

ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672

11228 SENATE LABOR & COMMERCE

CHARITABLE GAMING

AS 05.15

Description

Under Alaska law, municipalities and qualified non-profit organizations may conduct certain charitable gaming activities. The purpose of these activities is to derive public benefit in the form of money for the charities and revenues for the state.

To ensure that the appropriate level of public benefit is being derived, the Division performs the following: 1) issues permits to charities; 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.

Rate

Annual permit and license fees for games of chance and contests of skill are as follows:

Permits:

1. \$20 for an applicant that did not hold a permit during the preceding year;
2. \$20 for an applicant that had gaming gross receipts of less than \$20,000 during the preceding year;
3. \$50 for an applicant that had gaming gross receipts of \$20,000 or more but not exceeding \$100,000 during the preceding year; or
4. \$100 for an applicant that had gaming gross receipts exceeding \$100,000 during the preceding year.

Licenses:

1. \$500 for an operator license applicant;
2. \$1,000 for a distributor license applicant; or
3. \$2,500 for a manufacturer license applicant.

Reports

The Division requires the following reports:

Municipalities and Qualified Organizations issued a permit: Quarterly reports are due the 45th day following each calendar quarter in which the permittee had gross receipts of \$50,000 or more.

Permittees file annual reports on a calendar year basis, accompanied with payment of the *additional* fee, if required under AS 05.15.020(b), by March 15th of the following year. Under this statute, if the gross receipts for the activities were \$20,000 or more, an additional

fee of one percent of the net proceeds received during the preceding year is due.

Operators and Multiple-Beneficiary Permits: Quarterly reports are due on the last business day of the month following each calendar quarter. Annual reports for the calendar year are due no later than February 28 of the following year.

Operator Reports to Permittees are due monthly and must include a daily summary of activity conducted under the permit issued to the authorizing permittee and an accounting of gross receipts, expenses, and net proceeds for the month.

Manufacturers: Each pull-tab manufacturer must report by the last business day of the month on each series of pull-tabs distributed in the preceding month

Distributors: Distributors must collect a tax of 3% of an amount equal to the gross receipts less prices awarded on each series of pull-tabs distributed. Distributors must report by the last business day of each month, each pull-tab series distributed in the preceding month, and pay the taxes collected.

Exemptions

None

Disposition of Revenue

The Division deposits permit and license fees, the 1% net proceeds fee and the 3% pull-tab tax into the General Fund.

History

1960 – The legislature legalizes gaming and gives oversight for all gaming activities to the Department of Revenue.

1984 – The Department authorizes pull-tabs.

1988 – The legislature legalizes operators. Pull-tabs legalized by statute, and prize limits are increased.

1989 – The Governor transfers the Charitable Gaming functions to the Department of Commerce & Economic Development.

CHARITABLE GAMING

1993 - The Governor transfers the Charitable Gaming functions to the Department of Revenue.

HB 168 changed various aspects of the statutes governing charitable gaming in Alaska. The significant changes follow: Third party vendors were brought under statutory control which allow permittees to contract with them directly to sell pull-tabs; the Department was authorized to issue Multiple-Beneficiary Permits (MBP). MBP's enable two to six permittees to jointly conduct gaming activities. Minimum payments to charities increased from 15 percent to 30 percent of adjusted gross income for pull-tab games and require a minimum of 10 percent of adjusted gross income for all other activities.

1994 - The Department files regulations with the Lieutenant Governor that implement HB 168. Certain affected parties file suit to prevent the state from implementing the new regulations. The Alaska courts subsequently granted the request to enjoin the regulations.

1995 - The Governor appointed a fourteen member task force to make recommendations regarding the administration of charitable gaming. The task force had a broad mandate to look into all aspects of charitable gaming and to provide a report on its findings and recommendations to the Commissioner of Revenue.

The Legislature legalized cruise ship gambling activities in Alaska waters during the 1995 season. The gaming statutes required cruise ships pay a fee to game in Alaska and this generated over \$500,000 in State revenue during the 1995 season. This law sunsetted after 1995. Additionally, the Legislature eliminated Monte Carlo nights.

1996 - The Department finished a comprehensive rewrite of the regulations and adopted new regulations after a series of public hearings.

The Legislature created three new gaming activities: "Sled Dog Race Classic", "Deep Freeze Classic" and "Snow Machine Classic". The Legislature also created

the McGrath Kuskokwim River Ice Classic and the Creamer's Field Goose Classic.

The Legislature prohibited the donation of net proceeds from pull-tabs and bingo activities to registered lobbyists' and to certain political organizations.

2001 - Effective January 1, 2002, the Legislature added the Bristol Bay Native Corporation Education Foundation to the list of qualified organizations allowed to conduct "salmon classic" games of chance.

The Department proposed regulations and held public hearings in an effort to address various issues including unlicensed operators, conflicts of interest, methods of accounting, capital contributions, loans and gifts, and rules for MBPs. Comments received during the public hearings indicated unhappiness with the process and confusion with the proposed regulations.

The Alaska Supreme Court in *Botelho v. Griffin*, 25 P3d at 693 ruled that "Alaska's gaming laws create the effective equivalent of a charitable trust" by requiring a portion of the money spent on charitable gaming to benefit the public generally.

2002 -The Commissioner of Revenue appointed eleven members to a negotiated rule-making committee in an effort to garner input and suggestions and draft new proposed regulations. Members of the committee represented the interests of permittees, operators, MBPs, distributors, vendors, the public and the Department. The committee held nine meetings over five months to take public testimony, and draft new proposed regulations. The committee issued its final report on July 31, 2002.

Public hearings on the rule-making committee's proposed regulations were held in August, 2002. The Department used the consensus of the rule-making committee, public testimony and written comments as a basis for the regulations it adopted on November 19, 2002. The regulations were effective, January 1, 2003.

CHARITABLE GAMING

Effective January 1, 2003, the Legislature added the Boys and Girls Club of the Kenai Peninsula to the list of qualified organizations allowed to conduct "mercury classic" games of chance.

2003 – Effective January 1, 2004, the Legislature allows a permittee that conducts a contest of skill and awards more than \$500,000 in prizes to the participants in that contest of skill, to exclude \$500,000 in prizes awarded to those participants from the \$1,000,000 maximum prize limitation.

FY 2003 Statistics

Taxes and Fees Collected	\$2,585,507
Number of Reports and Permit Applications	4,527
Program Cost	\$974,134
Staffing (<i>full time equivalent</i>)	9.7

JACOBSON, BUFFALO, SCHOESSLER & MAGNUSON, LTD.

Attorneys at Law

John E. Jacobson
Henry M. Buffalo, Jr.*
James M. Schoessler
Mary B. Magnuson
Mark A. Anderson
Joseph F. Halloran
Shawn R. Frank**
Peter G. Griffin***
Allison F. Eklund

1885 University Avenue West • Suite 246
Saint Paul, Minnesota 55104
Telephone (651) 644-4710
Facsimile (651) 644-5904

* Also Admitted in Wisconsin
** Also Admitted in New Mexico and New York
*** Also Admitted in Connecticut

Of Counsel:
Steven G. Thorne

FACSIMILE TRANSMISSION

_____ URGENT
_____ CONFIDENTIAL
_____ FOR YOUR INFORMATION
_____ PLEASE RESPOND

DATE: 4-29-03
PAGES: 4
(Incl. this page)
TO: The Honorable (in Senate & Labor & Commerce Committee)
FROM: NAFTM / Mary B. Magnuson
FAX #: 907-465-3871
Message: Please give to all Committee members
Thank you

_____ WILL FOLLOW BY MAIL
_____ WILL NOT FOLLOW BY MAIL

The information contained in this facsimile is attorney privileged and confidential. It is intended only for the use of the individual or entity named above. If you have received this communication in error, please immediately notify us by telephone and return the original message to us at the above address via U.S. mail. Thank you.

NATIONAL ASSOCIATION OF FUNDRAISING TICKET MANUFACTURERS

246 Irls Park Place
1889 University Avenue West
St. Paul, Minnesota 55104

Phone: 651.644.4710 Fax 651.644.5904
www.naftm.org

April 29, 2003

Chairman Con Bunde and Members
Senate Labor and Commerce Committee
State Capitol, Room 506
Juneau, AK 99801

By Facsimile

Re: Senate Bill 102

Dear Mr. Chairman and Members of the Committee:

I am writing to follow-up the testimony of Mr. Roger Franke, President of the National Association of Fundraising Ticket Manufacturers, as presented to the committee on Thursday, April 24, 2003. Mr. Franke testified by telephone in opposition to S.B. 102.

The bill, as originally written, would impose a tax of 5% on the gross receipts from the sale of pull-tabs and would impose a cap on prizes of 72%. It is my understanding that the committee has agreed to a substitute bill that would eliminate the prize cap, but would impose a tax of 25% of the "ideal net".

Elimination of the prize cap is a positive step. Of the 38 states in the country that authorize the sale of pull-tabs, only the state of Nebraska has a cap on the amount of money that may be returned to the players in the form of prizes. In Nebraska, the prize cap is 80%, far above that proposed for the State of Alaska.

