantly exceed revenues generated; and

Whereas, the 1995 Evangelical Lutheran Church in America published study guide on the impacts of gambling on the community and the poor have shown that poor people spend a much larger proportion of their income on the lottery than do those in other income brackets; and

Whereas, the Final Report of the National Gambling Impact Study Commission of 1999 found that gambling addiction increases suicide, divorce, homelessness, domestic abuse and neglect; as well as increasing a society's costs – including job loss, unemployment and welfare benefits, poor physical and mental health; and

Whereas, legalized gambling seems to violate our strong commitment to progressive taxation – the idea that those who are better able to pay should bear a greater portion of public burdens; now, therefore be it

Resolved, That the Alaska Synod of the Evangelical Lutheran Church in America, meeting in assembly in Fairbanks on May 3, 2003, expresses its opposition to efforts to expand legalized gambling in the State of Alaska, as a solution to the state's fiscal problems.

Passed by a unanimous vote May 3, 2003.

Rev. Karen Sonray
Rev. Karen Sonray, Secretary



VOTE NO ON MEASURE 66

March 12, 1997: "Gambling in Oregon", Report of the Independent Study Committee formally affiliated with the City Club of Portland.

Executive Summary:

Oregon is addicted to gambling.

In less than two decades, the state has gone from being one where gambling activity was mostly illegal, to one where the level of gambling rivals that of Nevada. Revenue from state-sponsored gambling, once an incidental source of funds, is now second only to the income tax as a discretionary source of revenue for this state.

The presence of gambling in our state is not new, but the existence of a virtual state monopoly is relatively recent wrinkle in gambling's history in Oregon.

The purpose of the Lottery, as stated clearly in the original initiative, is to generate revenue in a manner that "is commensurate with the public good." What has never been made clear is what is the State's interpretation of that mandate as it relates to overall public policy. This lack of responsibility on the part of our elected officials has led to a host of associated problems; these problems are only compounded by the massive amount of revenues generated by the Lottery. Such problems include:

The presence of the state in actively promoting gambling, which presents a clear conflict of interest with respect to the role of the State in protecting the social, moral and material welfare of its citizens. The State should instead confine itself to a regulatory role in relation to gambling, with the understanding that any other involvement on the part of the State threatens to devolve into a classic case of 'the ends justifying the means.'

Oregon's increasing dependence on video poker revenues specifically, which statistics show to be by far the most addictive form of gambling currently legal in Oregon. A majority of state programs are already hostage to video poker revenues for their ongoing funding, and are therefore subject to a source of revenue which is prone to fluctuation from year to year, rendering precise budget forecasting impossible.

The seemingly "painless" money raised by state-sponsored gambling, which has allowed the Legislature to conveniently duck the greater issues surrounding

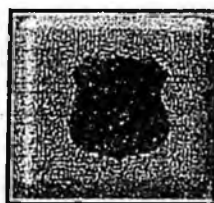
ne need to examine other sources of funding for the State; it cannot be only coincidence that the passage of both Measure 5 and Measure 47 have brought calls for an expansion of gambling products in Oregon..

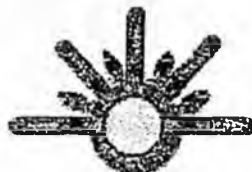
A marked increase in gambling addiction and related problems with no clear mandate to treat, let alone prevent, such tragedies. National research indicates that as many as 5% of our citizens are at risk of becoming gambling addicts, with all the attendant problems of increasing rates of embezzlement and other white collar crimes, as well as job losses and resulting family dysfunction and disintegration.

February 23, 1997: "Curbing a gambling habit", The Oregonian.

As we've said before, this growing reliance on state gambling to pay for key state services -- education, for example -- is irresponsible because it is a regressive tax on the gullible and because it invites the growth of the gambling industry in Oregon which is not the kind of economic development that will make Oregon a better place to live.

"It's ironic that the legislators who absolutely don't want to raise taxes on the people don't define this (gambling) as a tax ...I don't want to reach a point in this state where the need for more gambling drives social policy. " Governor John Kitzhaber





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Oregon Case Study

Relying on gambling revenue is not without its consequences for a state-consider Oregon. In 1991, the Oregon Legislature authorized the Oregon Lottery Commission to operate a state-run electronic gambling system with video lottery and draw poker machines throughout the state. The system was available to establishments that sell alcohol by the drink. In 1992, the Oregon Lottery started collecting revenue from the video lottery and draw poker machines.

In 1997, after a state task force noted its concerns about the social impact of gambling addiction, Oregon Governor John Kitzhaber issued a new policy framework to balance the state's use of gambling revenue with the "the public good."

The following are highlights of Governor Kitzhaber's revised gambling policy after just five years of experience with a system similar to one being considered by some legislators in Washington.

Governor Kitzhaber's Findings

- The legalization of video poker terminals resulted in greater dependence in the restaurant and bar business on video poker revenue.
- There are three categories of gambling "addiction" or dependency in Oregon:
 1. Gambling addiction among individuals.
 2. Dependence on lottery proceeds by certain retailer establishments.
 3. Dependence on lottery proceeds by the State of Oregon itself.
- It is not commensurate with the public good to increase addiction or dependency in any of these three categories.

Governor Kitzhaber's Recommendations

- Reduce gambling addiction among Oregonians by increasing funding for identification outreach, treatment and other measures.
- Reduce the dependence of retail establishments on lottery proceeds by tightening retailer commission regulations.
- Reduce the dependence of the State of Oregon on lottery proceeds with new laws to limit the use and expenditure of gambling revenue.
- Halt the expansion of the Oregon Lottery by prohibiting video line games and imposing a freeze on the number of lottery machines until the accompanying recommendations have been addressed.

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Katherine Fanning, Editor and Publisher, 1971-1983
Lawrence Fanning, Editor and Publisher, 1967-1971

OPINION

COMPASS: *Points of view from the community*

Real leaders seek real tax solutions

By THE REV. MICHAEL KEYS

As budget deficits loom over Juneau and other parts of Alaska, many are seeking easy solutions to difficult problems. A series of regressive and flat tax solutions — a first paycheck “head” tax, the elimination of the longevity bonus or the reduction of the Permanent Fund dividend — have been proposed, which target the working poor in ways that show justice, fairness and ability to pay have been abandoned. With reduced federal and state services because of program cuts, the working poor are being hit by a “perfect storm” of economic disaster.

Now gambling is proposed as an easy way to solve Alaska’s problems. Gambling promoters will parade the statistics showing how much money lotteries and video poker will generate for the state. “This is a voluntary activity,” they will proclaim, “therefore no one is unfairly impacted.” Yet, will we honestly evaluate the true costs to Alaska and the poor?

As a pastor, I have sat with many families devastated by the consequences of “playing” video poker, pull-tabs and lotteries. One study of gamblers in Iowa showed that the rate of compulsive gambling rose from 1.7 percent in 1989 (before casinos were introduced) to 5.4 percent of the adult population in 1995 (after several years of casino operation).

In 1995, the Evangelical Lutheran Church in America published a study guide on the impacts of gambling on the community and the poor (www.elca.org/dcs/gambling.html): “As studies have shown — including those conducted by lotteries themselves — poor people spend a much larger proportion of their income on the lottery than do those in middle- or upper-income brackets. In fact, recent studies suggest that the poor spend more on the



I challenge our representatives and the governor to not be seduced into easy solutions. Do not let Alaska promote values which contradict that which has made Alaska strong — virtues of thrift, hard work and responsibility.

lottery in absolute, not merely proportional, terms. If we conduct state lotteries principally because they raise public funds, then lotteries seem to violate our strong commitment to progressive taxation — the idea that those who are better able to pay should bear a greater portion of public burdens. At the very least, the costs of our common projects should not fall disproportionately on the poor.”

Those who argue for gambling are not honest about who is targeted. Lottery advertisers target the poor, preying on a sense of economic hopelessness, claiming to offer a real chance of financial success, promising to take you from “your street to easy street.” The odds for winning in state-sponsored gambling are often overstated by the promoters; lotteries generally pay out around 50 percent of the amount wagered. The E.L.C.A. study reports:

“Billboards and radio commercials focus on lower-income areas and markets, while ad campaigns and new games are timed to coincide with the release of government benefit checks. Lotteries are sold the same way as any other product: identify likely consumers, then stimulate their desire.”

When Attorney General John Ashcroft served in the U.S. Senate, he commented that communities embrace gambling

because they’re buying into a lie, a quick-fix mentality that results in bankruptcy, higher crime and personal destruction. Bishop William Morris of Nashville-United Methodist Church commented:

“There is no other way to say it. A lottery is an immoral means that balances our state budget on the backs of the poor. ... The church has no choice but to be involved. ... We believe gambling is a menace to society. We believe governments need to seek sources of funding that offer balanced, long-term solutions.”

Public officials should look at the wide range of concerns expressed by national religious leaders and denominations concerning state-sponsored gambling. I challenge our representatives and the governor to not be seduced into easy solutions. Do not let Alaska promote values that contradict those that have made Alaska strong — virtues of thrift, hard work and responsibility. Public officials need to be held accountable for the fiscal gap and the decisions about taxation. When the common good is at stake, the community should fund it. Regressive or flat taxes are not the solution, nor is promoting gambling. Real solutions require real leadership.

■ The Rev. Michael F. Keys is the pastor of Central Lutheran Church in Anchorage.

Legislative Hearing
Gambling Testimony
Rev.. Dennis B. Holway
October 1, 2003

My name is Dennis Holway. I am a United Methodist Superintendent and come to you on behalf of our Bishop, The Rev. Edward Paup, of the Portland Episcopal area, which includes the state of Alaska.

I want to submit a copy of an anti gambling petition that was passed by a unanimous vote at our statewide gathering this past June. It is a strong statement that shares much in common with the host of other mainline denominations that are opposing statewide gambling.

In addition I want to share a perspective on what I see as a potentially unhealthy pattern for dealing with the needs of those who will become victimized by statewide gambling and are thus forced to turn to and often become dependent upon state services.

As a person of faith I see our denomination's anti gambling stance a first step of compassion. One can easily make a case against gambling from the standpoint of ethics and even morality but I see our anti gambling stance as one of compassion.

Legislators are obviously looking for potential income for a dwindling state revenue. Gambling will provide additional revenue if these bills are passed, BUT at what price?

It is a reality that legalized gambling will have a downside, particularly among the poor who can least afford it. Those who suffer from addiction to gambling will eventually come back to the state for aid . . . for themselves and for their families. There is a price to pay.

But the state won't have the funds to adequately deal with such individuals so the state will "out source" them and their needs to the faith based communities and our services and programs because we are a people of compassion and we cannot turn our backs on the needs of fellow human beings.

I see the beginning of a de-humanizing cycle that can be stopped right here and now. To speak out against these two pieces of gambling legislation are the first steps of compassion . . . for all of us!

I ask that the Senate Labor and Commerce Committee consider standing with the faith community in opposition to these two pieces of potential legislation.

PETITION APPROVED BY THE 2003 ALASKA MISSIONARY CONFERENCE,

MAY 30 – JUNE 2, 2003

RESISTING FUTURE EFFORTS TO LEGALIZE EXPANDED GAMBLING IN
ALASKA

WHEREAS, the Social Principles of The United Methodist Church say, "Gambling is a menace to society, deadly to the best interests of moral, social, economic and spiritual life, and destructive of good government" (§163G, page 115 of the *Book of Discipline*); and

WHEREAS, The Social Principles of The United Methodist Church also call upon us to "promote standards and personal lifestyles that would make unnecessary and undesirable the resort to commercial gambling - as a recreation, as an escape, or as a means of producing public revenue or funds for support of charities or Government" (§163G, page 115 of the *Book of Discipline*); and

WHEREAS, the Final Report of the National Gambling Impact Study Commission - completed in 1999 recommends "...that states should not authorize any further convenience gambling operations and should cease and roll back existing operations" and "that jurisdictions considering the introduction of new forms of gambling or the significant expansion of existing gambling operations should sponsor comprehensive gambling impact statements"; and

WHEREAS, the Commission further recommends "that students should be warned of the dangers of gambling, beginning at the elementary level and continuing through college; and,

WHEREAS, the Commission found that gambling addiction increases suicide, divorce, homelessness, domestic abuse and neglect; as well as increasing a society's costs - including job loss, unemployment and welfare benefits, poor physical and mental health;

THEREFORE, the Alaska Missionary Conference of The United Methodist Church takes this strong stand in opposition to all legislative efforts to legalize electronic gaming machines (slot machines), a state lottery, or any other form of gambling in the hope of raising revenues and thereby placing the State of Alaska in the position of promoting gambling and its social costs; and

FURTHERMORE, we encourage all United Methodist and other faith communities in Alaska to provide educational opportunities for all age groups on the nature and hazards of legalized commercial gambling; and

FURTHERMORE, we encourage the Alaska Christian Conference and other faith groups in Alaska - as well as professional, business and political organizations - to join in a cooperative effort to resist future efforts to legalize expanded gambling in Alaska; and

FURTHERMORE, we request that copies of this resolution be mailed to the Governor and all members of the Alaska State Legislature, as well as other appropriate leaders in Alaska.

NATIONAL GAMBLING IMPACT STUDY COMMISSION - CHARTER

Authority

Congress authorized The National Gambling Impact Study Commission ("the Commission") on June 3, 1996 by Public Law 104-169. The Commission is subject to the standards and requirements of the Federal Advisory Committee Act (FACA), as amended, with respect to meetings, hearings, and availability of Commission records, and other matters.

Purpose and Function

The implementing statute for the Commission establishes it as an independent commission, which is not under the auspices of any executive agency, nor specifically controlled by the legislative or judicial branches of government.

The Commission must conduct a comprehensive legal and factual study of the social and economic impacts of gambling on (1) federal, state, local, and Native American tribal governments; and (2) communities and social institutions including the individuals, families, and businesses which compose them. At a minimum, the study should include the following:

1. A review of existing government policies and practices regarding legalizing and prohibiting gambling, including the costs of such policies and practices;
2. An assessment of the relationship between gambling and levels of crime, including existing enforcement and regulatory practices that address such relationship;
3. An assessment of pathological or problem gambling, including its impact on individuals, families, businesses, social institutions, and the economy;
4. An assessment of gambling's impact on individuals, families, businesses, social institutions, and the economy generally, including advertising's role in promoting gambling and gambling's impact on depressed economic areas;
5. An assessment of the extent to which gambling provides revenue to State, local, and Native American tribal governments and the extent to which possible alternative revenue sources may exist for such governments; and
6. An assessment of the interstate and international effects of electronic gambling, including the use of interactive technologies and the Internet.