In our experience in dealing with charity gaming around the country, we have learned that states do not impose prize limits for very good reasons. First, there is a general understanding that pay-out limits depress receipts and hence, the taxes that states hope to collect off of the activity. Therefore, the imposition of a prize-cap is counter-productive if the intent of the cap is to raise money in the form of taxes.

States also do not limit the pay-out because it stifles the ability of the charity to be flexible in the games that are played. While a charity may not be able to offer all games with high pay-out percentages, a charity needs to have a few of those games in play to keep players interested. As a general rule, pay-out limits suppress play, reduce receipts and negatively affect the profits that are available for charity.

High taxes on pull-tab activity also limit receipts. An example of this rule can be found in the State of North Dakota. Like Alaska, North Dakota allows pull-tabs to be sold in taverns and has no significant gaming competition (a lottery was approved during the last election, but it has yet to be implemented). In 1993, the excise tax on pull-tabs was 2% of the gross receipts. During the 1993 legislative session, the tax was increased to 4.5% of gross receipts. The tax went into effect later that year. In 1994, gross receipts from pull-tabs were \$202,612,503. The average prize pay-out was about 80% and the taxes collected were \$12,945,936 (this was total taxes on all charity gaming activity, but pull-tabs constituted the greater portion of the receipts).

Each successive year thereafter, gross receipts on pull-tabs decreased, pay-out percentages decreased to compensate and tax collections fell. By 1998, gross receipts for pull-tabs were \$176,480,000 and tax collections fell to \$10,817,764. In 2001, gross receipts were even lower at \$160,634,211. Taxes, on the other hand, increased somewhat to \$12,359,653 (less than in 1994, but higher than in the previous years). The Attorney General's Office, which regulates charity gaming in North Dakota, attributes the increased tax amount to the fact that the tax rate forced the smaller charities out of business leaving only the large charities in operation, which pay a higher percentage of the tax.

Oklahoma is another example of how excessive taxation has depressed pull-tab sales. Since the legalization of pull-tabs, Oklahoma has imposed a tax of 10% on the gross receipts of each game. Gross receipts for pull-tabs in 2001 were only \$4,594,693, despite nearly \$100 million dollars in bingo activity. Pull-tabs are not played in Oklahoma because the charities cannot afford to pay the tax. Despite the tax rate, the state collects minimal amounts of money on pull-tab activity because the tax rate has virtually eliminated the sale of the tickets.

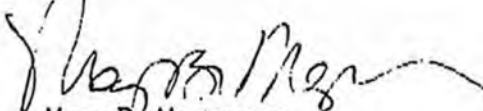
Our association issues an annual report detailing charity gaming activity throughout the United States and Canada. Besides Oklahoma, Massachusetts imposes a 10% tax rate, but Massachusetts limits the sale of pull-tabs in a manner that is far different than Alaska. The State of Illinois has a 5% tax on the gross receipts of pull-tabs, but that tax has spawned a staggering amount of "raffle" games. In other words, due to a loophole in the law, charities are playing unregulated and untaxed "raffles" in lieu of pull-tabs. Washington also imposes a 5% tax on the commercial (for-profit) pull-tab activity, but only a tax of 10% on the net for the same activity sponsored by charity. I mention these details because I know that our annual report on charity gaming has been used

to justify increasing the tax in Alaska. I hope you understand that without taking into consideration the manner in which pull-tabs are sold in the various states, bare comparisons are basically useless.

With the exception of the above mentioned states, no other state imposes taxes on pull-tabs at such a high rate. The vast majority of states that tax charity gaming activity limit the tax rates to about 2% of gross receipts or less than 10% of net receipts. In our experience, a tax rate of 5% of gross receipts or 25% of "ideal net" receipts will depress the sale of pull-tabs, force many charities out of business, particularly smaller charities, limit the money available for charity, and overall, reduce the dollars available to collect in the form of taxes. In short, we do not believe that the \$12 million anticipated to be collected will be realized.

Thank you for your consideration of Mr. Franke's testimony and for your consideration of this additional material. Should you have any questions, please feel free to contact me.

Very truly yours,



Mary B. Magnuson



Chamber of Commerce & Visitor Information Center

FAX TRANSMITTAL

CHAMBER FAX NUMBER (907) 262-3566

FAX SENT TO: Senator Bunde, Chair

NAME OF COMPANY: Senate Labor & Commerce

FAX PHONE: (907) 465-3871

SENDER: Justine Polzin, Exec. Director

NUMBER OF PAGES: 4

DATE SENT: April 15, 2003

IF YOU DID NOT RECEIVE ALL OF THIS FAX, PLEASE CALL
(907) 262-9814

Dear Senator Bunde,

Please find attached a copy of the letter that we have sent to the Co-chairs of both the House and Senate Finance Committees.

As the Chair of the Labor & Commerce Committee, I thought that you would be interested in the position that the Central Kenai Peninsula non-profits have taken regarding SB102 & HB169—Charitable Gaming Revenue.

Please feel free to contact me if you have any questions or concerns regarding this information.

Thank you.

www.SoldotnaChamber.com

44790 Sterling Highway Soldotna, Alaska 99669 (907) 262-9814 Fax 262-3566 Email: info@soldotnachamber.com



Chamber of Commerce & Visitor Information Center

April 14, 2003

Senator Wilken, Co-Chair
Finance Committee
Room 518
State Capitol
Juneau, AK 99811

RE: SB102 & HB169 – Charitable Gaming Revenue

Dear Senator Wilken:

This letter is to express our concern and explain the impact that the above referenced bills will have on charities in the central Kenai Peninsula.

The Kenai Peninsula Borough does not allow operators to manage the gaming for non-profits within the borough. This means that when you increase the tax on the gaming proceeds, it is coming directly out of the pockets of our non-profits. Just to give you an idea as to the impact that the 5% of ideal gross will have on us, we're providing you with the following figures. Based on last year's sales, the non-profits listed below paid \$51,500 in taxes to the State. If the 5% of ideal gross had been in place, we would have paid \$462,600 in taxes to the state. This takes \$411,100 right out of our budgets and we are only ten of many.

What effect will this have to the area? Here's a list of just some of the cuts that will take place: A loss of one of two of the Senior Center's ADA vehicles, which provides meals-on-wheels and transports local seniors for medical care or whatever; many of the non-profits provide scholarships for local high school students...these would be cut drastically; Kenai and Soldotna Little League programs; Student of the Month programs; grants to the Kenai Recreation Center; elementary schools and the Drug Awareness Program; the Ollers Baseball program which has produced college and professional level baseball players; donations to the Food Bank; donations for the elderly at the local pharmacy; aide for rent, heating and electrical for people in need; medical assistance; as well as business support, such as tourism marketing, economic development and workforce development.

We are all small not-for-profit businesses that rely heavily on our gaming proceeds to operate. Do not confuse us with the big gaming parlors or operators who are making

www.SoldotnaChamber.com

44790 Sterling Highway • Soldotna, Alaska 99669 • (907) 262-9814 • Fax: 262-3566 • Email: info@soldotnachamber.com

No. 6698 P. 2

APR 15 2003 10:32AM SOLDOTNA CHAMBER

Page 2
Senator Wilken
April 14, 2003

the big bucks and do not provide the community assistance that we do. We all generally sell games that payout between 79% and 85% because our players do know the difference. Should you require us to play games that only have a payout of 68%, we will end up closing the doors.

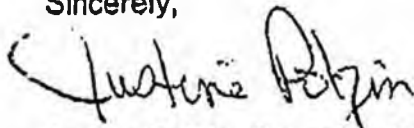
There is also the employment that gaming provides for our area. All of us that have our own independent stores have full-time and part-time employees. These are above minimum wage positions and some even have benefits. Again, we are talking about hundreds of thousands of dollars in our local economy.

Please remember that we have already based our operating budgets for this year on the pull-tab profits that we have become accustomed to receiving. It would be devastating to our operations if we were to lose such a huge amount of operating dollars with no planning time.

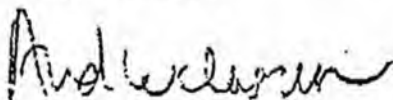
We respectfully request that you create a group that would include affected permittees to look at other options, such as increasing the 3% of ideal net to 6% of ideal net (NOT Ideal Gross) and that you invite the non-profits to the table to discuss solutions. Please don't jump blindly into a situation that will hurt so many incredible community organizations.

If you have any questions or comments, please feel free to contact any of the organizations listed below. The Soldotna Chamber of Commerce has served as the main point of contact; so for simplicity purposes, please don't hesitate to contact me, Justine Polzin, and I will forward your information to everybody.

Sincerely,



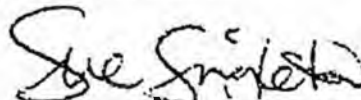
Justine Polzin, Executive Director
Soldotna Chamber of Commerce
(907) 262-9814



Audrey Walaszek, Executive Director
Kenai Peninsula Tourism Marketing Council, Inc.
(907) 283-3850

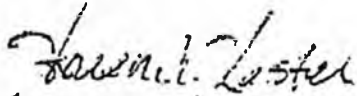


Jan Fena, Executive Director
Soldotna Senior Center
(907) 262-2322 -

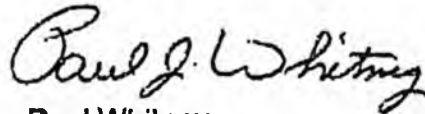


Sue Singleton, Manager
VFW Post 10046
(907) 262-2722

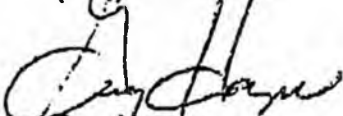
Page 3
Senator Wilken
April 14, 2003



Karen Kester
Kenai Elks, Peninsula Oilers
(907) 776-8800



Paul Whitney
Soldotna Elks
(907) 262-2706



Guy Hayes
Soldotna Little League
(907) 262-1757



Heather Arnett, Executive Director
Women's Resource & Crisis Center
(907) 283-9479



Ricky Gease
Kenai Convention and Visitors Bureau
(907) 283-1991



Judy Warren
Sterling Senior Center
(907) 262-6808

cc: ~~Senator Bonds, Chair - Senate Labor & Commerce~~
Representative Anderson, Chair - House Labor & Commerce

April 9, 2003

Dear Mr. Bunde,

My name is JoEllen Fox. I have been a pull tab dealer in AK since 1989. I am currently operator #82.

I'd like to share my thoughts on HB169 and SB 102. Before doing so, I beg you to keep an open-mind before making any decisions regarding this issue.

I'd like to first explain, from a dealer's point of view how a pull tab player plays pull tabs. The player walks into the store with only a \$20 bill in his pocket. He helps himself to a cup of coffee, and looks over the games while chatting with the dealer. He finds an appealing jar and asks for 10 tickets in that jar and spends \$10.00. He hits a \$2.00 winner and plays it back on 2 more tickets. Then he runs out of tickets. He looks around a bit and decides on a different game in a different jar. He puts up his last \$10.00 and receives 10 more tickets. This time, he opens up a \$20.00 winner, a \$5.00 winner, and another \$2.00 winner. He just opened \$27.00 in winners. He tells the dealer he LIKES this game. He gives the dealer his \$27.00 in winners and receives 27 more tickets from the same game. He opens these up and only gets a \$5.00 winner. He decides to play it back in the same jar. He wins no more and is out of money. But he did have fun. He says, "Goodbye and Thank you" to the dealer he knows by name. He leaves with no money in his pocket. The cash register has \$20.00 in it. In this scenario, the GROSS SALES, or the # of tickets that were dispensed over the counter is \$54.00. The NET, or amount of dollars in the cash register is \$20.00. These are the two important terms...GROSS and NET. (Please keep in mind this is a simplified example.)

Typically, operators run games in their stores that average 20% profit. A tangible example of this would be a dealer who has 100 tickets in one jar to sell. A player walks in with a \$20 bill. The player and the dealer exchange money and winners. When all is said and done...all 100 tickets have been played and \$20.00 is in the register.

At this point, I'd like to refer to the new proposals Frank Murkowski is hoping to pass.

Currently, operators pay to the state 3% of the ideal NET, which would be 3% of that \$20.00 in the till.

What Mr. Murkowski is proposing is an increase to 5% or 8%. This doesn't sound like much, but its an astronomical increase. He's asking to tax 5% or 8% of the GROSS SALES, which would be 5% to 8% of the 100 tickets that were exchanged back and forth. That is 25% to 40% of the NET. With this small 100 ticket example, the taxes due to the state would be \$5.00 to \$8.00 of the \$20.00 in the till. Please keep in mind that NO expenses have been paid yet. There's still rent, heat, water, sewer, mortgage pmts, electricity, garbage, employee wages, games to purchase, cash registers, scales, office

supplies, cash register ribbon, receipt paper, licenses and fees which get paid to the state, accounting, yearly accounting audits, and of course, let's not forget who's supposed to benefit from pull tab sales, the charity and its mandatory 30%.

To put it bluntly, with the tax Mr. Murkowski is proposing, I don't know if many operators would survive

Regarding the other proposal for increased profit percentage on the games themselves...Like I said, operators run games that average a 15% to 25% profit. When the pull tab player walked into the store in my earlier example, the first game the player picked was a 30% profit game. He didn't know it. All he knew was that it was no fun to play. In 2 minutes, he lost \$10.00. The 2nd jar he picked was a 19% profit game. He LIKED it...enjoyed himself, and lost the same amount, \$10.00 on that game. But he got to play, open tickets, sip coffee, and visit for 15 minutes. The GROSS SALES on the first game was \$12.00. The GROSS SALES on the 2nd game was \$42.00.

If Mr. Murkowski's proposal to increase the profit on each game to a mandatory percentage is approved, very quickly the GROSS SALES in the state will decrease and it will be noticeable immediately. The formula designed does NOT WORK.

In conclusion, please become knowledgeable before approving any changes to the current pull tab taxing structure and before making any changes to the way an operator runs his/her business regarding profit margins on games. We could very quickly see the entire pull tab industry disappear.

There are knowledgeable operators and permittee members who know different ways to increase taxation on pull tab sales that will work.

I know several operators, including myself, and permittee members who eagerly await any questions you may have. Please feel free to contact any of us.

Thank you so much for your consideration on these issues.

Sincerely,



JoEllen Foxx
(907)378-2255

04/03/03

Senator Bunde,

I will try in this document to put forth a solution that gets the Governor's office much of what it wants, creates a sustainable gaming tax structure, and strengthens accountability in the industry.

Stake Holders

Operators

An "Operator" is a private citizen who puts forth a bond of \$10,000.00 for each permit he/she represents up to \$100,000.00 after which they can represent an unlimited quantity of permits.

An "Operator" is involved in the gaming industry to make a profit for themselves just like any other private business interest. He/She is required to return at least 30% of the adjusted gross income from their pull tab gaming activity to the permit holders they represent. An Operator is free to pick and choose who they will represent and is only accountable to their permit holders "charities" in the sense that they are obligated to return the 30% state mandated minimums. If there is a conflict between the operator and a permit holder the operator is free to find a replacement regardless of the merits of any conflict

Self Directed Permit

A Self Directed Permit is a gaming enterprise run directly by the permit holder.

They are also required by law to return at least 30% of their adjusted gross income to actual charitable use. They are also required by law to use any proceeds in excess of the 30% for charitable uses as well. They or any anyone they put in management capacity are directly responsible to their cause.

MBP; Multiple Beneficiary Permit

A MBP is up to six self-directed permit holders who form a co-operative.

A MBP is also required to return at least 30% of adjusted gross income to charitable use any proceeds in excess of that 30% also must go to charitable use. A MBP's management is directly responsible to the organizations that make up the permit.

Vendor

A Vendor is the owner of a licensed establishment typically a bar.

The Vendor or bar owner purchases a percentage of the "ideal net" of pull tab game from a permit holder (either a self directed permit holder or a MBP permit holder) for no less than 70% of the Ideal net of that pull tab game. This purchase is made at the time of delivery by state law. The vendor then sells the game and retains 30% of the ideal net for his/her profit. The permit holder pays for the cost of the physical pull tab game as well as any taxes associated with that game like the current 3% ideal net tax.

Ideal Gross vs. Ideal Net Taxation.

Ideal Net = the total dollars left after a pull tab game is sold and all winners paid if each ticket was sold at face value.

Ideal Gross = the total number of tickets in a pull tab game.

These two concepts are both "Ideal" concepts, however, "ideal net" is in fact the only realistic yardstick to measure the actual dollars generated in gaming. By basing a tax on the percentage of "ideal net" (as is currently done with the 3% ideal net tax) you are in fact taxing true gross receipts of gaming activity as well as taxing each pull tab game equally based on its profit. There is a reason the tax is currently structured this way.

"Ideal gross" is relative in gaming due to the nature of paid outs and the different paid out percentage of each pull tab game. In other words under "ideal gross" taxation you are taxing each pull tab game differently without concern for its profit.

I am not sure what the logic was under this concept of Ideal Gross taxation proposed by the Governor's Office. Perhaps, it was an attempt to make the tax seem smaller than it actually is in terms of perception. A new 5% tax sounds may sound less threatening than raising an existing tax from 3% to 20%, however the only realistic and sustainable way to tax any gaming activity is by percentage of the "ideal net".

72% cap on Paid Outs Concept:

As you know the Governor's Office quickly realized that they needed a "patch" in their initial bill in order to make it work on paper as in theory. Thus, the first amendment to SB102 and the 72% cap on paid outs. In "Theory" this seems like a good idea. After all lower the current percentage paid out of pull tab games in play to 72% and there is more money to go around.

This 72% concept is being sold as a reasonable limit on pay out percentage based on other states lumped activities (keep in mind most if not all of these states started at inception with a cap) as well as an assumption that the gaming, as a vice will show some elasticity as with the cigarette tax hike. It is also being sold as "fair" based on the fact that it will put all gaming venues in the same market position cap.