The Commission must comprehensively report its findings and conclusions, together with its recommendations, if any, to the President of the United States, the United States Congress, the State Governors, and Native American tribal governments no later than two years after the date of its first meeting. The report shall include summaries of the material the Commission relied on in preparing the report including summaries of reports made by the Advisory Commission on Intergovernmental Relations and the National Research Council.

Structure and Meetings

The Commission consists of nine members appointed for the life of the Commission. The President of the United States, the Majority Leader of the Senate, and the Speaker of the House of Representatives each appoints three members to the Commission. These individuals are to consult among themselves, to the extent possible, to achieve a fair and equitable representation of the various points of view regarding those issues that the Commission will study.

Congress has authorized such sums as needed for the Commission to carry out its purposes and has to date appropriated four million dollars. Such funds are to remain available until expended.

The President, the Majority Leader of the Senate, and the Speaker of the House shall jointly designate the Commission's Chairman, who has the authority to call the initial and all subsequent meetings. Five Commissioners shall constitute a quorum to conduct official business, but the Commission may establish a lesser quorum to conduct hearings.

The Chairman has the authority to appoint and terminate an Executive Director and other such personnel necessary for the Commission to perform its duties. The appointment and termination of the Executive Director shall be subject to confirmation by a majority of the Commission's members. The Chairman also has the authority to utilize detailed government employees without reimbursement and to procure temporary and intermittent services.

The Commission shall have the power (1) to conduct hearings as it deems advisable to execute its duties; (2) to issue subpoenas to compel production of information from anywhere in the United States; (3) to issue subpoenas to compel oral or written explanations of materials obtained by subpoena; and (4) to secure information directly from any Federal department or agency.

Dated and Filed: June 15, 1997, Kay C. James, Chairman, National Gambling Impact Study Com.



Alaska State Legislature

Please enter into the record my testimony to the J & P Committee
 committee on Gambling committee name
 committee on SB 178 / SB 186 dated Oct 1, 2003
 bill/subject

I lived in the State of Florida when lottery was started. It was suppose to help with education funding. It hasn't helped much. After government corruption, more Gambling Anonymous chapters and other scams, I don't think you can successfully pull lottery^{off} without removing the human corruption part. If the State chooses to install lottery, please be very specific about what the revenues will go for, what the costs are estimated to be, etc. You will be opening Pandora's box so try to be careful what you are letting out. Please be prepared to accept some of the responsibilities for what you may unleash or don't do this at all.

Signed: Marci Schmidt - Marci Schmidt
 Test for

Representing (Optional)
2040 Wasilla Fishhook Rd, Wasilla 99654
 Address
357-3618 hm, 376-088 wk
 Phone No.

Alaska Synod of the Evangelical Lutheran Church in America

RESOLUTION TO 2003 ALASKA SYNOD ASSEMBLY

A resolution concerning: A commitment to oppose the legalization of gambling in the State of Alaska as a solution to the state's fiscal problems.

Whereas, as budget deficits loom over the governing of the State of Alaska; and

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Whereas, proponents of gambling will promote it as a voluntary activity that does not unfairly impact people, and will generate great amounts of money for the state; and

Whereas, studies have shown that costs to society significantly exceed revenues generated; and

Whereas, the 1995 Evangelical Lutheran Church in America published study guide on the impacts of gambling on the community and the poor have shown that poor people spend a much larger proportion of their income on the lottery than do those in other income brackets; and

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Resolved, That the Alaska Synod of the Evangelical Lutheran Church in America, meeting in assembly in Fairbanks on May 3, 2003, expresses its opposition to efforts to expand legalized gambling in the State of Alaska, as a solution to the state's fiscal problems.

Passed by a unanimous vote May 3, 2003.

Rev. Karen Sonray
Rev. Karen Sonray, Secretary



VOTE NO ON MEASURE 66

March 12, 1997: "Gambling in Oregon", Report of the Independent Study Committee formally affiliated with the City Club of Portland.

Executive Summary:

Oregon is addicted to gambling.

In less than two decades, the state has gone from being one where gambling activity was mostly illegal, to one where the level of gambling rivals that of Nevada. Revenue from state-sponsored gambling, once an incidental source of funds, is now second only to the income tax as a discretionary source of revenue for this state.

The presence of gambling in our state is not new, but the existence of a virtual state monopoly is relatively recent wrinkle in gambling's history in Oregon.

The purpose of the Lottery, as stated clearly in the original initiative, is to generate revenue in a manner that "is commensurate with the public good." What has never been made clear is what is the State's interpretation of that mandate as it relates to overall public policy. This lack of responsibility on the part of our elected officials has led to a host of associated problems; these problems are only compounded by the massive amount of revenues generated by the Lottery. Such problems include:

The presence of the state in actively promoting gambling, which presents a clear conflict of interest with respect to the role of the State in protecting the social, moral and material welfare of its citizens. The State should instead confine itself to a regulatory role in relation to gambling, with the understanding that any other involvement on the part of the State threatens to devolve into a classic case of 'the ends justifying the means.'

Oregon's increasing dependence on video poker revenues specifically, which statistics show to be by far the most addictive form of gambling currently legal in Oregon. A majority of state programs are already hostage to video poker revenues for their ongoing funding, and are therefore subject to a source of revenue which is prone to fluctuation from year to year, rendering precise budget forecasting impossible.

The seemingly "painless" money raised by state-sponsored gambling, which has allowed the Legislature to conveniently duck the greater issues surrounding

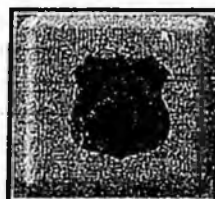
the need to examine other sources of funding for the State; it cannot be only coincidence that the passage of both Measure 5 and Measure 47 have brought calls for an expansion of gambling products in Oregon..

A marked increase in gambling addiction and related problems with no clear mandate to treat, let alone prevent, such tragedies. National research indicates that as many as 5% of our citizens are at risk of becoming gambling addicts, with all the attendant problems of increasing rates of embezzlement and other white collar crimes, as well as job losses and resulting family dysfunction and disintegration.

February 23, 1997: "Curbing a gambling habit", The Oregonian.

As we've said before, this growing reliance on state gambling to pay for key state services -- education, for example -- is irresponsible because it is a regressive tax on the gullible and because it invites the growth of the gambling industry in Oregon which is not the kind of economic development that will make Oregon a better place to live.

"It's ironic that the legislators who absolutely don't want to raise taxes on the people don't define this (gambling) as a tax ...I don't want to reach a point in this state where the need for more gambling drives social policy." Governor John Kitzhaber





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Oregon Case Study

Relying on gambling revenue is not without its consequences for a state-consider Oregon. In 1991, the Oregon Legislature authorized the Oregon Lottery Commission to operate a state-run electronic gambling system with video lottery and draw poker machines throughout the state. The system was available to establishments that sell alcohol by the drink. In 1992, the Oregon Lottery started collecting revenue from the video lottery and draw poker machines.

In 1997, after a state task force noted its concerns about the social impact of gambling addiction, Oregon Governor John Kitzhaber issued a new policy framework to balance the state's use of gambling revenue with the "the public good."

The following are highlights of Governor Kitzhaber's revised gambling policy after just five years of experience with a system similar to one being considered by some legislators in Washington.

Governor Kitzhaber's Findings

- The legalization of video poker terminals resulted in greater dependence in the restaurant and bar business on video poker revenue.
- There are three categories of gambling "addiction" or dependency in Oregon:
 1. Gambling addiction among individuals.
 2. Dependence on lottery proceeds by certain retailer establishments.
 3. Dependence on lottery proceeds by the State of Oregon itself.
- It is not commensurate with the public good to increase addiction or dependency in any of these three categories.

Governor Kitzhaber's Recommendations

- Reduce gambling addiction among Oregonians by increasing funding for identification outreach, treatment and other measures.
- Reduce the dependence of retail establishments on lottery proceeds by tightening retailer commission regulations.
- Reduce the dependence of the State of Oregon on lottery proceeds with new laws to limit the use and expenditure of gambling revenue.
- Halt the expansion of the Oregon Lottery by prohibiting video line games and imposing a freeze on the number of lottery machines until the accompanying recommendations have been addressed.



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Anchorage Daily News

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President and Publisher

Patrick Dougherty
Senior Vice President & Editor

Steve Lindbeck
Associate Editor

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Gerald E. Gilly, Publisher, 1984-1993

Katherine Fanning, Editor and Publisher, 1971-1983
Lawrence Fanning, Editor and Publisher, 1967-1971

OPINION

COMPASS: *Points of view from the community*

Real leaders seek real tax solutions

By THE REV. MICHAEL KEYS

As budget deficits loom over Juneau and other parts of Alaska, many are seeking easy solutions to difficult problems. A series of regressive and flat tax solutions — a first paycheck “head” tax, the elimination of the longevity bonus or the reduction of the Permanent Fund dividend — have been proposed, which target the working poor in ways that show justice, fairness and ability to pay have been abandoned. With reduced federal and state services because of program cuts, the working poor are being hit by a “perfect storm” of economic disaster.

Now gambling is proposed as an easy way to solve Alaska’s problems. Gambling promoters will parade the statistics showing how much money lotteries and video poker will generate for the state. “This is a voluntary activity,” they will proclaim, “therefore no one is unfairly impacted.” Yet, will we honestly evaluate the true costs to Alaska and the poor?

As a pastor, I have sat with many families devastated by the consequences of “playing” video poker, pull-tabs and lotteries. One study of gamblers in Iowa showed that the rate of compulsive gambling rose from 1.7 percent in 1989 (before casinos were introduced) to 5.4 percent of the adult population in 1995 (after several years of casino operation).

In 1995, the Evangelical Lutheran Church in America published a study guide on the impacts of gambling on the community and the poor (www.elca.org/dcs/gambling.html): “As studies have shown — including those conducted by lotteries themselves — poor people spend a much larger proportion of their income on the lottery than do those in middle- or upper-income brackets. In fact, recent studies suggest that the poor spend more on the



I challenge our representatives and the governor to not be seduced into easy solutions. Do not let Alaska promote values which contradict that which has made Alaska strong — virtues of thrift, hard work and responsibility.

lottery in absolute, not merely proportional, terms. If we conduct state lotteries principally because they raise public funds, then lotteries seem to violate our strong commitment to progressive taxation — the idea that those who are better able to pay should bear a greater portion of public burdens. At the very least, the costs of our common projects should not fall disproportionately on the poor.”

Those who argue for gambling are not honest about who is targeted. Lottery advertisers target the poor, preying on a sense of economic hopelessness, claiming to offer a real chance of financial success, promising to take you from “your street to easy street.” The odds for winning in state-sponsored gambling are often overstated by the promoters; lotteries generally pay out around 50 percent of the amount wagered. The ELCA study reports:

“Billboards and radio commercials focus on lower-income areas and markets, while ad campaigns and new games are timed to coincide with the release of government benefit checks. Lotteries are sold the same way as any other product: identify likely consumers, then stimulate their desire.”

When Attorney General John Ashcroft served in the U.S. Senate, he commented that communities embrace gambling

because they’re buying into a lie, a quick-fix mentality that results in bankruptcy, higher crime and personal destruction. Bishop William Morris of Nashville-United Methodist Church commented:

“There is no other way to say it. A lottery is an immoral means that balances our state budget on the backs of the poor. ... The church has no choice but to be involved. ... We believe gambling is a menace to society. We believe governments need to seek sources of funding that offer balanced, long-term solutions.”

Public officials should look at the wide range of concerns expressed by national religious leaders and denominations concerning state-sponsored gambling. I challenge our representatives and the governor to not be seduced into easy solutions. Do not let Alaska promote values that contradict those that have made Alaska strong — virtues of thrift, hard work and responsibility. Public officials need to be held accountable for the fiscal gap and the decisions about taxation. When the common good is at stake, the community should fund it. Regressive or flat taxes are not the solution, nor is promoting gambling. Real solutions require real leadership.

■ The Rev. Michael F. Keys is the pastor of Central Lutheran Church in Anchorage.

1/28/04

OVERVIEW:

WORKERS'

COMP.

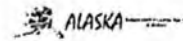


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Independent Insurance Agents
& Brokers

Workers' Compensation – A Brokers' Perspective

Lori K. Wing, CIC, CRM
President
Independent Insurance Agents and Brokers, Inc.
PO Box 112908
Anchorage, AK 99511-2908



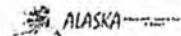
A Brokers' Perspective

Who do we work for –

- ✓ Employers (Our Clients)

Who do we work with –

- ✓ Employees (Claimants)
- ✓ Insurers (Suppliers)



WC and Employers

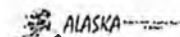
Statutory – Employers are required to provide WC for their employees.

Contractually – Many employers are required to provide WC, regardless if they are sole proprietors or not, to fulfill their contractual obligations. Most contracts provide that the WC insurer may not subrogate back against the owner of the project, property, etc.



Who is providing the Workers' Compensation policies?

- ✓ There are an estimated 400+ insurers that are filed to write Property and Casualty insurance in Alaska.
- ✓ Of those 400+ insurers approximately 100 are filed to write Workers' Compensation.
- ✓ Of those 100 approximately 15 *currently* write Workers' Compensation policies in Alaska.
- ✓ Of those 15 approximately 8 actually write Workers' Compensation policies in Alaska for employers not associated with a multi-state, national or international corporation or association.
- ✓ Of those 8 approximately 4 write in rural areas of Alaska.



WC Market Share – In 2002

Alaska National Insurance Company	41.1%
Commerce and Industry	10.3%
Liberty Mutual Fire Insurance Company	6.27%
Eagle Pacific Insurance Company	5.92%
Liberty Northwest Insurance Corp.	4.69%
Employers of Wausau	3.96%
Republic Indemnity Company of America	2.59%
Zurich American Insurance Company	1.72%
Alaska Timber Insurance Exchange	1.64%
Sae Farm Fire and Casualty Company	1.52%
American Interstate Insurance Company	1.47%
Ace Fire Underwriters Insurance Company	1.31%
American Home Assurance Company	1.20%
Umialik Insurance Company	1.16%
Lumbermen's Mutual Casualty Company	1.09%
Insurance Company of North America	.98%
Liberty Mutual Insurance Company	.97%
Tokio Marine and Fire Insurance Company	.83%
Sentry Insurance	.82%
North American Specialty Insurance	.78%
Total	90.29%

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WC Market Share – In 2002

Alaska National Insurance Company	\$88,457,000
Commerce and Industry	\$22,166,000
Liberty Mutual Fire Insurance Company	\$13,485,000
Eagle Pacific Insurance Company	\$12,729,000
Liberty Northwest Insurance Corp.	\$10,090,000
Employers of Wausau	\$8,514,000
Republic Indemnity Company of America	\$5,576,000
Zurich American Insurance Company	\$3,699,000
Alaska Timber Insurance Exchange	\$3,522,000
Sae Farm Fire and Casualty Company	\$3,266,000
American Interstate Insurance Company	\$3,155,000
Ace Fire Underwriters Insurance Company	\$2,814,000
American Home Assurance Company	\$2,573,000
Umialik Insurance Company	\$2,492,000
Lumbermen's Mutual Casualty Company	\$2,318,000
Insurance Company of North America	\$2,105,000
Liberty Mutual Insurance Company	\$2,086,000
Tokio Marine and Fire Insurance Company	\$1,785,000
Sentry Insurance	\$1,758,000
North American Specialty Insurance	\$1,686,000
Total	\$194,296,000

ALASKA

Why so few insurers?