If pull tabs were rolled out at inception with a paid out cap years ago I think this would be a mute point: however, the state is currently averaging near 80% paid out and has for countless years. This radical shift in the market place as it exists today would have enormous unknown negative effect on gross sales as well as the survivability and attractiveness of pull tabs themselves. In Essence there would be few if any pull tab games put in play with less than a 72% cap everything would start looking the same. There are currently precious few options in the display and structure of pull tab games based on state law like the \$500.00 prize cap etc. As is true and is the current mantra of

the State if you want more revenue you have to grow the economy. The same holds true for pull tabs

If you want more revenue sell more pull tabs. How does one do that? With diversity and variety in the marketplace.

Make no mistake everyone in this industry is doing its best to maximize its profit potential from the operators who benefit directly in their own pockets to the self-direct and MBP permit holders who benefit their programs. There already is a slow but steady market shift to lower prize paid outs in order to stay profitable. An arbitrary and across the board cap would make any free market economist die of heart failure in his/ her sleep.

Can The Governor's Office get the 12.5 Million in new revenue from gaming and keep the permit holders solvent? I think the Governor can get most of what he wants and here is how:

Stick with reality what is proven and works. Currently all pull tab operations in the state are near an average of 80% paid out percentage for all pull tab games in play. Some games are at 75% some are at 83% etc but when all is said and done the state currently and rightfully taxes the profit at 3% of the ideal net of each game in play regardless of its percentage.

I argue that the Governor's Office proposal is not far from the mark in the fact that there is room for taxation in gaming. For example the MBP I manage is currently paying the Governor's Office new tax by way of an absorbed 5% city sales tax (make no mistake about it we tried to pass this sales tax along to the consumer with catastrophic results due to the nature of the gaming process) and we are still making our state mandated minimums but only by the slimmest of margins and paying the city near \$150,000.00 a year. However, there are also examples in Juneau of activities that owe the city in excess of \$250,000.00 in unpaid sales tax revenue. There are also countless Operators, MBP's, Self-Directed, and Vendor activities state wide (in fact the super majority) that are not subject to a sales tax and are returning no more than the mandated minimums as well.

What gives you may ask? I too have been asking this question for years. I think the answer is two fold. First overhead and administrative costs are out of proportion and any new tax will see that these costs get reigned in. Second is not all activities have efficient, honest and productive management. This is sadly the fault of the permit holders themselves for not educating themselves and holding their management accountable this will also change with any new taxation, as they will have to start paying very close attention or else go bankrupt.

So what will work to create more revenue for the state as well as remove some of the administrative, management, and expense excesses that exist in the industry?

Create a sustainable tax that that by no means makes everyone happy but is reasonable, gives the state as well as local municipalities a stake, while allowing the free market place to work.

Sustainable Taxation

First, create one tax and one tax only on gaming statewide by outlawing local sales taxation.

Second, increase the current tax "3% of the ideal net" to 20%. Everyone will claim the sky is falling but in fact this is reasonable and will force the excesses currently in the industry to become more efficient. This will also leave some room for future market downturns by not putting everyone right on edge of barely being compliant with state mandated minimums. This gives the Governor's Office 95% of what they are asking for based on the state average ideal net.

Third, do not put a cap on percentage paid outs of pull tab games. Give the market flexibility to maximize its returns as the conditions of the market dictate.

Fourth, require all activity to be reported by location and split the 20% ideal net tax with local municipalities 50%/ 50%. This is not currently state law. This will prevent the following situations. Currently; for example, a permit holder who's charitable activities only take place in Juneau is free to raise money through Gaming in Anchorage and take 100% of the profits from Anchorage and spend them in Juneau and not leave a dime in Anchorage and vice versa, as well as prevents the current sales taxed activities to be laundered through non taxed municipal locations. This 50%/50% will decrease the states share figuratively; however, I am certain it is a good idea to give the local municipalities a stake in this state wide activity. This new found windfall for the super majority of municipalities not currently taxing gaming will also offset many of the decreased revenue options that flow from the state to the municipalities that are currently on the table. The local municipalities that are currently taxing gaming will no doubt be disappointed but at least they will get something for they realize that with any new state tax on gaming they will be put in a position of bankrupting their local gaming interests or relaxing or eliminating their taxation all together. So, in a nut shell this still gives The Governor's Office 95 % of what it is asking for, if that office is flexible enough to realize that by increasing current local municipalities revenue stream in one arena it has options to trim in others. Same amount of tax just different pots of decision making on how it is spent. I am personally neutral of the concept of the 50%/ 50% split however; I think it would leverage more incentive for the passage of this legislation.

Fifth, collect the 20% ideal net tax in the same manner it is currently being collected through the distributors. Currently the distributors are liable for the tax regardless of whether they get paid by the permit holders. This new tax will make that situation very dangerous for them so; create a mechanism for them that does not put them in a bankrupt situation if their payables go uncollected. Do this by simply making it illegal for any distributor to sell a pull tab game to any permit holder or operator that has not paid their

outstanding tax bill to the distributor within 30 days. The distributors will report these non-paid accounts to the gaming unit within the department of revenue when they submit their monthly check and reports to the state. The gaming unit will then post those non-paid accounts on their web site on the 7th business day after the reports and payments from the distributors are due. The distributors shall then be responsible for checking this site on that 7th day (only accessed by the distributors through a password; the public will not be able to see this information) they will not be permitted to sell any pull tabs to any of the listed permits until they have made their tax payments. To keep the distributors honest instill harsh penalties for any sales to a listed non-tax compliant permit, as well as any false reporting of failure to pay tax by a permit holder.

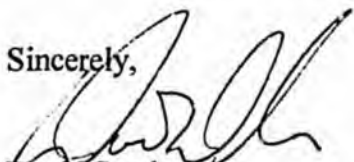
Sixth, license all persons involved in the management or supervision of gaming activities and revoke those permits if they continually put permit holders in jeopardy. Currently, only Operators are licensed and management can simply walk down the street to another permit holder after putting a former permit holder in jeopardy with state or local law.

Seventh, strengthen who what is actually a charitable cause and thus eligible for a gaming permit. This will prevent the current long list of "ghost charities" that exist only on paper from abusing the integrity of gaming.

There are never any easy answers; however I do think the above plan will accomplish three things that are long over due in this industry. It will force the permit holders to become more responsive to their cause and eliminate current excesses and create a sustainable state/local tax on an industry that should be taxed and held to a higher standard.

The Governor's Office, Legislature, and the Permit Holders will all have to sacrifice something. However, with humble integrity I am with confidence that this plan I put forth is a good start in the ever-difficult process of making Alaska a better and more accountable State.

Sincerely,



David Sanden

Primary Member in Charge of Gaming
Juneau Montessori Center
Southeast Alaska Friends of Montessori
Juneau Dance Unlimited

I may be reached at 364-2890, 790-2198, pager 463-7654

Email sandenconsultant@aol.com

April 11, 2003

Governor Frank Murkowski
Office of the Governor
Juneau, Alaska

Honorable Governor Murkowski,

- We recognize and would like to bring to your attention the following:
- We understand your desire to increase financial returns to non-profits involved in gaming as well as the State through taxation.
- To hold non-profit organizations harmless, the ideal would be to increase the minimums for charitable contributions rather than establishing a tax on gaming, but taxation on this industry is possible and prudent to forcefully eliminate excesses.
- There is gross expense and administrative excesses in this industry, due to lack of oversight by the permit holders and inadequate regulations by the State.
- To expect to legislatively fix this problem by capping the payout percentage is unrealistic for the following reasons:
- Assuming that you can change the level of pay out percentages from 80% to 68% without affecting the survival of this industry is false. The game depends on people's desire to play, if their odds are reduced, the likelihood of playing is also reduced and eventually lost. It is the impression of many on the street that the bulk of revenue entering the gaming system is from the occasional player; this could not be further from the truth. 98% of the revenue in gaming is generated by the day in day out and weekly consistent players. These regular players (less than 6% of the population; are 98% of the revenue) will notice a drop in the percentages like you might notice a 12% hike in gasoline prices. You will not be able to create more loses (more receipts) in the gamblers budget with the stroke of a pen lowering paid out percentages. The same amount of dollars in real terms will be "lost" regardless of the percentages.
- Over the years, the gross receipts for gaming as it has been noticed by the Department of Revenue graphs, has increased considerably while the charitable contributions have remained stagnant. The main reason for this is two fold, in one hand any increasing profitability due to more gaming in this industry has been consumed by excessive expenses and administrative costs, on the other hand the industry has to stay attractive to the gaming public by increasing the incentive (payouts) to play. **Thus we argue that any taxes should be taken from the administrative costs and expenses.**

Our recommendation to your proposed taxation follows:

First, create one tax and one tax only on gaming statewide by outlawing local sales taxation.

Second, increase the current tax "3% of the ideal net" to 20%. Include language to have this 20% tax reviewed every 5 years. This tax will give you over 90% of what you were initially seeking in increased revenues for the State when you rolled out SB102 and HB169 based on current market percentages.

Third, do not put a cap on the percentage paid out of pull tab games. Give the market flexibility to maximize its returns as the conditions of the market dictate.

Fourth, at the discretion of your administration, require all activity to be reported by location and split a portion of the 20% ideal net tax with local municipalities on proportional basis taking into account where the revenues were generated. All local municipalities will then equitably receive a just proportion of gaming proceeds.

Fifth, collect the 20% ideal net tax in the same manner that it is currently being collected through the distributors. This guarantees the State its revenue and forces the distributors to be more cautious and prudent in their historically lax and permissive business practices with permit holders known for excessive expenses and administrative costs.

Sixth, license all persons involved in the management or supervision of gaming activities and revoke those permits if they continually put permit holders in jeopardy. Currently, only Operators are licensed and management can simply walk down the street to another permit holder after putting a former permit holder in jeopardy with State or local law.

Seventh, strengthen who and what is actually a charitable cause and thus eligible for a gaming permit. This will prevent the current long list of "ghost charities" that exist only on paper from abusing the integrity of gaming.

Our concerns if you continue with your original taxation proposal:

- Our diligently run gaming operation will certainly suffer and possibly become unviable. If that happens, the three not-for-profit organizations that receive contributions will be profoundly affected as follows:
- Tuition fees at the Juneau Montessori School for early childhood education would see a dramatic increase of 28% per year.
- Southeast Alaska Friends of Montessori would have to abandon their current plans to expand the Montessori Program to the adolescent level as well as putting in jeopardy their elementary program within the school district.
- Juneau Dance Unlimited would have to discontinue their regularly scheduled dance instruction.

- We would also like to acknowledge that many political self-interested parties are waiting in the wings and will use this current opportunity to gather momentum in order to further their argument for electronic gaming. They may have some arguments that on the surface appear to increase revenues across the board. However; and we can not express this with enough weight, electronic gaming is a Pandora's box that once opened will lead to social and economic realities that are monstrous, as well as create overwhelming pressure to allow full scale casino gaming activities on native land not to mention decrease opportunity for charities and inevitably shift all gaming revenue to solely benefit the state tax coffers and private interests. However, we see the possibility of a state quarterly lottery having little effect on the current marketplace.

Sincerely,

David Sanden
Primary Member in Charge of Gaming
Juneau Montessori Center
Southeast Alaska Friends of the Montessori
Juneau Dance Unlimited

Please feel free to contact me @ 364-2890 or pager 463-7654
email: sandenconsultant@aol.com

ACA

Allied Charities of Alaska Association

To: Senator Con Bunde

From: Doug McBride

Date: April 22, 2003

Re: Suggestions for a Fair and Equitable Tax Increase on Charitable Gaming

As your staff requested, I have written my suggestions for a fair and equitable tax increase on Charitable Gaming. My suggestions raise Charitable Gaming taxes from approximately \$2,300,000 to \$7,925,000. Five key items have guided me. I think these five items should also guide you and your colleagues.

First, the tax increase must keep the basic structure of Charitable Gaming in existence. Huge investments in real estate leases, pulltab game development, employee careers, and capital equipment have been based on this basic structure. A rapid change will result in 3,000 lost jobs and bankruptcies. To change it would wreck havoc on good Alaskans that have relied upon it. To alter the basic structure is wrong and unfair.

Second, no one group in Charitable Gaming should be unduly affected or required to pay all of the tax increase. It seems only fair that everyone in the Charitable Gaming community should help out and pay a fair share of the tax increase. We are all in this together.

Third, Charities need to maintain their independent characteristics. The State should not impose itself on the day-to-day operation of the Charities. The Charities can make wonderful decisions and run good, honest, accountable, and profitable operations. The Charities themselves can best decide the correct games to run for their markets. State intervention into the pulltab market place is misplaced and foolish. State intervention into prize structures and prize payouts is down right dumb. The individual Charities know how to run a profitable operation. Leave them alone and they will use the tools given to them to maximize returns to the Charities.

Fourth, the tax increase on each of the members of the Charitable Gaming community could be collected without any additional administration or costs. Furthermore, the individual members of the community could "absorb" a portion of the tax by being more efficient and cutting costs. While the new taxes would be painful, creative managers could find solutions to pay the taxes and still deliver high quality products and services at fair and reasonable prices.

The Trade Association for Alaska's Charitable Gaming Industry

5761 Silverado Way, Unit Q
Anchorage, Alaska 99518
Phone 907.677.1644 Fax 907.677.0644

<h1 style="margin: 0;">ACA</h1>

Allied Charities of Alaska Association

Fifth. Charities must be able to continue to do the good they do now. The tax increase cannot be so great or so mis-applied as to put the Charities of the business of doing good. Taxes dictating prize structures and maximum payouts do just that. Leave prizes to the Charities. The Charities will know how to make money if left alone.

Below are my suggestions for a fair tax increase shared by all of the Charitable Gaming community. The suggestions raise Charitable Gaming taxes from approximately \$2,300,000 to \$7.925.000.

1. Increase the Ideal Net Tax on Pulltabs from 3% of the Ideal Net to 9% of the Ideal Net.

Additional Tax Amount: Increased from \$2,000,000 to \$6,000,000 per year

Rationale: The basic structure of Charitable Gaming remains in place. Charities, distributors, operators, vendors, manufacturers and MBP that have made long term lease, employee, capital investment and inventory commitments will be able to fulfill the commitments. Charities could modestly adjust the prize structure of games to absorb the tax without losing all of the players who play pulltabs. The tax is on the Ideal Net, the only amount left over after paying prizes. The tax is not on the Gross Proceeds. Taxes on the Gross Proceeds will not work and will destroy Charitable Gaming. There is no increase in administration or the cost to collect the new tax.

2. Institute a new tax on Manufacturers that sell pulltabs into the Alaskan Market. The tax would be equal to \$10.00 per deal of pulltabs sold. The Alaska State Stamp already sold to the Manufactures would be the mechanism to collect the tax. The State would merely need to increase the price of each stamp by \$10.00.

Additional Tax Amount: Increase from \$0.00 to \$500,000 per year.

Rationale: Manufacturers could stay in business in Alaska and yet still help contribute to the need to raise additional tax revenue. Manufacturers could continue to sell pulltab games that the Manufacturers invested in to create, introduce, support and inventory. The maximum prize payouts mandated by HB169 and SB102 would eliminate all but one or two manufacturers. (Only the largest Manufacturers could afford to make the unique prize payout; it is not made now in any quantity whatsoever.) Under this proposal, current games would remain legal. The continuity of the pulltab "brand equity" is not destroyed as it would be under HB169 and SB102. There is no increase in administration or the cost to collect the new tax.

3. Increase the fee Operators pay for an Operator's license from \$500 per year to \$20,000 per year.

The Trade Association for Alaska's Charitable Gaming Industry

5761 Silverado Way, Unit Q
Anchorage, Alaska 99518
Phone 907.677.1644 Fax 907.677.0644

ACA

Allied Charities of Alaska Association

Additional Tax Amount: Increase from \$13,000 to \$525,000 per year.

Rationale: Operators could stay in business and yet still help contribute to the need to raise additional tax revenue. Operators could absorb the tax by becoming more efficient and cost effective. There is no increase in administration or the cost to collect the increased tax.

- Increase the fee Pulltab Distributors pay for a Distributor's license from \$1,000 per year to \$25,000 per year.

Additional Tax Amount: Increase from \$13,000 to \$325,000 per year.

Rationale: Distributors could stay in business and yet still help contribute to the need to raise additional tax revenue. Distributors could absorb the tax by becoming more efficient and cost effective. There is no increase in administration or the cost to collect the increased tax.

- Increase the fee Vendors pay for a Vendor's license from \$50.00 per permittee to \$1,000 per permittee.

Additional Tax Amount: Increase from \$10,000 to \$275,000 per year.

Rationale: Vendors could stay in business and yet still help contribute to the need to raise additional tax revenue. Vendors could absorb the tax by becoming more efficient and cost effective. There is no increase in administration or the cost to collect the increased tax.

- Institute a new tax on Manufacturers that sell bingo paper into the Alaskan Market. The tax would be equal to \$3.00 per case of bingo paper sold. (A case would be deemed to be a "series" or approximately 9,000 bingo card faces.) The Alaska State Pulltab Stamp already in existence could be modified at little or no cost and sold to the Manufacturers as a Bingo Stamp. The Manufacturers could simply apply the Bingo Stamp to each case of paper sold. For large "collated books" the Manufacturers would simply apply the correct number of Bingo Stamps.

Additional Tax Amount: Increase from \$0.00 to \$300,000 per year

Rationale: Manufacturers could stay in business and yet still help contribute to the need to raise additional tax revenue. Manufacturers would share in the tax burden increase. There is very little increase in administration and very little increase in cost to collect the new tax.