Regardless of what type of Property and Casualty insurance an insurer may write, they are looking to:

- ✓ Meet minimum premium thresholds within the region (or state);
- ✓ Price competitively yet make a profit; and
- ✓ Cost effectively provide services to their insureds (i.e. claim administration and loss control).

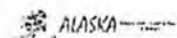
Most insurers do not feel they can accomplish this in Alaska.



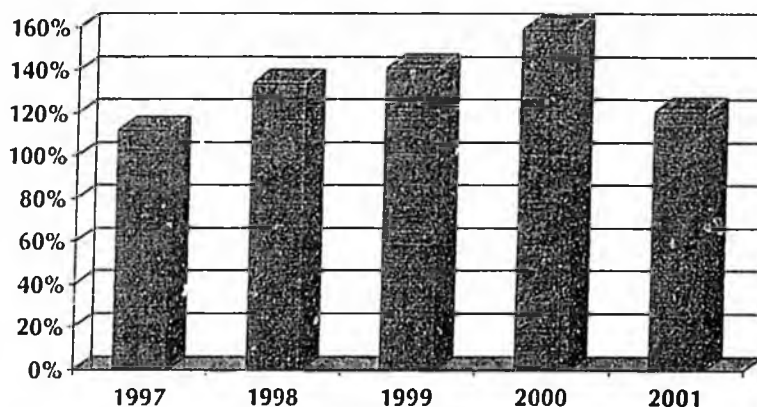
Why so few insurers writing WC?

Combined Loss Ratios – The sum of two ratios, one calculated by dividing incurred losses plus loss adjustment expenses by earned premiums and the other calculated by dividing all other expenses by written premiums.

Used in both insurance and reinsurance, a combined ratio below 100% is indicative of an underwriting profit.



Historical Alaska WC Combined Loss Ratios



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How, Why and What Happened

Soft Market: –

Since the early 1990s the insurance industry has been in a "Soft Market" and it became too soft.

- ✓ We forgot what we paid in the 1980s.
- ✓ We forgot what we paid in the 1990s.

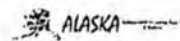
Based on the now known losses, insurers were under pricing their product. They were hoping to be competitive (write new business and retain existing business) and make up the under pricing with the return on their investments.

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And then came 2001

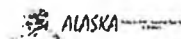
The worst year ever for the Property and Casualty insurance industry.

- ✓ \$7.9 billion net loss after taxes – 2001; as compared to
- ✓ \$20.6 billion in net income – 2000.



Events – September 11, 2001

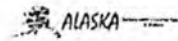
\$11 billion	Business Interruption
\$10 billion	Liability
\$6 billion	Property (Not WTC)
\$3.5 billion	Property (WTC)
\$3.5 billion	Aviation Liability
\$2.7 billion	Life Insurance
\$2 billion	Workers' Compensation
\$1 billion	Event Cancellation
\$500 million	Aviation Hull



Other Events and Inadequate Reserves

- ✓ Enron
- ✓ WorldCom
- ✓ K-Mart
- ✓ Tropical Storm Allison
- ✓ Tobacco
- ✓ Asbestos
- ✓ Adelfia
- ✓ Global Crossing
- ✓ ImClone
- ✓ Seattle Quake
- ✓ Pharmaceuticals
- ✓ Decline on Investment Income

All had an impact on the cost of reinsurance purchased by the insurers.



Add it all up.....

Under pricing of premiums – credits to insureds.

- + Rising medical and indemnity costs.
- + Catastrophic events impacting the reinsurance market.
- + Decline in investment income.

=

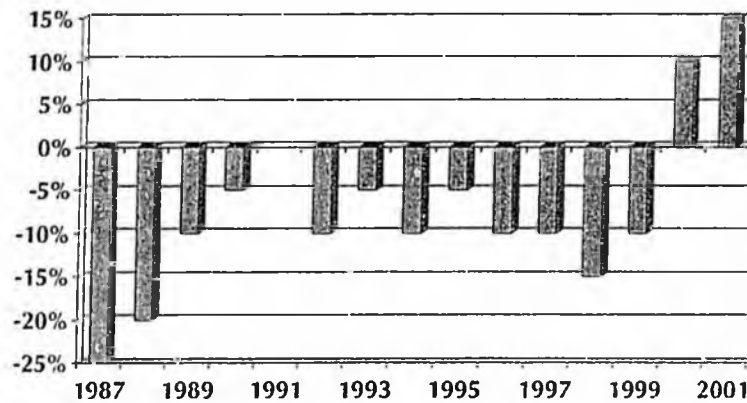


The Perfect Storm



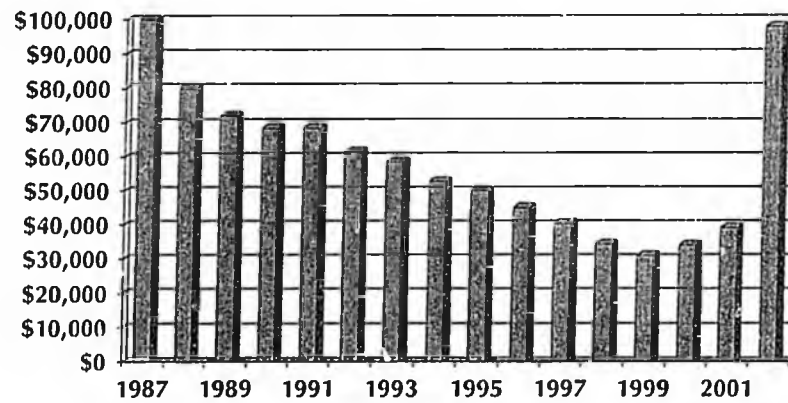
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Historic Property Rates



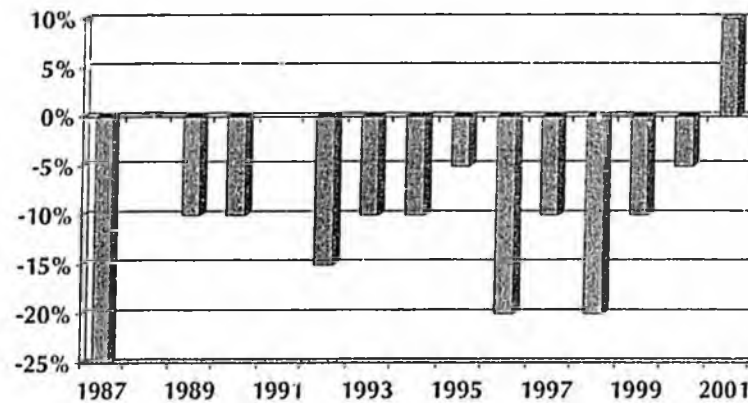
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Historic Property Premiums



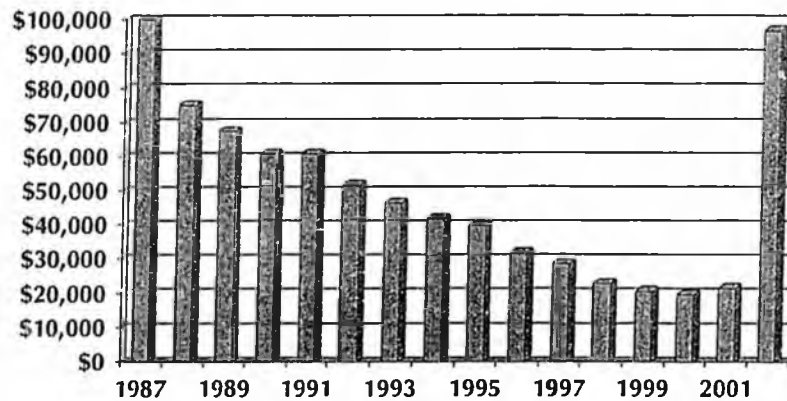
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Historic Casualty Rates



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Historic Casualty Premiums



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Cost of Workers' Compensation

Generally speaking, Workers' Compensation premium is the largest single cost in an insurance program.

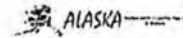
- ✓ Premium is developed off of actual payroll.
- ✓ Each job classification is assigned a Loss Cost.
- ✓ Subject to an Experience Modification Factor (credit or debit) which is based on the individual employer's loss record.
- ✓ May be subject to other rating factors (credit or debit).
- ✓ May be written as a guaranteed cost program or as a loss sensitive program.

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What makes up Loss Costs?

Loss Costs – The actual or expected cost to an insurer of Indemnity Payments (all compensable benefits as allowed by statute) and allocated loss adjustment expenses.

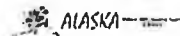
- ✓ Loss Costs do not include overhead costs or profit loadings.
- ✓ Historical loss costs reflect only the costs and allocated loss adjustment expenses associated with past claims.
- ✓ Prospective loss costs are estimates of future loss costs, which are derived by trending and developing historical loss costs.



Insurers and Loss Costs

Each insurer then adds to the advisory Loss Costs their expenses, including reinsurance, and profit.

- ✓ Loss Cost Multiplier Filings (LCMFs) are filed with the SOA by the individual insurers.
- ✓ This final figure (Loss Cost + Loss Cost Multiplier) is what employers will refer to as their "rate" per \$100 of payroll.
- ✓ LCMFs may range from 1.1 to 1.7+.

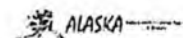


Predicting Loss Costs

As an industry, we have done a fairly good job of communicating to our clients and the public the impact of the rising cost of medical treatment.

- ✓ According to the *Agency for Health Care Policy and Research* medical costs have continued to increase an average of 5% to 7% each year since 1991.

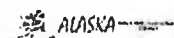
We have addressed the impact this has had on the ability for employers and employees to purchase health benefits (medical insurance) but not the impact it has on Workers' Compensation – which is subject to the same increases.



What are WC Indemnity Payments?


What constitutes Indemnity Payments to or on behalf of an injured employee:

- ✓ Medical Care – Which can be monitored but is unlimited if necessary (includes doctor's visits, surgery, prescriptions, physical therapy, etc.);
- ✓ Lost Wages – Based on the historical earnings of the injured employee;
- ✓ Impairment Rating – Based on the severity of the injury;
- ✓ Rehabilitation – Training program provided to injured employee that allows him/her to return to the work force in a new position; and
- ✓ Death Benefits.




Historical Look at Advisory Loss Costs

Class Code	1-99	7-00	1-01	1-02	1-03	1-04
8810	.37	.56	.56	.43	.48	.67
8832	.52	.84	.84	.65	.61	.91
9040	3.75	5.30	5.30	3.44	2.89	4.45
7380	3.44	5.34	5.34	4.55	4.46	5.60
8742	.49	.61	.61	.51	.54	.64
7520	2.61	3.85	3.85	3.69	3.76	4.28
5551	12.29	18.74	18.74	18.58	23.60	24.41

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WC Premium Computation 1999

Class Code	Classification	Estimated Annual Payroll	LC Per \$100	Estimated Annual Premium
8810	Clerical Office Employees	\$2,468,128	5.47	\$25,700
8832	Physician and Clerical	\$4,245,910	5.66	\$28,223
8833	Hospital - Professional Emp.	\$7,217,467	\$1.96	\$141,462
9040	Hospital - All Other Emp.	\$2,318,934	\$4.75	\$110,149
7380	Drivers, Chauffeurs	\$35,755	\$4.36	\$1,559
8742	Salespersons, Collectors	\$167,327	5.62	\$1,037
7520	Waterworks Operations	\$23,172	\$3.31	\$767
8810	Voluntary Compensation	\$5,000		\$5,000
	Subtotal	\$19,481,693		\$313,968
	Increased Limits - Employers Liab.		3.3%	\$10,352
	Subtotal			\$324,050
	Experience Modification Factor		.96	-\$12,962
	Estimated Premium Discount			-\$31,109
	TRIA			0
	Alaska Maritime			0
	Alaska Insurance Guaranty Assoc.		.2	\$5,735
	Total Premium			\$292,472

 ALASKA

WC Premium Computation 2000

Class Code	Classification	Estimated Annual Payroll	LC Per \$100	Estimated Annual Premium
8810	Clerical Office Employees	\$5,468,128	5.59	\$32,262
8832	Physician and Clerical	\$4,245,910	5.90	\$38,213
8833	Hospital - Professional Emp.	\$7,217,467	\$2.32	\$167,445
9040	Hospital - All Other Emp.	\$2,318,934	\$5.66	\$131,252
7380	Drivers, Chauffeurs	\$35,755	\$5.70	\$1,088
8742	Salespersons, Collectors	\$167,327	5.65	\$950
7520	Waterworks Operations	\$23,172	\$4.10	\$767
8810	Voluntary Compensation	\$5,000		\$5,000
	Subtotal	\$19,481,693		\$378,248
	Increased Limits - Employers Liab.		3.3%	\$12,482
	Subtotal			\$390,730
	Experience Modification Factor		.96	\$15,629
	Estimated Premium Discount			-\$37,510
	TRIA			0
	Alaska Maritime			0
	Alaska Insurance Guaranty Assoc.		.2	\$6,887
	Total Premium			\$351,235

WC Premium Computation 2002

Class Code	Classification	Estimated Annual Payroll	LC Per \$100	Estimated Annual Premium
8810	Clerical Office Employees	\$5,468,128	\$0.68	\$37,183
8832	Physician and Clerical	\$4,245,910	\$1.02	\$43,308
8833	Hospital - Professional Emp.	\$7,217,467	\$2.34	\$168,889
9040	Hospital - All Other Emp.	\$2,318,934	\$1.40	\$125,222
7380	Drivers, Chauffeurs	\$35,755	\$7.14	\$2,553
8742	Salespersons, Collectors	\$167,327	5.80	\$1,339
7520	Waterworks Operations	\$23,172	\$5.79	\$1,342
8810	Voluntary Compensation	\$5,000		\$5,000
	Subtotal	\$19,481,693		\$384,836
	Increased Limits - Employers Liab.		3.3%	\$12,700
	Subtotal			\$397,535
	Experience Modification Factor		.96	\$15,901
	Estimated Premium Discount			-\$38,163
	TRIA			0
	Alaska Maritime			\$133
	Alaska Insurance Guaranty Assoc.		.2	\$7,005
	Total Premium			\$357,211