The Trade Association for Alaska's Charitable Gaming Industry

5761 Silverado Way, Unit Q
Anchorage, Alaska 99518
Phone 907.677.1644 Fax 907.677.0644

ACA

Allied Charities of Alaska Association

7. DO NOT add a maximum prize payout cap.

Rationale: First, the imposition of a prize payout cap drastically reduces the options a charity has to "adjust" product mix. Charities need the ability to adjust the prize payout to respond to market conditions. Second, any such prize payout cap would drastically reduce the number of game from which a charity could select. There are very few pulltab games made with a 72% or lower prize payout. Third, imposition of any such prize payout cap would make the inventory carried by manufacturers and distributors worthless. Manufacturers and distributors have invested huge amounts of money in developing pulltabs for Alaska. This inventory cannot be sold in a few months. Some of these games take a year or more to sell out. A prize cap would cause a huge financial loss to these manufacturers and distributors. Fourth, the prize payout cap would be completely counter productive. Revenues would plummet and the taxes there from would plummet. Fifth, the current regulations that require that Charities run operations at basic profitability levels will insure Charities select the correct games to be profitable.

Finally, the concept of a maximum prize cap ignores the critical component of "volume". Volume is critical in understanding profit. Volume is how often a pulltab "turns". A simple example will demonstrate why volume is critical and cannot be ignored. Assume a pulltab stand has 2 pulltab tubs. Each game in each tub has 4,000 tickets and costs \$1.00. One tub has a 72% prize game and therefore returns \$1,120 per deal sold. The second tub has a 80% prize game and therefore returns \$800 per deal sold. After one month, the 72% tub sold out once and returned \$1,120 to the Charity. After one month, the 80% tub sold out twice and returned \$1,600 to the Charity. The lower profit game returned more to the Charity. Volume cannot be ignored and the focus on maximum prize caps is completely misplaced.

Volume supplies the answer to why so many Charities run 18% to 22% games and not 28% games. These lower profit games make more, not less, for the Charities in the same period of time. Only the regulators, not the businessmen and businesswomen, understand. Please do not have the regulators run us out of business pretending to understand business. Regulators ran the Soviet Union out of business. The regulators will do the same to Alaskan Charities if we let them.

No additional regulations are needed or required. Please do not add this maximum prize cap provision. You will destroy, kill, ruin and end Charitable Gaming. I cannot say it in any stronger terms.

8. Provide for an offset to the Pulltab Distributor if the Charities do not pay the Ideal Net Tax "pre-paid" by the Pulltab Distributor on behalf of the Charity. The

The Trade Association for Alaska's Charitable Gaming Industry

5761 Silverado Way, Unit Q
Anchorage, Alaska 99518
Phone 907.677.1644 Fax 907.677.0644

ACA**Allied Charities of Alaska Association**

Distributor should be able to offset current taxes due if a Charity fails to re-pay the Distributor within a reasonable time frame. A fair time frame would be three months from the date of sale to the Charity.

Rationale: It is an unfair burden on Pulltab Distributors to have to collect the Ideal Net Tax for the State, and then if the Charity does not reimburse the Distributor, require the Distributor to absorb the loss. With the proposed increase in Ideal Net Taxes, the unfairness is magnified. Pulltab Distributors will be required to "loan" to Charities \$6,000,000 per year in taxes. Pulltab Distributors should not be liable for this amount if the Charities fail to re-pay the Distributor. Pulltab Distributors should be tax collectors and not tax guarantors. This provision is simply required if the Ideal Net is increase by my proposed 300%. If not, you will drive Pulltab Distributors out of business.

I appreciate your letting me contribute to the legislative process. Please call 907-225-1644 if you have any questions or need clarification.

Doug McBride

The Trade Association for Alaska's Charitable Gaming Industry

5761 Silverado Way, Unit Q
Anchorage, Alaska 99518
Phone 907.677.1644 Fax 907.677.0644

March 21, 2003

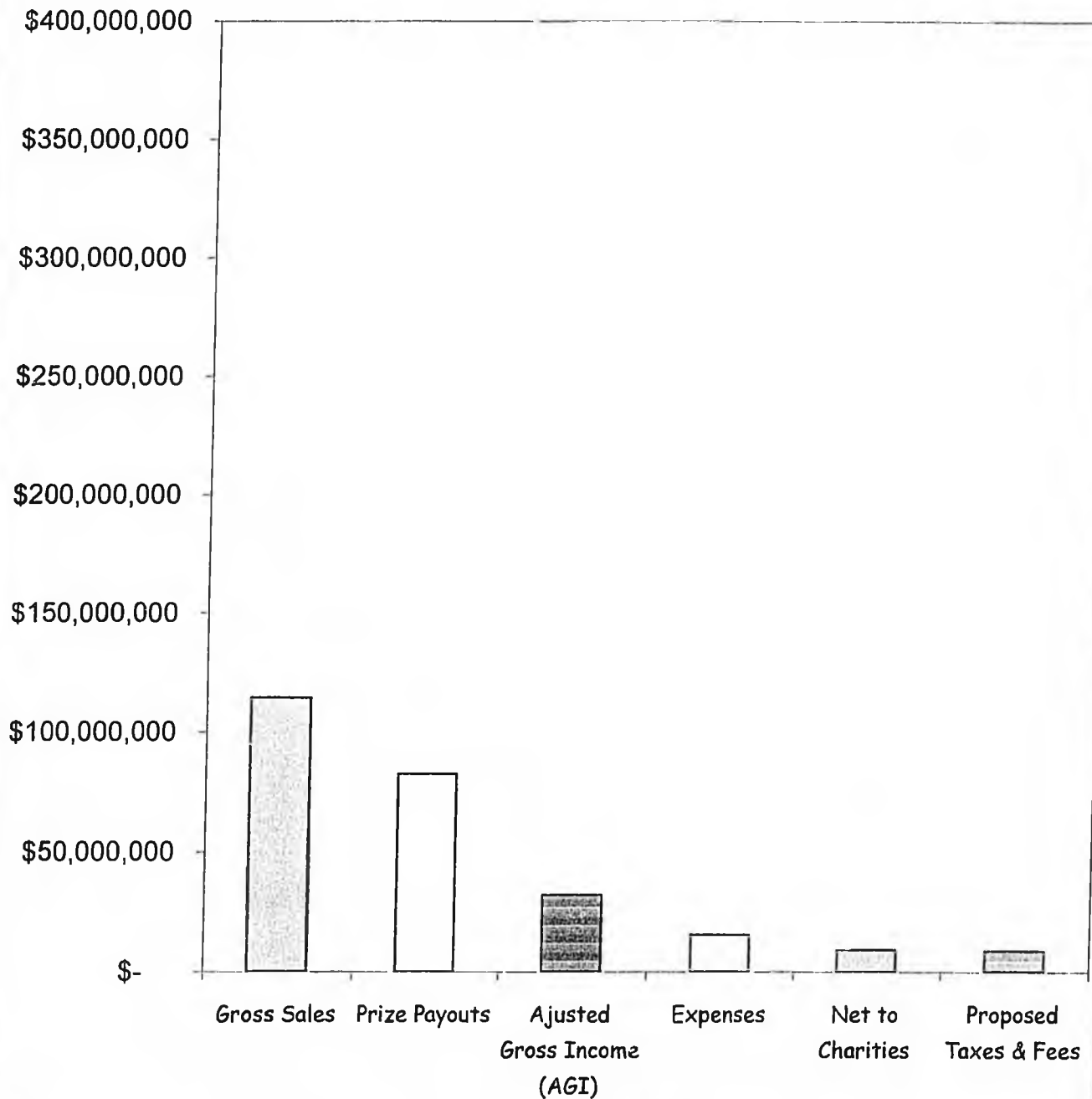
Dear ~~Senator Stevens~~: *Library*

In response to the governor's proposed legislation (SB 102 and HB 169) regarding the taxing of charitable gaming on gross sales, this informational packet was prepared by the following charities:

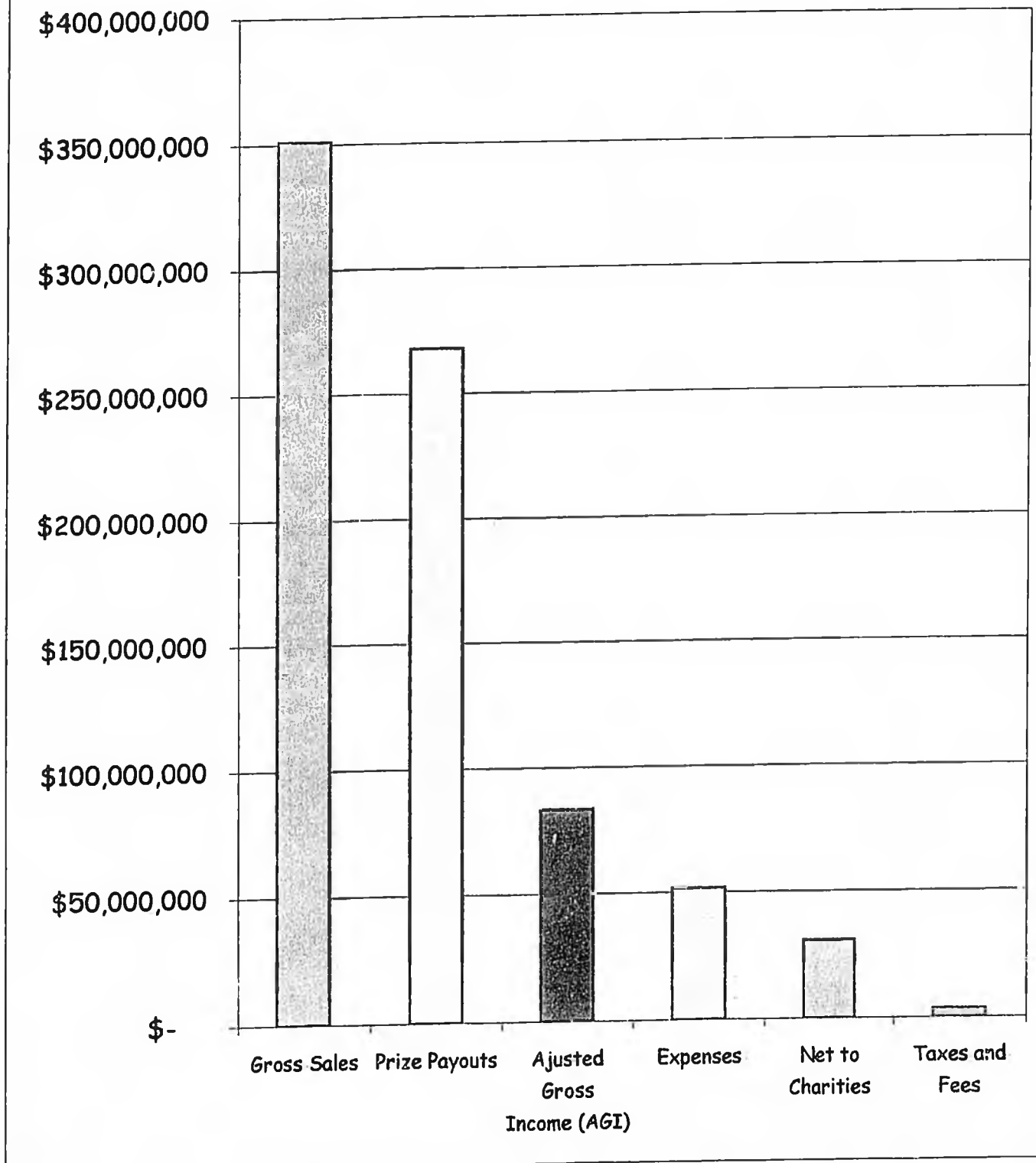
Midnight Suns Softball
Juneau High School Baseball
Juneau High School Softball
Rebounders Basketball Club
Alaska Native Brotherhood Camp #2 Fraternal
Alaska Native Brotherhood Grand Camp
Alaska Native Brotherhood Camp #2 Inc.
Ninilchik Senior Center
Alaska Softball Association
POW Ketchikan Baseball
Juneau Ski Club
Gastineau Little League
Anchorage Boxing
Spennard Community Patrol
Fairbanks Racing Lions
Anchorage Ski Club
Shomrei Ohr Congregation
Salamatoff Tribal Council
Alaska All-star Hockey
Juneau Boxing Club
Greater Fairbanks Racing Association
Motorcycle Racing Lions
Alaska Laborers Training School
Congregational Christian Church
Alaska Shrine Temple
Juneau Archery Club
Fairbanks Snowmobile Fun Lions
Fairbanks Historical Preservation Foundation
AJ Dimond High School
Alaskan Bowhunters Association
Midnight Suns Lions Club
Juneau Tlingit & Haida Community Council

Enclosed is a list of "definitions of common gaming terms" along with the following graphs: "Where Gaming Money Now Goes", "Where Gaming Money Will Go" (Governor's Proposal) and "Probable Actual Effect of Proposed Tax on Pull-tab Receipts Distribution).

**PROBABLE ACTUAL EFFECT OF PROPOSED
TAX ON PULL-TAB RECEIPTS
DISTRIBUTION
(PROJECTED 70% REDUCTION IN PULL-TAB SALES)**

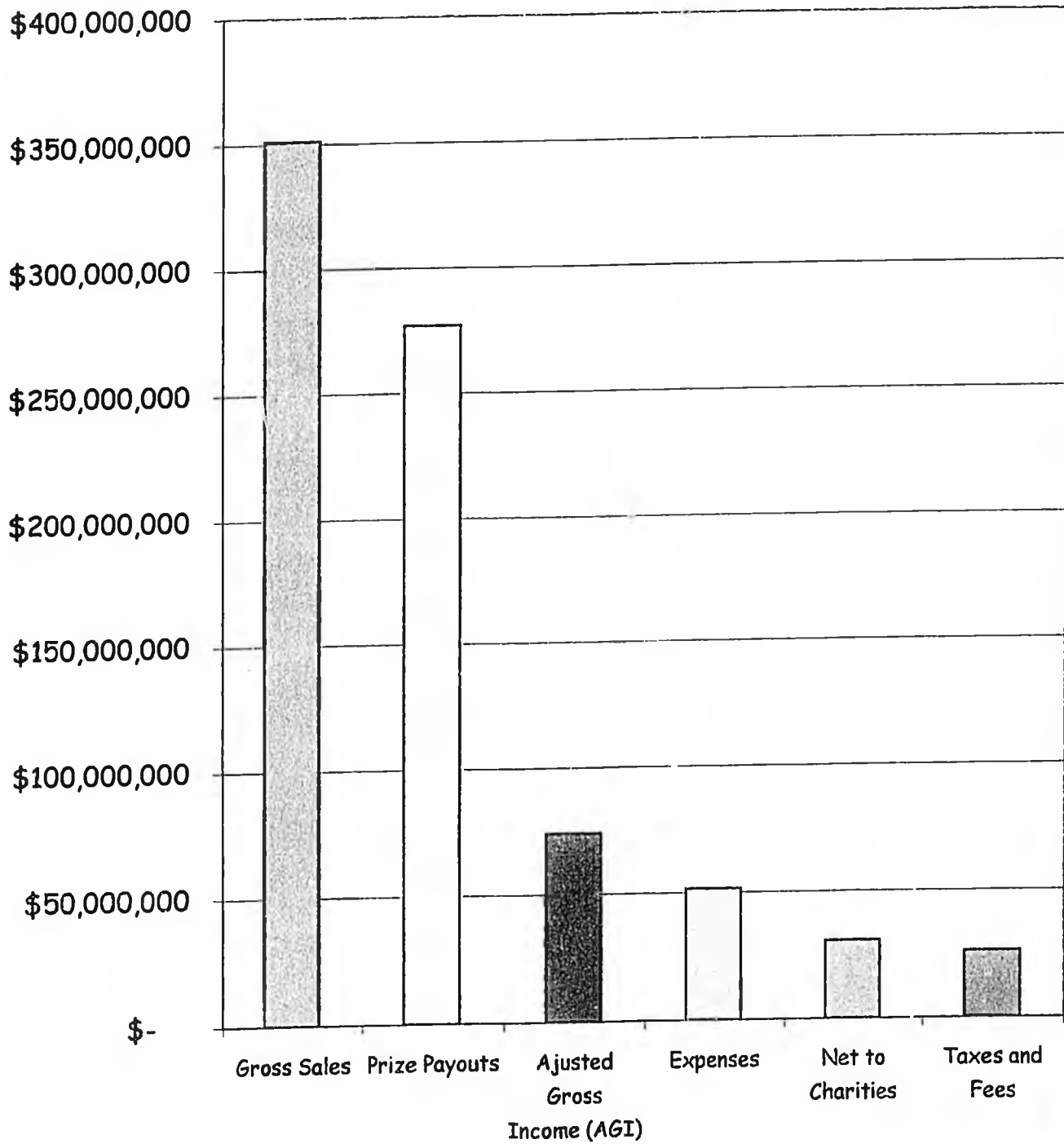


WHERE GAMING MONEY NOW GOES



WHERE GAMING MONEY WILL GO

(Governor Proposal)





**LEGISLATIVE AFFAIRS AGENCY
LEGISLATIVE INFORMATION OFFICE**
210 LAKE STREET, SITKA, AK 99835
Phone: 747-6276 Fax: 747-5807
Email: sitka_lio@legis.state.ak.us

DATE: Apr 24, 2003

TO: Senate Labor & Commerce

FAX: 465-3871

3 # pages, including cover sheet

FROM: Camille Ferguson, Sitka Tribe of Alaska

MESSAGE: Please include in packets for SB 102

*Reg - could you take this to
SL+C? if possible.*

**Sitka Tribe of Alaska
Charitable Gaming
Distribution Guidelines
(1 of 2 pages)**

The following are set guidelines for which financial assistance will be given through the Sitka Tribe of Alaska's Charitable Gaming Program. Total Amount for distribution will be made on availability based on previous quarter revenues and the attached family income guidelines.