WC Premium Computation 2003

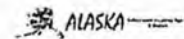
Class Code	Classification	Estimated Annual Payroll	LC Per \$100	Estimated Annual Premium
8810	Clerical Office Employees	\$5,468,128	\$0.83	\$45,385
8832	Physician and Clerical	\$4,245,910	\$1.05	\$44,582
8833	Hospital - Professional Emp.	\$7,217,467	\$2.86	\$206,420
9040	Hospital - All Other Emp.	\$2,318,934	\$4.97	\$115,251
7380	Drivers, Chauffeurs	\$35,755	\$7.67	\$2,742
8742	Salespersons, Collectors	\$167,327	\$9.3	\$1,556
7520	Waterworks Operations	\$23,172	\$6.47	\$1,499
8810	Voluntary Compensation	\$5,000		\$5,000
	Subtotal	\$19,481,693		\$422,446
	Increased Limits - Employers Lab.		3.3%	13,940
	Subtotal			\$436,376
	Experience Modification Factor		.96	-\$17,455
	Estimated Premium Discount			-\$41,892
	TRIA			\$6,624
	Alaska Maritime			\$133
	Alaska Insurance Guaranty Assoc.		.2	\$2,676
	Total Premium			\$391,462

WC Premium Computation 2004

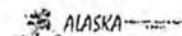
Class Code	Classification	Estimated Annual Payroll	LC Per \$100	Estimated Annual Premium
8810	Clerical Office Employees	\$5,468,128	\$1.16	\$63,430
8832	Physician and Clerical	\$4,245,910	\$1.57	\$66,661
8833	Hospital - Professional Emp.	\$7,217,467	\$3.43	\$247,559
9040	Hospital - All Other Emp.	\$2,318,934	\$7.70	\$178,558
7380	Drivers, Chauffeurs	\$35,755	\$9.69	\$3,465
8742	Salespersons, Collectors	\$167,327	\$1.10	\$1,841
7520	Waterworks Operations	\$23,172	\$7.40	\$1,715
8810	Voluntary Compensation	\$5,000		\$5,000
	Subtotal	\$19,481,693		\$568,228
	Increased Limits - Employers Lab.		3.3%	\$23,479
	Subtotal			\$591,707
	Experience Modification Factor		.96	-\$23,479
	Estimated Premium Discount			-\$56,349
	TRIA			\$6,624
	Alaska Maritime			\$133
	Alaska Insurance Guaranty Assoc.		.2	\$10,278
	Total Premium			\$524,186

But in Alaska – we have our own issues to contend with

- ✓ The cost of medical treatment is high – particularly when medivacs are involved.
- ✓ Indemnity benefits are higher than in other states.
- ✓ Employees are permitted to chose their own physician and, in some cases, type of treatment.
- ✓ The Board is viewed as bias towards the employee.
- ✓ Lack of insurers which does not provide for any market competition – unhealthy marketplace.
- ✓ Employers do not feel that they have any rights under the statutes as respects compensability of claims.
- ✓ Others.....

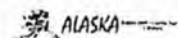


Continuing to increase Loss Costs and Loss Cost Multipliers is not the long term solution.



What will make a healthy marketplace?

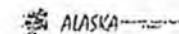
- ✓ Adequate Loss Costs and Loss Cost Multipliers that will attract other insurers (at least keep the ones we have) to Alaska yet not allow for credits that will jeopardize the marketplace.
- ✓ A financially stable association (Alaska Insurance Guaranty Association) with the ability to adequately assess for the needed funding yet provide benefits to injured employees on behalf of the employers in the event of an insurer insolvency.
- ✓ A system that allows for the employer to meet the statutory requirements yet remain competitive within his/her industry.
- ✓ A system that allows for the employer and/or insurer to negotiate preferred provider agreements and direct medical treatment when it is not disadvantageous to the employee.
- ✓ A system that allows for the employer, insurer and the employee to dispute fraudulent claims or fraudulent claim practices.



Industry Reaction

- ✓ The only mechanism we have available to us is to increase the Loss Cost and the Loss Cost Multipliers.
- ✓ We have not had the ability, we have not had the support to tackle the issue for what it is.

We need your support in implementing viable solutions that will create a healthy competitive marketplace that supports the employers and the insurers while addressing the needs of the injured employees.



Workers Compensation Update/Review

Wednesday, January 28, 2004
Joint Labor and Commerce Committee meeting
4pm, Senate Finance Room

Presenters:

Linda Hall: Director, Division of Insurance

Paul Lisankie: Director, Division of Workers
Compensation

Lori Wing: President, Alaska Independent
Insurance Agents and Brokers Assn.

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A New Direction



Protecting Workers' Compensation Insurance and Alaska Businesses

In the 2004 Legislative Session Governor Frank H. Murkowski will introduce two bills to help address a national crisis that has affected workers' compensation insurance in Alaska. The aim of the bills is to protect Alaskan workers and Alaskan businesses.

What is workers' compensation insurance and why is it required by the state?

Workers' compensation insurance was put into place to assure speedy payment of medical bills and lost wages in case of an on-the-job injury. In addition, workers' compensation insurance is considered to be an "exclusive remedy" – meaning the employee gives up the right to file a lawsuit against the employer and in return an employee gets lost wages and medical treatment without having to prove fault. Every state requires this type of insurance because it is in the best interest of both workers and employers.

Why is there a problem with workers' compensation insurance in Alaska?

In July 2003, the Alaska Insurance Guaranty Association learned that California-based Fremont Indemnity Company was declared insolvent by the Los Angeles Superior Court and was put into liquidation. Fremont became one of 41 insurance carriers in California that have either gone into insolvency or voluntarily pulled out of the California market to avoid insolvency after deregulation of the market in 1995. Fremont was a significant writer of workers' compensation insurance in Alaska prior to 2001, when the Alaska Division of Insurance suspended its authority to write insurance coverage. Even though the company had not actively written insurance policies for more than two years, when the company was declared insolvent there were more than \$60 million in claims and claims reserves still outstanding.

How did the Fremont failure impact Alaska?

The Alaska Insurance Guaranty Association is an association formed under Alaska statute whose members are insurance companies with approval to write both property and casualty insurance in Alaska. The association's purpose is to "minimize financial loss to claimants or policyholders because of the insolvency of an insurer." The association pays the claims of insurance companies that are put into liquidation by insurance regulators through assessments. The law places a cap of two percent (2%) on the amount each company is assessed for premiums it writes each year. Currently, the assessment on workers compensation premiums generates about \$4.2 million each year. But because the Fremont insolvency surpassed the magnitude of any prior insurance insolvency in Alaska's history, it exceeded the resources of the Association and created a substantial deficit. Alaska law allows the Alaska Insurance Guaranty Association to pro-rate the amount it pays on claims based on the funds available. But to do so would place a financial burden on workers who filed compensation claims and would also place a burden on businesses that paid for insurance in good faith, thinking their workers would be covered only to find they are themselves responsible for the claims or even worse threats of large lawsuits.

How can the state help workers and businesses?

The Murkowski administration has proposed a four-part approach to help both workers and businesses in this unfortunate situation. The administration's bills include the following provisions: funding measures that will help the Association continue to pay workers' compensation claims; reforms to statutory deposit requirements that should provide an additional source of claims payments in the future; granting authority to the Department of

Labor to meaningfully sanction employers that refuse to buy workers compensation insurance; and restructuring the Workers Compensation Board in a way that will bring quick, fair and consistent resolution of claims. These changes to current law should benefit employers and employees alike.

Was the state to blame for the failure of the insurance company?

No. Unfortunately, in the last three years there have been 43 property and casualty insurance company insolvencies in the United States. The higher cost of claims has been cited as one reason these companies have failed. Three other workers' compensation insurance companies serving Alaska besides Fremont – Paula Insurance of California, and Reliance and Legion Insurance Companies from Pennsylvania- also failed in this same time frame. However, the administration recognizes that the state must take steps to protect workers and businesses in the future.

Why did the state approve the rate increases businesses must pay for workers' compensation insurance?

Once every year the rates for workers' compensation insurance are reviewed by a national organization called the National Council on Compensation Insurance. The National Council looks at both historical data on the cost of compensation claims and looks at "trending data" to project forward losses. Since 1988, the last time there was a significant rise in costs to employers, there were actually nine years when the state had rate decreases, two years when rates were flat, and five years when rates were increased. State statutes give the state the authority to approve or modify the rates set by the National Council on Compensation Insurance and require that rates be "neither inadequate, excessive, or unfairly discriminatory." The state does its own analysis of information to insure the rates charged meet the statutory standards. Because of escalating medical costs, the cost of claims has significantly increased and the rates charged did not keep pace, leading to the tough decision to approve the increase in workers' compensation rates charged to employers an average of 21.2 percent. Of the 580 classes of employees, 30 will receive rate decreases while 17 classifications will experience rate increases over 50%. While the administration recognized this would have a significant impact on employers, it would have been irresponsible not to allow insurers to increase rates charged based on the consequences to employers and workers of not having a favorable insurance climate in Alaska.

Why would not raising rates have been irresponsible?

If the rates charged to Alaskan businesses are not adequate, many insurance companies might refuse to do business in Alaska. Since the law requires workers compensation insurance, failure to have a state climate that attracts a number of insurers actually puts workers and especially small businesses at greater risk. In addition to rate decreases in the mid-1990s, the decade also saw significant price-cutting by insurers in order to attract business. Fremont was one of the major companies that cut prices, a factor leading to its insolvency.

By raising rates are you putting the burden for insurance company problems on local businesses?

That is exactly why the Murkowski administration is proposing two bills to address workers compensation insurance problems in Alaska. The administration believes that additional legislation is important because it isn't fair to just increase costs to employers. The system needs other modifications to make the workers compensation insurance system work better, and eventually to be able to decrease insurance costs. Besides a proposal to use various methods of funding Guarantee Association costs, the changes proposed include:

- Change the cost of living allowance for out-of-state workers to keep them on parity with in-state workers, thereby decreasing the cost of insurance;
- Increase statutory deposits required from insurance companies;
- Modify and streamline the appeals process to protect the rights of injured workers and their employers.
- Mandate that workers compensation assigned risk pool be self-funding.

Do the Murkowski administration proposed changes go far enough?

The administration believes that the changes it has proposed to the Legislature address both the short term and the long-term problems of Alaskan workers and businesses. The goal of its proposed legislation is to address the immediate need to continue to pay claims without having to pro-rate benefits to injured workers or assess employers for the costs and to improve the workers compensation environment in Alaska in order to mitigate problems of this magnitude from occurring in the future.



Workers' Compensation Rating Guide



State of Alaska
Department of Community
and Economic Development

DIVISION OF INSURANCE

Workers' Compensation Rating Guide

June 1999

State of Alaska
Department of Community
and Economic Development

DIVISION OF INSURANCE

Tony Knowles
Governor

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Commissioner

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Director

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The Alaska Division of Insurance has prepared this guide to help Alaskan employers understand some of the basics of workers' compensation insurance.

Alaska laws require that most employers provide workers' compensation benefits for their employees in case of injury or death on the job. These benefits include payment of all medical expenses (nurses' and doctors' fees, hospital charges, medicine, transportation to nearest medical facilities, burial expenses, and death benefits) and compensation for lost wages. The weekly rate for compensation for disability or death is determined by the state legislature and written in statute. This section of the law is administered by the Division of Workers' Compensation in the Department of Labor. Questions requiring an explanation of benefit amounts, payments, or other claims related issues should be addressed to the Division of Workers' Compensation.

Employers may comply with the law to provide workers' compensation benefits either by purchasing workers' compensation insurance from an insurance company authorized to provide this coverage in Alaska or by furnishing the Division of Workers' Compensation with proof of the employer's ability to pay the required benefits directly to the injured worker. The Division of Insurance regulates the insurance companies authorized to provide workers' compensation insurance in Alaska.

This booklet explains how insurance companies determine the premium charge for a workers' compensation insurance policy, and it provides information to assist in settling disputes between the employer and the insurance company over the amount of the premium. Questions regarding the costs of your insurance policy or actions by your insurance company should be addressed to the Division of Insurance.

This booklet does not provide information on determining whether or not an employer needs to provide workers' compensation coverage, nor does it provide help for filing claims or resolving disputed claims. Requests for exemptions for corporate officers and other questions regarding coverage requirements, benefits and claim settlement should be addressed to the Division of Workers' Compensation.

The Division of Workers' Compensation may be contacted at:

P.O. Box 25512
Juneau, AK 99802-5512
(907) 465-2790

Risk Sharing



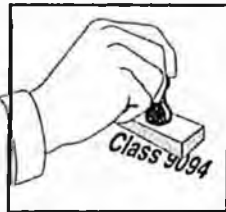
Insurance is the sharing or transferring of risk or uncertainty of financial loss. When an employer purchases workers' compensation insurance, the employer transfers the risk that one of his or her employees will become injured on the job to an insurance company who is willing to assume this unknown risk for a fee, called the premium. This benefits both the employer and the employee. The employer exchanges an unknown risk and possibility of large medical expenses for a known premium amount.

The employee knows that in case of on-the-job injury, the employee's expenses will be paid for by the insurance company.

Many employers may never have to use the workers' compensation insurance that state law requires them to purchase. This does not mean that only those employers whose employees are injured benefit from the mandatory insurance requirement. Employers who have good safety records also benefit since the possibility of large financial loss is eliminated. A single, large claim has the potential to financially ruin a small business. When an employee receives workers' compensation benefits, the employer is protected from lawsuits relating to injuries occurring in the workplace.

Classification

The Business Is Classified



The single most important factor which determines an employer's workers' compensation premium is the classification assigned to the employer. There are approximately 800

different classifications listed in the National Council on Compensation Insurance, Inc. (NCCI) Scopes of Basic Manual Classifications, a publication which provides detailed descriptions of each classification. A copy of this manual may be purchased from the National Council on Compensation Insurance, Inc., Products and Services, 750 Park of Commerce Drive, Boca Raton, Florida 33487, (800) 622-4123.

The workers' compensation classification system is designed to group employers with similar risk characteristics. Each classification should be as homogeneous as possible, and at the same time be large enough to provide reliable indications of future losses. For this reason, the workers' compensation classification system is based on the business of the employer, not the individual employees within the business. An employer is assigned to the classification that best describes the normal business conducted by that employer.

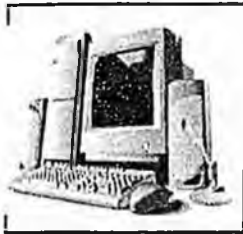
There are several reasons for assigning classifications by business rather than by individual occupations within the business.

1. Although the individual employee receives the benefits of the workers' compensation insurance, it is the business which purchases the

insurance and, therefore, the business is the insured.

2. The employer is responsible for all workers' compensation benefit payments, regardless of fault. By law, it is the employer who is liable for all costs, so employees are classified by the business of the employer rather than by their individual duties.
3. Classifying the business rather than the individual employees helps to promote safety. Safety programs sponsored by an industry or trade association may lower the number of accidents occurring among employers in that industry. When the safety records of employers in a classification improve, the rates for the classification tend to go down. If these same employers were to be spread out among several different classifications based on individual occupations within the business, the improved safety record of the industry may be diluted by the experience of employers in other industry groups who do not use the safety program.
4. Similar types of business have similar exposure to occupational injury. Since sharing of risk is the underlying premise for insurance coverage, grouping employers by type of business rather than individual employee occupations provides a means of predicting the cost to insure that type of business. If classification was done by individual duties, comparison of the risk by industry would not be possible.

Standard Exceptions



There are a few occupations which are common to many types of businesses for which special classifications have been established.

These special classifications are: Clerical Office Employees; Clerical Telecommuter Employees; Drafting Employees; Drivers, Chauffeurs and their Helpers; and Salespersons, Collectors or Messengers — Outside employees who fit into these categories are classified by occupation rather than by the type of business in which they are employed.

General Exclusions



There are a few occupations which are so unusual that they are not assigned the classification of the business in which they are employed. The

occupations which are excluded from the classification assigned to the business are: Aircraft Operation; New Construction or Alterations By the Insured's Employees; Stevedoring; Sawmill Operations; and Employer-Operated Day Care Service.

Assigning Classifications



Each classification includes all of the occupations found in a business. The classification which best describes the business of the employer is the classification

assigned to the business. The exceptions

are those occupations which are listed above, either as standard exceptions or as general exclusions.

For example, a business which provides guides for hunting or fishing trips is assigned to Class 9094. Suppose this business employs three guides. One of the guides is also employed as a pilot to transport guests and the other two guides also have cooking and housekeeping duties. A fourth employee is a clerical worker. The guide who is the pilot is not rated in Class 9094, since his or her occupation is one of the general exclusions. The pilot is assigned to Class 7422, Aircraft or Helicopter Operation. The clerical worker is one of the standard exception classifications and is assigned to Class 8810, Clerical Office Employees. The remaining two guides, are assigned to the business class code 9094, Outdoor Guide Services.

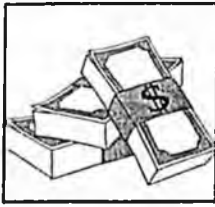
Another example is a restaurant which has ten employees: two cooks, one busboy, three waiters or waitresses, a maitre d', a bookkeeper, a manager, and a musician to entertain its customers. The bookkeeper is assigned to Class 8810, Clerical Office Employees. All the remaining employees are assigned to Class 9079, Restaurant.

Determining the Premium



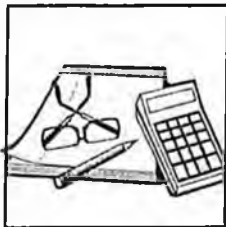
After the business has been assigned to the correct classification, the insurance company will calculate the estimated premium to be charged for the policy. The estimated premium is determined by multiplying the anticipated annual payroll of the business by the rate for the classification to which the business is assigned.

Premium Discount



Policies with larger premiums do not require the same percentage of the premium to be allocated to insurer expenses, such as policy acquisition and other administrative costs to place the policy on the insurer's books. To recognize the non-proportional nature of these expenses, insurers apply a discount to policies generating premium over a specified size. This is analogous to discounts given to purchasers of large quantities of manufactured goods where the price per item is less for multiple items than if only one item is purchased. Generally, a policy developing a total premium of over \$10,000 is eligible for premium discounts, although the eligibility level may vary by insurer.

Minimum Premium



The premium an insurance company charges for a workers' compensation policy must be sufficient to cover the costs associated with issuing the policy as well as costs associated with the transfer of risk from the employer to the insurance company. The minimum amount of premium needed to cover these costs varies by classification. If the premium calculated by multiplying the total annual payroll (in hundreds) by the classification rate does not produce this minimum amount, the employer will be charged the classification minimum premium rather than the calculated premium. Such situations frequently arise when a business employs seasonal or part-time employees.

Suppose a jewelry store is operated as a sole proprietorship and the sole proprietor has not elected to be subject to the workers' compensation law. The sole proprietor employs a part-time sales clerk whose salary is \$5,000. The 1998 premium for the jewelry store, class code 8013, would be $\$5,000 \div 100 \times .78 = \39 . The minimum premium for class 8013, Store: Jewelry, was \$150. Since the calculated premium is less than the minimum premium, the policy minimum premium of \$150 will be charged to the sole proprietor.

The rates used by most insurance companies in Alaska are developed by the National Council on Compensation Insurance, Inc. (NCCI). An explanation of the methodology used by NCCI to develop rates is found on page 16-18 of this booklet.

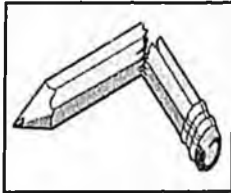
Payroll



The premium that is charged to each employer must be based upon that employer's exposure to loss. For workers' compensation insurance this exposure is measured by payroll. Payroll does not provide a perfect measure between exposure to loss and the appropriate premium charge, but it has several advantages over other possible measures. First, payroll information is available for all employees, and employers can use the records they normally keep for their business operations to determine their payroll. No additional record keeping needs to be done. Second, since payroll adjusts to the costs of living and doing business, any inflationary changes to the costs of providing workers' compensation benefits are adjusted for in payroll levels, lessening

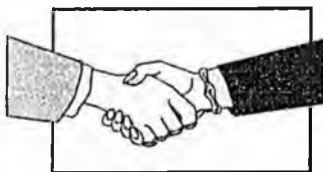
the need for rate increases. Third, payroll is related to the benefit amount received by injured workers, since one of the benefits of workers' compensation insurance is a weekly income payment, the amount of which is related to the injured employee's pay rate.

Policy Audits



The premium calculated for a workers' compensation policy when the policy is purchased is an estimated premium, since it is based on estimated payroll amounts. The insurer requests actual payroll figures every year in order to determine if any adjustments to the estimated premium need to be made. The policy provides for auditing during the policy period and up to three years after the policy period ends.

Corrections to Classification Assignments



Occasionally a business is assigned to the wrong classification. This incorrect assignment may be discovered during the policy term or upon audit of the policy. If the correction results in a lower premium, the decrease will be applied to the policy retroactively. If the correction results in an increase in premium, the increase will be applied to the policy according to the following schedule as found in the NCCI Rating Manual.

When the insurer determines a corrected classification is needed:

- a. during the first 120 days of a policy term, the additional premium is applied retroactively to the entire policy period,
- b. after the first 120 days but before the last 90 days of a policy term, the additional premium is applied pro rata from the date the insurer discovers the cause for the change,
- c. during the last 90 days of the policy term, the correct classification and additional premium will be applied only to the renewal policy.

If a change in classification is due to changes in the insured's operations, the new classification will be applied pro rata from the date of change in the insured's operations. If a change in classification is needed because of an omission or misrepresentation by the insured or agent, the new classification will be applied retroactively.

How to Solve Classification Disputes



An employer has the right to appeal any classification assignment and premium amount sent to him or her by the insurer.

The first step would be to try to resolve the disputed classification with the insurance company. One of the functions of NCCI, as the rating organization for workers' compensation insurance, is to attempt to resolve classification disputes if possible. An NCCI Customer Service Consultant may be contacted at 1-800-622-4206. Written requests for NCCI arbitration may be addressed to:

Workers' Compensation Classification
and Appeals Consultant
National Council on Compensation
Insurance, Inc.
Oswego Towne Square
Nine Monroe Parkway, Suite 140
Lake Oswego, OR 97035

If NCCI is unable to resolve the dispute, the insured may appeal to the Alaska Review and Advisory Committee (R&A Committee). Currently, the R&A Committee has ten members. Two are producers (insurance agents or brokers), three are private employers, and five are representatives of insurance companies writing workers' compensation insurance in Alaska. NCCI acts as the secretary for the Committee and has no vote. An appeal to the R&A Committee may be made by requesting a hearing. These hearings are held in Anchorage every three to four months. Written requests for a hearing should include the nature of the dispute and should be addressed to:

Alaska Review and Advisory Committee
National Council on
Compensation Insurance, Inc.
Oswego Towne Square
Nine Monroe Parkway, Suite 140
Lake Oswego, OR 97035

A copy of the request should be sent to:

State of Alaska
Division of Insurance
P.O. Box 110805
Juneau, AK 99811-0805

When appearing before the R&A Committee, your agent or broker may accompany you. You may also have an attorney if you wish. Copies of any documents that support your grievance should be made available to each committee member. After the hearing, the Committee will notify you of its decision within 30 days.

If the R&A Committee decision is not satisfactory, the employer may appeal to the Division of Insurance. The reason for the appeal and a request for a hearing must be sent to the division within 30 days after notification of the R&A Committee decision. A hearing officer will be assigned to hear the grievance. After the hearing, an order will be prepared for the director to adopt or refuse. If this still does not satisfactorily resolve the dispute, the appeal may be pursued through the courts.

The employer does not need to pay the disputed premium until the dispute is resolved. However, if it is determined that the assigned classification is correct, the employer must pay the disputed premium in full.

Sole Proprietors and Corporate Officers

Under Alaskan laws, a person who operates a business as a sole proprietor or a member of a partnership is not required to obtain workers' compensation coverage for himself or herself. However, a sole proprietor or member of a partnership may elect to be covered by the workers' compensation law. If this election is made, the sole proprietor or member of a partnership has the same status as any of his or her employees under the business' workers' compensation insurance policy.

Executive officers of a corporation are considered to be employees of the corporation for purposes of the workers' compensation laws. However, an executive officer may elect to be excluded from coverage under the corporation's workers'

compensation policy, provided the officer has received an Executive Officer Waiver from the Alaska Department of Labor, Division of Workers' Compensation. Payroll for all executive officers will be included in determining the policy premium if the corporation has not been granted a waiver.

Members of limited liability companies are treated in the same manner as members of a partnership for the purposes of workers' compensation coverage.

Any questions or requests for additional information should be addressed to the Division of Workers' Compensation. Contact information can be found on Page 1.

Experience Rating

What is Experience Rating?



After the classification is assigned and the premium is calculated using the rate per \$100 of payroll times the payroll divided by 100, many insureds are eligible for experience rating. Experience rating is a procedure which uses each individual employer's own loss experience to recognize differences between the employer and the average risk in the class. If an employer has better experience than the average, the employer receives a premium credit. If an employer has worse experience than the average, a premium debit is applied. The benefits of experience rating are 1) that it provides an incentive for loss prevention and implementation of safety programs by the employer and 2) that the premium for each insured reflects the individual insured's experience and should be a better indication of the costs of future losses than the average rate for the classification.

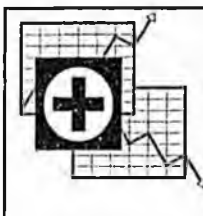
Since experience rating is based on past losses, three years of loss history are generally used to calculate the experience modification. An average annual premium of \$2,500 over the past three years is needed to be eligible for experience rating. If three years of experience are not available, an insured may still qualify for experience rating depending upon the size of the insured.

The appropriate debit or credit modification is calculated during the term of

the current policy to apply to the renewal policy; therefore, the experience period is the three years ending one year prior to the effective date of the modification. For example, if an experience modification is to become effective on January 1, 1999, the experience period consists of policies effective on January 1, 1995, January 1, 1996, and January 1, 1997. Data or losses under the policy effective on January 1, 1998, are not yet available when the 1999 modification is being calculated.

The National Council on Compensation Insurance, Inc. calculates the experience modification for each employer. The modification applies for one year and will be used by any insurer which insures the business. An employer may receive a copy of his or her experience rating worksheet by requesting a copy from NCCI. Your producer and insurance company have access to this worksheet. Other entities will be allowed access to the experience rating worksheet only at the employer's option. This option may be exercised by providing NCCI a letter of authority written on the employer's letterhead and signed by an owner or officer of the company.

How Experience Rating Works



Two factors are considered in determining whether an experience modification is needed and what the amount of the modification should be. The first factor is called the accident frequency. The frequency is a measure of how many accidents an employer has had

during the experience period. The second factor is called the accident severity. The severity measures the cost of any accidents that have occurred.

The more important of these two factors is the accident frequency. For example, suppose there are two employers of comparable size in the same industry and one employer has one injured employee with a loss of \$75,000 and the other employer has 10 injured employees, each claim equal to \$5,000. Which employer is more likely to have claims in the future? The employer with several claims. While there is no guarantee that the second employer's claims will always be small, there is a higher probability that another accident will be experienced by the second employer than by the first employer.

Even though the accident frequency is a better indication of future losses, experience rating does not ignore the cost of those losses. The costs of each

claim are divided into two parts. The first \$5,000 of each claim are called primary losses; the remaining cost of the claim is called the excess loss. All of the primary loss is used to calculate the experience modification, but only a percentage of the excess loss is used. An employer may have no losses for many years and then experience a single large loss. By using only a percentage of the excess loss, the increase in the experience modification is tempered. The percentage of excess loss is determined by the size of the employer's payroll.

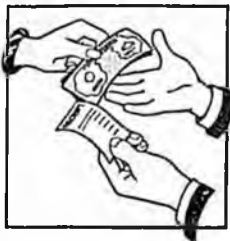
Example

The employer whose loss for one injured employee is \$75,000 will have only \$5,000 in primary losses. The remaining \$70,000 are excess. The employer with 10 injured employees, each claim equal to \$5,000, will have \$50,000 in primary losses and no excess losses. The second employer will receive a larger debit than the first, even though the first employer's total losses are higher than the second employer's.

Safety Program Discounts

Alaska law requires that all insurers providing workers' compensation insurance establish and make available to all its insureds a workplace safety rate reduction program. Ask your insurer what you need to do to be eligible for these premium credits.

Assigned Risk Pool



Employers who are required by law to have workers' compensation insurance may find themselves unable to purchase coverage from an insurance company. An insurance

company has the right to determine that a particular occupation is too risky and decide not to insure employers engaged in that occupation. An insurer may also specialize by writing employers that develop a large amount of premium. Different insurers accept different types of risks. When one insurer is unwilling to insure a particular business, another insurer may find the business to be acceptable.

If an employer is unable to find an insurance company willing to provide him or her with workers' compensation coverage, the coverage may be obtained through the Alaska Workers' Compensation Assigned Risk Pool. Your producer (agent or broker) can help you apply for coverage through the Pool. All insurance written through the Pool uses the classifications, rates, and rating plans promulgated by the NCCI. Alaska Statutes allow a surcharge to be applied to

the premium when insurance coverage is purchased through the Pool. The surcharge amount is 25% of the premium developed at NCCI rates; but the first \$3,000 of premium is exempt from the surcharge. A policy whose premium is \$2,500 in the voluntary market also has a premium of \$2,500 in the Pool. A policy whose premium would be \$7,000 in the voluntary market may be purchased for \$8,000 in the Pool. The surcharge of \$1,000 is calculated as follows:

Total premium in voluntary market:
\$7,000

Premium exempt from surcharge:
\$3,000

Premium subject to surcharge:
 $\$7,000 - \$3,000 = \$4,000$

Amount of surcharge:
 $\$4,000 \times .25 = \$1,000$

Total premium in the pool:
 $\$7,000 + \$1,000 = \$8,000$

Premium discounts are not available on policies written in the Assigned Risk Pool.

Installment Payments



Alaska Statutes require insurers to offer installment payment plans if the annual policy premium exceeds \$2,000.

These installment payment plans are implemented at the request of the insured. Ask your producer or insurer about the options available from your insurance company.

Rates or Loss Costs - Who Makes Them

Definitions

A rate is the amount per \$100 of payroll that is needed to cover losses and expenses. The premium is the charge for the insurance, which is calculated by multiplying the rate times the employer's payroll divided by 100. For example, the 1998 rate for Clerical Office Employees (class code 8810) is \$.54 per hundred dollars of payroll. A business consisting of one clerical worker with a payroll of \$30,000 will pay a premium of \$162.00 for one year of workers' compensation coverage for that clerical worker. The premium is calculated as follows. The payroll is divided by 100. The result is $30000 \div 100 = 300$. Then the rate is multiplied by 300 to calculate the premium, or $300 \times .54 = \$162.00$.

A rating organization is an entity licensed by the Division of Insurance for the purpose of aggregating data from multiple insurance companies. This aggregate data is then used as the basis for developing rates that will be used by insurers who are members of the rating organization.

Division of Insurance



The Division of Insurance licenses organizations called rating organizations, that provide data collection and ratemaking services to insurers writing insurance in Alaska. The Division of Insurance has regulatory oversight of these services. The purpose of this oversight is to allow premiums that cover the cost of providing insurance coverage while avoiding unreasonable profits by insurers. This oversight is carried out under provisions in Alaska's laws that state rates shall not be excessive, inadequate, or unfairly discriminatory.

Rates developed by a rating organization must be submitted to the Division of Insurance and are reviewed to determine if they comply with the law. Historical data, along with assumptions about future loss conditions, are provided by the rating organization, and insurance companies provide expense data to support the proposed rates. The Division of Insurance does not set the rates used by insurance companies.

National Council on Compensation Insurance, Inc.



Most insurance companies in Alaska (as well as in 37 other states) provide workers' compensation insurance at the rates which are

based upon loss costs determined by the National Council on Compensation Insurance, Inc. (NCCI). NCCI is a rating organization. As a rating organization, NCCI collects statistics from all insurance companies writing workers' compensation insurance, combines the data and uses the aggregate data to develop appropriate loss costs. Loss costs developed using large quantities of data will more accurately reflect the costs of providing the insurance coverage than loss costs developed by an individual company. Aggregate data also helps prevent large swings in rates from year to year.

1998 and 1999 Changes

In 1998 and 1999 several changes took place in the way the premium for workers' compensation policies is determined.

The major change is that the workers' compensation rating organization, the National Council on Compensation Insurance, Inc. (NCCI), will develop loss costs rather than rates.

Every rate consists of two parts; one part is the amount needed to pay for losses such as medical expenses and lost wages, the other part is the amount needed to pay the operating costs of the insurance company such as salaries, rent, heat, lights, and profit. When a rating organization develops **rates**, the operating cost portion of the rate is an average expense amount calculated using data from all insurance companies. This average amount is added to the amount needed to cover losses. For a **loss cost** rating system, the rating organization calculates only the loss portion of the rate. Each insurance company calculates its own expense needs and adds its own expense amount to the rating organization loss amount. Under either a rate system or loss cost system, the rate consists of a portion to cover losses and a portion to cover expenses. The difference is only in who determines the expense amount, the rating organization or the insurer. If the rating organization determines the expenses, the expense portion is the same for all insurers; if the insurer determines the expenses, the expense portion will vary by insurer.

When a rating organization develops only loss costs, each insurer must develop its own expenses and submit a filing to the Division of Insurance to have the expense loading approved before the insurer can use it. For 1998, the Division of Insurance requested the rating organization to develop and file both rates and loss costs. This would give insurers time to adjust to the new filing requirements. Insurers were able to develop and submit their expense filings, called loss cost adjustment filings, any time during 1998. For 1999, only loss costs would be available for use by insurers writing voluntary

business. The Assigned Risk Pool will continue to use rates developed by NCCI.

The following example using data from the 1998 NCCI rate and loss cost filings for Class Code 2710, Sawmill, should help explain the differences under the two rating systems.

George, of George's Sawmill, decides to contact three insurance companies before purchasing his workers' compensation policy. One of the insurers elected to use the NCCI rates and the other two elected to use the loss cost rating system.

Rates

Using expense data collected from all insurance companies, NCCI determined that on average 26.5% of the rate was used for insurer expenses. The average benefit cost, or loss cost, per \$100 of payroll was determined to be \$8.75. The NCCI rate was calculated as follows:

$$\begin{array}{rclcl} 1998 \text{ NCCI} & & \text{benefit} & & \text{expense} \\ \text{rate} & = & \text{amount} & + & \text{amount} \\ \$11.90 & = & \$8.75 & + & \$3.15 \end{array}$$

In other words, if George were to purchase workers' compensation insurance from ABC Insurance Company which elected to use the 1998 NCCI rates, George's Sawmill would pay a rate of \$11.90 per hundred dollars of payroll for its workers' compensation policy.

Loss Costs

Any insurer who converted to the loss cost system in 1998 would use the benefit amount of \$8.75 determined by NCCI, but not the expense amount.

KLM Insurance Company, who elected to use the 1998 loss cost rating system, determined that its expense needs were only 24% of the rate, or \$2.76.

$$\begin{array}{rclcl} 1998 \text{ KLM} & & \text{benefit} & & \text{expense} \\ \text{rate} & = & \text{amount} & + & \text{amount} \\ \$11.51 & = & \$8.75 & + & \$2.76 \end{array}$$

The third insurer, XYZ Insurance Company, who also elected to use the 1998 loss cost rating system, determined that its expense needs were 30% of the rate, or \$3.75.

$$\begin{array}{rcl}
 \text{1998 XYZ} & = & \text{benefit} \\
 \text{rate} & = & \text{amount} + \text{expense} \\
 & & \text{amount} \\
 \$12.50 & = & \$8.75 + \$3.75
 \end{array}$$

The following table summarizes the rates used by the three insurers.

Insurer	Benefit Amount	Expense Amount	Total
ABC	8.75	3.15	11.90
KLM	8.75	2.76	11.51
XYZ	8.75	3.75	12.50

In selecting which insurer George wants to purchase his workers' compensation policy from, price alone should not be the basis for making his decision. Other considerations include the quality of service provided by the producer and insurer, the speed at which claims are settled, and the reputation and financial condition of the insurer.

Schedule Rating



There are some workplace characteristics of individual businesses that are not reflected in the class rates or the experience rating plan because they cannot be objectively quantified.

In order to recognize these characteristics, insurers use judgmental credits and debits to adjust the premium charged for a policy. Some examples of the types of characteristics that are considered are:

- Adequacy of first aid equipment and supplies
- First aid trained personnel
- Cleanliness of the workplace
- Written job safety procedures
- Supervisor training of new employees
- Activities that are unusual for the type of business or industry

Each insurer develops its own schedule rating plan which consists of the characteristics to be considered and the amount of the credit or debit for each characteristic. Each insurer also establishes its own criteria to determine which insureds are eligible for schedule rating. One insurer may decide to apply schedule rating only to insureds that are eligible for experience rating, while another insurer may decide to apply its schedule rating plan to all insureds. Every schedule rating plan must be filed with and approved by the Division of Insurance before it can be used.

What is the effect of a loss cost system on schedule rating?

The characteristics used to determine a schedule credit or debit will not change

based upon whether an insurer uses the rate system or the loss cost system. For example, if an employer receives a credit for having medical facilities on site under the rate system, a credit would still be given when the insurer converts to the loss cost system. However, because the expenses included in rates may vary from one insurer to another, the size of the debit or credit cannot be used as the sole means of determining which insurer will quote the lower premium policy.

Suppose George's Sawmill is eligible for schedule rating from all three insurance companies that George contacted. ABC Insurance Company offers a 5% medical facilities credit, KLM Insurance Company offers a 3% credit and XYZ Insurance Company offers a 10% credit. George should not assume that XYZ Insurance Company has the lowest premium simply because they will give him the largest schedule credit.

Insurer	Rate	Credit	Discounted Rate
ABC	\$11.90	5%	\$11.31
KLM	\$11.51	3%	\$11.16
XYZ	\$12.50	10%	\$11.25

In spite of giving the smallest percentage schedule credit, KLM Insurance Company has the smallest rate and hence will have the lowest premium policy.

What is the effect of a loss cost system on experience modifications?

The calculation of the experience modification will not be affected by the implementation of a loss cost system. An experience modification greater than one indicates an employer has worse loss experience than the average employer in the class, while an experience modification less than one indicates an employer has better than average loss experience. This will be true whether the insurer uses a rate system or a loss cost system as its rating structure.

Ratemaking

Selecting an accurate loss cost is not an easy task. Much of the difficulty lies in the fact that a price for workers' compensation coverage must be determined before the costs of the coverage are known. The question that needs to be answered is "Will the premium collected cover the losses and expenses that are expected to occur from all policies issued during the year, no matter how far into the future benefits will be paid to employees injured during the year?"

NCCI uses the following procedure to answer this question.

Adequacy of Premium Level



First, NCCI determines the required overall change in the statewide premium level. To do this, NCCI collects data showing the total premium for all employers in Alaska for a given

year, and the amount paid out as benefits during the year—both indemnity payments (weekly compensation for lost wages) and medical payments. Since NCCI is estimating future costs, the historical experience is adjusted for inflation. If the amount needed for benefits is greater than the total premium that would be collected if loss costs remain unchanged, the overall premium level needs to be increased. If the amount needed for benefits is less than the total premium that would be collected if loss costs remain unchanged, then the premium level needs to be decreased.

Example

Gathering Historical Data

The following example is taken from the 1999 NCCI loss cost filing. Based on data collected from policies issued in 1996 and using the loss costs in effect in 1998, NCCI estimated that \$121,000,000 will be collected in premiums from all workers' compensation policies written in Alaska in 1999. In 1996, indemnity benefits were \$51,000,000 and medical benefits were \$61,000,000.

Adjusting For Inflation

Indemnity benefits were estimated to decrease 3.5% per year. Since indemnity benefits are tied to salary level, the changing Alaskan employment market is likely responsible for this decreasing trend. Service industry and tourism related jobs are becoming a larger portion of the workforce while higher paying jobs in timber and oil industries are declining.

Medical benefits were estimated to decrease 0.1% per year considering both inflation and other factors affecting the costs of medical treatment. These other factors include 1) any changes in the number of claims being filed by injured employees, and 2) any changes in the length of time injured employees receive benefits.

Since 1996 experience is used to estimate 1999 costs, the changes due to inflation must be calculated for three years. The total decrease over three years for indemnity benefits is $(1 - .035)^3 = .899$ or - 10.1% and for medical benefits the decrease is $(1 - .001)^3 = .997$ or - 0.3%.

Therefore, indemnity benefits for 1999 are expected to be

$.899 \times \$51,000,000 = \$45,850,000$
and 1999 medical benefits are expected to be

$.997 \times \$61,000,000 = \$60,800,000$.
The total estimated benefits to be paid in 1999 are
 $\$45,850,000 + \$60,800,000 = \$106,650,000$.

Final Loss Cost Level

NCCI calculates the overall premium adequacy based upon three years of historical experience. Each year's indication is computed separately. The final indication is an average of the indicated changes for three years. The 1999 loss cost filing used indications from 1994, 1995, and 1996.

Data from 1997 and 1998 is not available to NCCI when they begin work on the 1999 loss costs. Any policy written toward the end of 1997 will not expire until the end of 1998. The most recent data available to NCCI is always from policies written three years prior to the year the new loss costs become effective.

Loss Cost Level Change



After the required overall loss cost level is determined, any loss cost changes necessary to produce the appropriate amount of premium are calculated. If it has been determined that the loss cost level needs to be adjusted, the loss cost for each classification is individually changed. The loss cost for every classification is not increased or decreased by the same amount. Two steps are used to calculate the loss cost level change by classification.

Industry Group Indications

Each classification is grouped into one of six Industry Groups. These groups are: Manufacturing, Contracting, Office and Clerical, Goods and Services, Miscellaneous, and Oil and Gas. The loss cost level change for the Industry Group as a whole is calculated. For example, the data used to calculate the 1999 loss costs showed that employers in the Office and Clerical Industry Group, on the average, had worse experience than all employers from all Industry Groups combined. Therefore, the Office and Clerical Industry Group received an 8% decrease in premium level, which is a smaller decrease than the overall statewide decrease of 8.5%.

Classification Indications

The second step in calculating the loss cost change for each classification distributes the Industry Group change to each class in that Industry Group. To do this, payroll information from all Alaskan employers along with the benefits paid out to injured Alaskan employees for the last five years are grouped by classification. An average benefit cost per \$100 of payroll is calculated. For example, the Manufacturing Group, Class 2710, consists of the experience of Sawmills. The five year total payroll is \$34,400,000 and total benefits paid out over five years are \$2,700,000. The average benefit cost per \$100 of payroll is found by dividing the benefits paid by the total payroll and multiplying this result by 100, or

$$\frac{\$ 2,700,000}{\$ 34,400,000} \times 100 = \$7.84$$

This says that if every employer in Class 2710 pays \$7.84 for every \$100 of payroll, enough money should be collected from employers in Class 2710 to pay the medical and indemnity benefits of any injured employee who works in a Sawmill.

Adequacy of Benefit Cost Per \$100

How good is this average benefit cost per \$100 of payroll in evaluating the correct rate level? The answer to this varies for each classification depending upon the volume of experience in that class. Classifications which have many employers and large amounts of payroll will produce rates which can be relied upon, whereas classifications with only a few employers and small amounts of payroll may produce loss costs which are not valid indications of future loss.

When there is not enough Alaskan experience to produce valid loss costs, the Alaska indication is averaged with a national indication. This national loss cost indication is calculated in the same way as the Alaskan loss costs, the only difference being total payroll and benefits paid are aggregate amounts from employers countrywide, not just Alaskan employers.

Within each Industry Group, some classifications may have loss cost increases and some may have loss cost decreases. However, the rate level for the Industry Group as a whole must equal the average loss cost level change found in the first step of the loss cost level change procedure.

Final Rates



Assigned Risk Pool

For policies written in the Assigned Risk Pool, NCCI calculates rates (rather than loss costs). To produce the final rate for each classification, the indicated average benefit cost determined above is

combined with an amount to cover the business operating costs of the insurance company. Over the last few years, approximately 26% of the total premium collected is designated as the provision for overhead expenses, leaving 74% of the premium to be used for benefit payments.

For a Sawmill operation assigned to Class 2710, the final 1999 assigned risk rate consists of \$7.84 to pay the medical and indemnity benefits plus the expense amount of \$3.12, for a total rate of \$10.96.

Voluntary Market

For policies written in the voluntary market, each insurer adds its own company expense provision to the NCCI loss costs. Individual insurer expense percentages range from 5% to 35% of the rate, with an average of 20%. The final rate varies by insurer. For a sawmill operation assigned to Class 2710, the 1999 rate would range from \$8.35 to \$12.00.

While the range of expense percentages appears to be large, many of the insurers with lower expenses are specialized companies or companies with a particular market niche. Different insurers accept different types of business, so the actual range of rates available to an employer may not be as broad as the different expense amounts indicate.

Other Publications



The Alaska Division of Insurance has several other publications designed to help educate the insurance-buying public. All publications listed below are available by contacting the Division in either the Juneau or Anchorage office.

Alaska Division of Insurance
P.O. Box 110805,
Juneau, Alaska 99811-0805
(907) 465-2515

and

3601 C Street, Suite 1324,
Anchorage, Alaska 99503-5948
(907) 269-7900

1. The **Insurance Consumer Guide** is designed to provide the consumer with a general overview helpful for anyone wishing to purchase auto insurance, homeowners insurance, life insurance, or health insurance. It is also designed to help consumers better understand their insurance rights. It explains some of the insurance basics that will be useful in determining what types of coverage may be needed periodically. This brochure is distributed to consumers as a newspaper supplement with the most recent version printed in June 1994.
2. The **Homeowners Insurance Rating Examples** booklet explains homeowners coverage and compares the rates from various companies.
3. The **Private Passenger Auto Insurance Rating Examples** booklet explains auto insurance coverage and compares the rates from various companies.
4. The **Annual Insurance Report** is published every year and costs \$25 per copy. This report is a summary of all the insurance business written in the state, premium taxes collected, license statistics, consumer complaints, and disciplinary actions.
5. A **Guide to Health Insurance for People with Medicare** provides information about Medicare, the different types of private health insurance that can be used to fill gaps in Medicare coverage, and tips on shopping for private health insurance to supplement Medicare.
6. The **Consumer's Guide to Long-Term Care Insurance** discusses the cost of long-term care, kinds and types of coverage available, what kinds of limits there are, and what types of questions you should ask before buying this coverage.
7. The **Medicare Supplement Insurance Rating Examples** booklet explains the different types of medicare supplement insurance and compares the rates from various companies.

2/5/04

WORKSESSION

PULLTAB

REGULATION

Senate Labor & Commerce



Interim, 2003

Sub-Committee Report on Pull Tabs

Submitted by:
Senator Hollis French
Senator Ralph Seekins

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ORIGINAL
COPIES

SUB-COMMITTEE REPORT
TO
SENATE LABOR AND COMMERCE COMMITTEE
RE:
"CHARITABLE GAMING"

BACKGROUND

During the 2003 session of the Alaska State Legislature, the Senate Labor and Commerce Committee considered and debated Senate Bill No. 102 – "An Act increasing the amount of revenue received by the State from charitable gaming activities; and providing for an effective date."

During public hearings on SB 102, a number of witnesses referred to pull-tab gambling as "charitable gaming" and warned of dire consequences to the "charities" if the State raised taxes on pull-tab gaming. As a result, the question was raised regarding the definition of a "charity" and then, regarding which "charities" are permitted to participate in Alaska's so called "charitable gaming" activities.

Further testimony revealed that some permittees operate pull-tab operations in communities hundreds of miles from their home bases (i.e., a Juneau charity may operate in Anchorage or Fairbanks). This information gave rise to the question of whether or not authorized participants should be limited by statute to operate within a fixed geographical proximity to the community in which they are based.

To address these matters, Chairman Bunde appointed committee members Senator Seekins and Senator French to a sub-committee of two to examine the "charitable gaming" question and to report to the full committee early in the 2004 session. The sub-committee conducted three teleconferenced public hearings during the interim in which the primary discussion and testimony revolved around the issues of PARTICIPATION and PROXIMITY.

PARTICIPATION

The most current data regarding gaming group operations is the 2002 Annual Report of Gaming Group Operations published by the State of Alaska Department of Revenue, Tax Division, Gaming

Group. That Department of Revenue report is available on the internet at: www.tax.state.ak.us. A copy is attached hereto.

The following is a quote from Page 2 of the 2002 Gaming Group report:

In general, gambling is illegal in Alaska. However, the legislature created an exception for what is commonly, though somewhat inaccurately, referred to as "Charitable Gaming." The use of the word "charity" is really a misnomer. An organization does not have to have any charitable purpose in order to have a gaming permit. The Department may only issue a permit to a municipality or qualified organization, and charities represent only one of the fifteen "qualified organizations" eligible to game in Alaska.

In 2002, there were more than 1,200 permittees licensed through the Department of Revenue. A review of a list of permittees provided to the sub-committee by the Department of Revenue (a copy is attached hereto) reveals that this universe is divided into the following groups:

1. charitable organizations;
2. civic or service organizations;
3. dog mushing associations;
4. educational organizations;
5. police or fire departments and company;
6. fraternal organizations;
7. labor organizations;
8. municipalities;
9. non-profit trade associations;
10. native villages;
11. political organizations;
12. religious organizations; and
13. veteran organizations.

AS 05.15.690 provides the following statutory definitions:

"Charitable organization" means an organization, not for pecuniary profit, that is operated for the relief of poverty, distress, or other condition of public concern in the state. (In 2002, this category

included licensees such as the American Red Cross, Catholic Community Service, and the West High Alumni Association.)

“Civic or service organization” means any branch or lodge or chapter of a national or state organization that is a civic or service organization, not for pecuniary profit, and authorized by its written constitution, charter, or articles of incorporation, or bylaws to engage in a fraternal, civic, or service purpose in the state. (In 2002, this category included licensees such as the Greater Haines Chamber of Commerce, the Lions Clubs of various locations, and the Anchorage Hockey Association.)

“Dog mushers’ association” means a civic, service, or charitable organization in the state, not for pecuniary profit, formed exclusively to promote interest in the breeding and training of dog teams for work or recreational and racing purposes, but does not include an organization formed or operated for gaming or gambling purposes. (In 2002, this category included licensees such as the Yukon Quest International, Ltd., the Alaska Sled Dog Racing Association, and the Iditarod Trail Association.)

“Educational organization” means a civic, service, or charitable organization in the state, not for pecuniary profit, whose primary purpose is educational in nature and designed to develop the capabilities of individuals by instruction. (In 2002, this category included licensees such as the Juneau Golf Club, the Southeast Alaska State Fair, and the Nome Public Schools.)

“Police or fire department and company” means a civic, service or charitable organization in the state, not for pecuniary profit, consisting of members of a police department or fire company established by the state or a political subdivision of the state. (In 2002, this category included licensees such as the Alaska Peace Officers Association, the Petersburg Volunteer Fire Department, and the Alaska Fire Chiefs Association.)

“Fraternal organization” means a civic, service, or charitable organization in the state, except a college and high school fraternity, not for pecuniary profit, that is a branch or lodge or chapter, of a national or state organization and exists for the common business, brotherhood, or other interest of its members. (In 2002, this category included licensees such as Elks Lodges in various locations, the Alaska Native Brotherhood Camps in various locations and Knights of Columbus Councils.)

"Labor organization" means an organization, not for pecuniary profit, constituted wholly or partly to bargain collectively or deal with employers, including the state and its political subdivisions, concerning grievances, terms, or conditions of employment or other mutual aid or protection in connection with employees. (In 2002, this category included licensees such as the Fairbanks Central Labor Council, the National Education Association-Alaska Pace, and various local unions across the state.)

Municipalities is undefined. (In 2002, this category included licensees such as the City of Teller, the City of North Pole, and the City of Savoonga Fund Raising.)

"Non-profit trade associations" is undefined. (In 2002, this category included licensees such as the Alaska Chiropractic Association, the Alaska State Homebuilders Association, and the Alaska Cabaret Hotel Restaurant Retailers Association.)

"Native villages" is undefined. (In 2002, this category included licensees such as the Native Village of Point Hope, the Bristol Bay Native Association, and the Cook Inlet Tribal Council.)

"Political organization" means an organization or club organized under or formally affiliated with a political party as defined in AS 15.60.010. (In 2002, this category included licensees such as the the Alaska Democratic Party, the League of Women Voters of Alaska, and the Alaskan Independence Party.)

"Religious organization" means an organization, church, body of communicants, or group, not for pecuniary profit, gathered in common membership for mutual support and edification in piety, worship, and religious observances, or a society, not for pecuniary profit, of individuals united for religious purposes at a definite place and that is recognized as a religious organization under the federal income tax laws and the selective service law. (In 2002, this category included licensees such as the Sacred Heart Parish, Salvation Ministries, and Congregation Beth Shaolom.)

"Veterans organization" means a civic, service, or charitable organization in the state, or a branch or lodge or chapter of a national or state organization in the state, not for pecuniary profit, the membership of which consists of individuals who were members of the armed services or forces of the United States or

persons who served in the Alaska Territorial Guard. (In 2002, this category included licensees such as American Legion Posts in various locations, Veterans of Foreign Wars Posts in various locations, and the Alaska National Guard Enlisted Association.)

NOTE: The specific organizations listed above are provided for demonstration purposes only.

The sub-committee does not recommend that the statutory exception allowing "Charitable Gaming" be changed. However, the sub-committee does recommend the full committee review the list of permitted gaming groups for the purpose of considering changes that would assure that pull-tab licensees fulfill some charitable purpose. For example, the sub-committee recommends that the full committee examine whether or not participants such as municipalities, political organizations, chambers of commerce or native villages should be beneficiaries of pull-tab income from Alaska's "charitable gaming" exception. However, because of the not-for-profit status of the currently qualified organizations, the sub-committee recommends that raffle licenses continue to be granted to all the current gaming groups.

PROXIMITY

As stated above, during the 2003 full Committee hearings, it became evident that some permittees domiciled in one community operate their pull-tab licenses in other communities. Hence, so-called "charitable gaming" revenue from pull-tab gambling in some communities did not benefit those communities at all. Rather, that revenue went to organizations in communities sometimes hundreds of miles distant. This led to the question of whether or not the legislature should institute a geographic proximity limit for the operation of pull-tab licenses.

The sub-committee found that there are a number of reasons pull-tab permittees operate in distant locations. For example:

- some organizations (i.e., the American Red Cross) have a state-wide presence and mission;
- some rural permittees do not have a very large population base and have found it more profitable to operate in urban locations;
- some operators conduct gaming activities for multiple permittees in multiple communities. Because games for

each permittee are played in each location, revenue travels from community to community;

- some communities charge sales tax on pull-tab sales and permittees have found they can net more by operating in communities that do not have a sales tax; and
- some communities are saturated with pull-tab operations and there was entry opportunity in some other community.

The sub-committee did not reach a unified recommendation regarding specific action to address this proximity question. However, the members agree this matter begs for continued discussion in the full committee and would benefit from further public testimony before a final decision is reached.

OTHER CONSIDERATIONS

In the course of the sub-committee hearings there was testimony regarding other elements of the "charitable gaming" industry. It became clear that many permittees depend on gambling revenue as either "a" or "the" major source of their revenue. Therefore, they fear that any change in the gaming structure would have devastating effects on their operations.

Operators testified that they operated on small margins and that changes could easily put them out of business.

Gerry Richards, a CPA from Fairbanks whose company, Richards, Johnson and Granberry, audits several gaming operations, provided testimony to the sub-committee that presented several suggestions for simplifying and or clarifying gaming statutes. For example, Mr. Richards suggested that the Legislature allow licensed operators to pool gaming activities of all their permittees. Pooling is currently allowed for Multiple Beneficiary Permittees and, if extended to operators, would result in operators spreading the sales between more permittees, which would result in a more even flow of the net proceeds throughout the year. A copy of Mr. Richard's testimony is attached hereto.

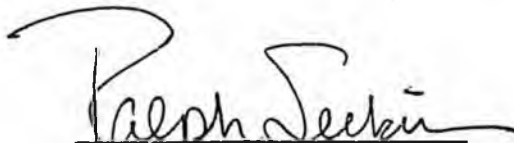
SUMMARY

Gaming in Alaska is big business. In calendar year 2002, the total amount gamed by the public exceeded \$358,000,000. After prizes were paid out, approximately \$85,000,000 was available for

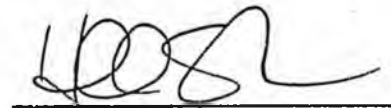
gaming expenses and net proceeds to benefit municipalities and qualified organizations.¹

As more and more municipalities and qualified organizations turn to gambling as a revenue source, the pie is sliced thinner and thinner. That competition makes it harder and harder for small organizations to effectively compete for any share at all.

It is time for the Alaska Legislature to examine the "charitable gaming" exception to the general gambling prohibition. This sub-committee recommends the legislature start by examining and re-defining whether or not municipalities, political organizations and certain other currently qualified organizations should be permitted to operate pull-tab operations. Additionally, the sub-committee recommends that the legislature consider a geographic proximity limitation that would keep "charitable gaming" revenue in the community where the proceeds are generated.



Senator Ralph Seekins



Senator Hollis French

¹ See Department of Revenue Annual Report of Gaming Group Operations.

STATE OF ALASKA
DEPARTMENT OF REVENUE
Tax Division
Gaming Group



Calendar Year 2002
ANNUAL REPORT OF GAMING GROUP OPERATIONS

On the internet at:
www.tax.state.ak.us

Frank Murkowski
Governor

William A. Corbus
Commissioner

2002

*This annual report provides an
overview of the
games of chance and
skill program administered
by the Tax Division's
Gaming Group,
and contains summaries
of all reports
of permittees and
operators pursuant
to AS 05.15.090.*

*This report also
explains the organizational
structure of the Gaming Group
within the Tax Division.*

*The information covers
calendar year 2002*

Annual Report of Gaming Group Operations

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Introduction

Under Alaska law, municipalities or qualified non-profit organizations may conduct certain gaming activities. The purpose of these activities is to derive public benefit in the form of money for the organizations and revenues for the state. The Tax Division is responsible for ensuring that the appropriate level of public benefit is derived for the organizations and the state.

To ensure that the appropriate level of public benefit is derived, the division does the following: 1) issues permits to municipalities and qualified organizations; 2) licenses all operators, distributors and manufacturers; 3) collects fees and taxes; 4) audits various permittees and licensees; 5) inspects gaming locations; and 6) investigates complaints.

This report summarizes gaming financial activity for 2002, as reported by permittees and operators and filed as of July 30, 2003. Gaming in Alaska has many variations in the types of gaming businesses and nonprofit organizations which conduct gaming activities. Below are key terms used throughout this report.

- A permittee is a municipality or a qualified organization that holds a valid permit to conduct gaming activities.
- A vendor is a business that holds a qualifying beverage dispensary or package store license that sells pull-tabs on behalf of a permittee.
- A multiple-beneficiary permit (MBP) allows two to six municipalities or qualified organizations or a combination of two to six municipalities and qualified organizations to conduct joint gaming activities.
- An operator is a person, a municipality or qualified organization that has obtained a license and posted a bond to conduct gaming activities on behalf of a permittee.
- A distributor is a business located in the state that is licensed to distribute pull-tabs to permittees and to operators conducting gaming on behalf of permittees. The distributor must collect and submit a tax to the state equal to three percent of the gross receipts less prizes, on each series of pull-tabs sold.
- A manufacturer is a business that is licensed to sell pull-tabs in the state. A manufacturer may only sell pull-tabs to a licensed distributor located in the state.

In reviewing the financial information presented in this report, it is important to be aware of the various classifications and to interpret the information accordingly.

For comparison purposes, 2001 financial data are included on certain schedules in this report.

Gaming Overview

Gaming in Alaska is big business. In calendar year 2002, the total amount gamed by the public exceeded \$358,000,000. After prizes were paid out, approximately \$85,000,000 was available for gaming expenses and net proceeds to benefit municipalities and qualified organizations.

In general, gambling is illegal in Alaska. However, the legislature created an exception for what is commonly, though somewhat inaccurately, referred to as "Charitable Gaming". The use of the word "charity" is really a misnomer. An organization does not have to have any charitable purpose in order to have a gaming permit. The Department may only issue a permit to a municipality or qualified organization, and charities represent only one of the fifteen kinds of "qualified organizations" eligible to game in Alaska.

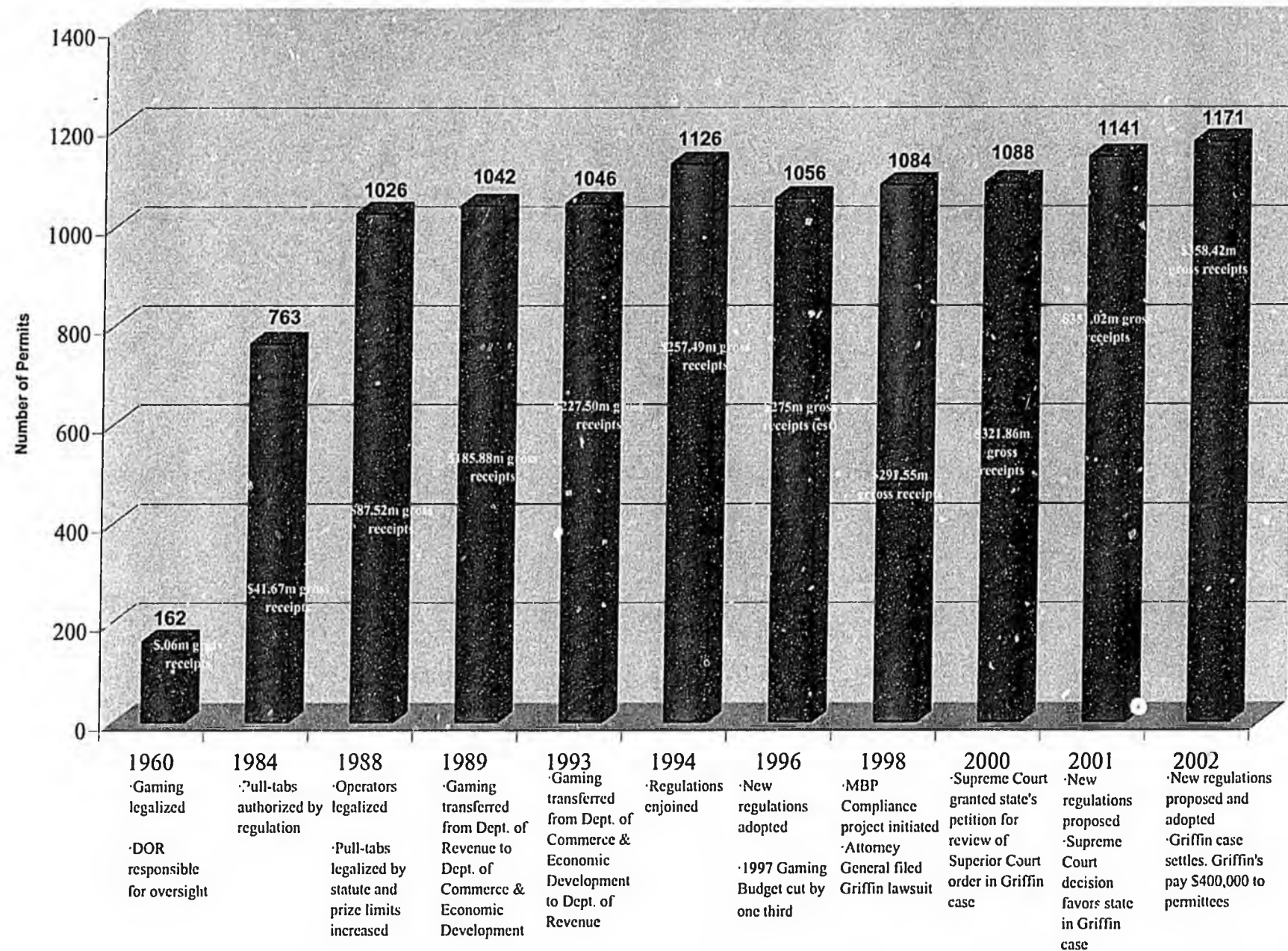
The authority to conduct gaming activity is contingent upon the dedication of the net proceeds of the gaming activity for specific purposes. Only reasonable and necessary expenses may be incurred or paid in connection with a gaming activity. The gaming statutes provide for caps on expenses, not to exceed 70% of adjusted gross income from pull-tab activity and 90% of adjusted gross income from gaming activities other than pull-tabs.

The organization board members are responsible to ensure that the gaming activity follows the gaming statutes and regulations. Organizations that participate in gaming have a legal duty to ensure that all gaming proceeds go toward intended uses and are not used to pay unnecessary expenses. Board members have a fiduciary responsibility for this, as was spelled out in *Botelho v. Griffin*, 25 P3d at 693: "By requiring a portion of the money spent on charitable gaming to benefit the public generally, Alaska's gaming laws create the effective equivalent of a charitable trust."

The Department of Revenue has the responsibility to oversee gaming laws. The Gaming Group within the Tax Division handles administration and enforcement duties. Through its staff of seven, the Group oversees approximately 1,200 organizations involved in gaming. The Group issues licenses and permits, collects filing fees and taxes, and conducts audits to enforce the statutes and regulations for collection of fees and taxes and distribution of net proceeds.

The 2002 Current Events and Regulatory Actions section of this report describes the Division's enforcement actions. These enforcement actions came primarily from public inquiries and complaints.

Gaming History and Background



2002 Gaming Industry Facts and Trends

The Division presents data in this report based upon permittee and operator annual reports filed as of July 30, 2003. The reader should note the following:

- Gross receipts include the dollar value of play-backs (winning pull-tabs which the player has returned to the seller in exchange for additional pull-tabs in lieu of receiving the prize in cash).
- Adjusted gross income means gross receipts less prizes awarded and federal and municipal taxes paid on gross receipts. Adjusted gross income is the amount available to pay gaming expenses and make distributions of net proceeds.
- Net proceeds means adjusted gross income less gaming expenses. Gaming expenses include the 3% pull-tab tax, permit fees, and the 1% additional fee on permittee gaming profits.
- The Division based the 2002 calendar year permittee data on 1,171 annual financial statements filed as of July 30, 2003. There are 77 annual reports outstanding and the Division excluded two erroneous or incomplete reports.
- The division issued 14 MBP permits in 2001 and 2002. All MBPs filed their reports.
- The division issued 26 operator licenses in 2001 and 27 in 2002. All Operators filed their reports.

Fees and taxes collected by the division:	FY-03	FY-02
3% Tax on Pull-Tabs:	\$ 2,115,146	\$ 2,045,124
1% Additional Fee on Permittees' Gaming Profits:	341,561	325,218
Permit and License Fees:	128,800	141,863
	\$ 2,585,507	\$ 2,512,205

- Distributors reported \$2,007,000 of pull-tab tax paid for calendar year 2002.

Division Concerns and Focus

Alaska's gaming laws limit the amount of expenses that may be incurred under a gaming permit to ensure that permit holders receive at least a minimum financial benefit from their gaming activities. Beginning in 1998, the Division's focus has been on compliance with the expense limitations and minimum profit distributions.

The Division, with the assistance of the Department of Law, has committed substantial resources to bring into compliance the activities of Multiple-Beneficiary Permit holders (MBPs). The first step in this process was to ensure that MBPs complied with minimum distribution requirements. In 1997, MBPs failed to meet their statutorily required payment distributions by \$850,000. The Division increased compliance on payment so that there were no MBP deficits in 2001.

The second step in the process focused on ensuring that MBPs not only met the minimum distributions, but also adhered to statutory expense limitations. With the increased enforcement, one MBP ceased operations and two others agreed to suspend operations for one year due to non-compliance in 1999.

MBP activities in 2001 and 2002 appeared to meet the statutory expense limitations and minimum profit distributions, with one exception in each year. In 2001, an MBP did not meet the expense limitations. As a condition to retaining its permit, the MBP agreed to dedicate a percentage of its net proceeds for two years to the Alaska Children's Trust. In 2002, an MBP failed to meet its expense limitations and minimum payment distributions. The MBP voluntarily closed its business in November, 2003.

Regulations effective January 1, 2003, formalize the parameters under which MBPs can conduct gaming and require quarterly payment of net proceeds to the members.

The Division remains concerned about the amount of proceeds received by some organizations. The Division will continue to focus on excessive rents, compensation, and fees charged for running or managing gaming operations.

In 2001, the Division proposed regulations and held public hearings to address various issues including unlicensed operators, conflicts of interest, methods of accounting, capital contributions, loans and gifts, and rules for MBPs. The public hearings revealed concern with the process and confusion with the proposed regulations. As a result, the Division adopted a negotiated rule making process to deal with the issues.

SUB-COMMITTEE REPORT
TO
SENATE LABOR AND COMMERCE COMMITTEE
RE:
"CHARITABLE GAMING"

BACKGROUND

During the 2003 session of the Alaska State Legislature, the Senate Labor and Commerce Committee considered and debated Senate Bill No. 102 – "An Act increasing the amount of revenue received by the State from charitable gaming activities; and providing for an effective date."

During public hearings on SB 102, a number of witnesses referred to pull-tab gambling as "charitable gaming" and warned of dire consequences to the "charities" if the State raised taxes on pull-tab gaming. As a result, the question was raised regarding the definition of a "charity" and then, regarding which "charities" are permitted to participate in Alaska's so called "charitable gaming" activities.

Further testimony revealed that some permittees operate pull-tab operations in communities hundreds of miles from their home bases (i.e., a Juneau charity may operate in Anchorage or Fairbanks). This information gave rise to the question of whether or not authorized participants should be limited by statute to operate within a fixed geographical proximity to the community in which they are based.

To address these matters, Chairman Bunde appointed committee members Senator Seekins and Senator French to a sub-committee of two to examine the "charitable gaming" question and to report to the full committee early in the 2004 session. The sub-committee conducted three teleconferenced public hearings during the interim in which the primary discussion and testimony revolved around the issues of PARTICIPATION and PROXIMITY.

PARTICIPATION

The most current data regarding gaming group operations is the 2002 Annual Report of Gaming Group Operations published by the State of Alaska Department of Revenue, Tax Division, Gaming

Group. That Department of Revenue report is available on the internet at: www.tax.state.ak.us. A copy is attached hereto.

The following is a quote from Page 2 of the 2002 Gaming Group report:

In general, gambling is illegal in Alaska. However, the legislature created an exception for what is commonly, though somewhat inaccurately, referred to as "Charitable Gaming." The use of the word "charity" is really a misnomer. An organization does not have to have any charitable purpose in order to have a gaming permit. The Department may only issue a permit to a municipality or qualified organization, and charities represent only one of the fifteen "qualified organizations" eligible to game in Alaska.

In 2002, there were more than 1,200 permittees licensed through the Department of Revenue. A review of a list of permittees provided to the sub-committee by the Department of Revenue (a copy is attached hereto) reveals that this universe is divided into the following groups:

1. charitable organizations;
2. civic or service organizations;
3. dog mushing associations;
4. educational organizations;
5. police or fire departments and company;
6. fraternal organizations;
7. labor organizations;
8. municipalities;
9. non-profit trade associations;
10. native villages;
11. political organizations;
12. religious organizations; and
13. veteran organizations.

AS 05.15.690 provides the following statutory definitions:

"Charitable organization" means an organization, not for pecuniary profit, that is operated for the relief of poverty, distress, or other condition of public concern in the state. (In 2002, this category