Applicant shall have a referral from the Social Services with the following information:

1. Application
2. Electric bill or Proof of Renting (not needed for funeral)
3. Last Check Stub or W-2 or tax return. (not needed for funeral)
4. STA Enrollment

Financial Assistants will be given for the follow priority:

1. Independent Tribal Citizens needing Emergency Assistance :

	Single	Parents/ child	Parents/children 2-4
Groceries	\$75.00	\$100.00	\$125.00
Rent	\$75.00	\$100.00	\$125.00
Electric	\$75.00	\$100.00	\$125.00
Oil	\$75.00	\$100.00	\$125.00
Medical	\$100.00	\$100.00	\$100.00
Funeral	\$250.00	\$250.00	\$250.00

2. School Organizations

Cultural Activities	\$100,00 Per Year		
School Sports Groups	\$100,00 Per Year		

3. STA In House Program- Based on funding availability

**Sitka Tribe of Alaska
Charitable Gaming
Income Distribution Guidelines**

Size of Family Unit	
1	\$11,210-15,000
2	\$15,141-20,000
3	\$19,071-25,000
4	\$23,001-30,000
5	\$26,931-35,000
6	\$30,861-40,000
7	\$34,791-45,000
8	\$38,721-50,000
For each person add an additional	

APR-25-2003 10:37 AM

P. 81

True



Alaska State Legislature

Please enter into the record my testimony to the Senate Labor & Commerce
committee name

Committee on SB102, dated 4/24/03
bill # / subject

I represent the Peninsula Oilers Baseball Club, Inc. and the Oilers Baseball Booster Club, Inc. Both organizations are tax exempt under IRS Code 501(c)(3).

In 2002 our combined return for our charities was nearly 65%, way over the industry average. I feel this shows we conduct our operations with a "very sharp pencil".

Jan 1, 2003 new gaming regulations forced us to change the way we conduct our gaming, raising our expenses. Despite these increases, for the first quarter of 2003 we returned nearly 55%.

Should SB102 go into effect July 1, 2003, it will result in nearly \$40,000 in new taxes for the period 7/1/03 thru 12/30/03. Because this increase will only be in effect for 1/2 of the year we predict a 35% return, just barely enough to be in compliance with gaming statutes.

If you look further ahead to 2004, the first full year of regulations, at current levels our programs would lose \$80,000 in new taxes and be under the minimum 30% return, making us subject to revocation of our gaming licenses.

Limiting the permits to 501(c)(3) charities only would not help our situation. In a good year we come very close to maxing out our allowable permit payouts, meaning even if all competition were to be eliminated we could not expand our operations.

Please do not pass SB102.

Signed: Linda Deenan
Testifier

Peninsula Oilers Baseball - a 501 c 3
Representing (optional)

PO Box 318 Kenai AK 99611
Address

907-283-7133
Phone number



504 34th Ave. • Council Bluffs, Iowa 51501
 712-366-9553 • Fax: 712-366-5017 • e-mail: dale.robertson@amgam.net

Quality Control & Regulation Compliance Fax

Date: April 24, 2003

To: SENATOR CON Runde

From: Dale D. Robertson - Director of Quality Control and Regulation Compliance

Re: Alaska SB102 and HB169

We are a licensed manufacturer of charitable gaming products in your state of Alaska. We have some grave concerns over the legislation being considered in SB102 and HB169.

1. Pull Tab prize cap of 72% or 68%.

- Payout limits suppresses play, reduces gross receipts and negatively affects profits for the Charities, hence less tax revenues.
- Only one other state has a prize limit, Nebraska at 80%. Revenues have been stagnant.
- Minnesota: Has the highest gross receipts in the country and their average is 82.2%.
- Charities that have reduced payout from 86% to 80% to cover the increased tax have had their gross receipts drop considerably. What will 72% or 68% do? Less play, less tax revenue.
- Manufacturers don't create pull-tab games that are 68% to 72%
- or less because they do not sell. With Alaska's small market and nowhere else to sell the games most of us manufacturers will not create Alaska specific games.

2. Tax change from 3% of Ideal Gross to 5% of Gross Receipts.

- This is a very large hefty increase. Charities would have to decrease payout to pay the tax.
- Oklahoma has a 10% of gross tax and their play in 2001 was only \$4.5 million compared to \$100 million in bingo activity. Charities cannot afford the tax. Prize payout so low players are NOT interested. Less play, less tax revenue.
- North Dakota went from 2% of gross to
- 4.5% in 1993 with average payout 80%. Each successive year gross receipts decreased, payout percent decreased and tax revenues decreased.

Summary: The concept to raise revenues for the state by increasing the tax and then helping the charities pay the tax by creating a seriously low damaging prize cap is seriously flawed. It will kill charitable gaming business thus seriously hurting the Alaskan charities.

Pages (including this page): 1

Response Requested: Urgent Please Review Please Comment Please Reply

Richards, Johnson & Granberry P.C.

Certified Public Accountants

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

Gerald Richards
Jeffrey Johnson
Philip Granberry
Arlene Koenig
Debra Gross

April 21, 2003

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

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

Dear Gov. Murkowski, Senators and Representatives,

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

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

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

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

April 21, 2003
Page 2

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

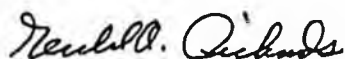
Example #3 assumes the same changes proposed by the State, except it assumes the players retain about the same amount of winnings as they historically have. With this set of circumstances, the playbacks only turn over 8 times instead of 11 times. Because the sales are lower, the cost of the pulltabs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

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

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

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

Sincerely,



Gerald A. Richards, C.P.A.

Summary Information re: Pulltabs

Summary of Pulltabs as portrayed by Gov. Murkowski in letter dated March 24, 2003

1.	Annual Pull Tab Sales	274,000,000	100%
2.	Annual Prizes Paid Out	<u>(214,000,000)</u>	<u>78%</u>
3.	Adjusted Gross Income	60,000,000	<u><u>22%</u></u>
4.	Expenses and Operations	(34,000,000)	
5.	Paid to State for Taxes	<u>(3,000,000)</u>	
6.	Net proceeds for Charities	<u><u>23,000,000</u></u>	

Example 1 - Summary of Pulltabs Recognizing Playbacks of Prizes Payout at 78%

A.	Starting pot of money spent on pulltabs	64,471,902
B.	Prizes paid out at 78% average rate line A above	50,288,084
C.	Prizes paid out at 78% average rate line B above	39,224,705
D.	Prizes paid out at 78% average rate line C above	30,595,270
E.	Prizes paid out at 78% average rate line D above	23,864,311
F.	Prizes paid out at 78% average rate line E above	18,614,162
G.	Prizes paid out at 78% average rate line F above	14,519,047
H.	Prizes paid out at 78% average rate line G above	11,324,856
I.	Prizes paid out at 78% average rate line H above	8,833,388
J.	Prizes paid out at 78% average rate line I above	6,890,043
K.	Prizes paid out at 78% average rate line J above	<u>5,374,233</u>
	Total sales assuming prizes are played back 100%	<u><u>274,000,000</u></u>
	Starting Pot of Money Spent on Pulltabs	64,471,902
	Estimated prizes retained by Players	(4,471,902)
	Expenses of Operations	(34,000,000)
	State of Alaska Taxes	(3,000,000)
	Net Proceeds for Charities	<u><u>23,000,000</u></u>

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

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

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

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

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

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

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

March 24, 2003

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

Dear Friends:

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

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

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

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

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

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

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

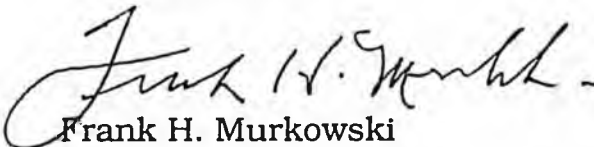
Currently Alaska State law allows for a maximum payoff for a pull-tab of \$500 per tab. In most states average payout for lottery prizes is approximately 50 percent of proceeds collected. After deducting the expenses associated with running their lotteries, the revenue to those states averages between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

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

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

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

Sincerely yours,



Frank H. Murkowski
Governor

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

Alaska supply

PHONE: 907.243.7003 FAX: 907.248.0895

To: Senator Con Bunde

Date: 4-25-03

Thank you for taking a moment to read my comments.

I am righting you first to voice my opposition to SB102/HB169 but more importantly, I would like to offer a partial solution that I believe everyone in the industry can agree with.

The industry does not currently allow the play of a "High Tier" game (a game with an individual payout over \$500.00). I suggest that such games be allowed, but at a higher tax rate.

- Games with payouts \$500 or lower remain at the 3% of the adjusted gross.
- Games with payouts between \$501 and \$750 are taxed at a rate of 6% of the adjusted gross.
- Games with payouts between \$751 and \$1000 are taxed at a rate of 9% of the adjusted gross.
- Games with payouts over \$1001 are taxed at a rate of 15% of the adjusted gross.

It would be up to the user to determine if they wanted to pay the tax and play the higher payout games (a user fee).

This would be a win win for everyone.

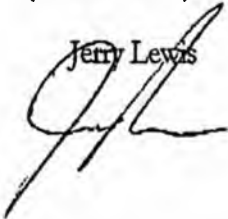
- The State of Alaska would collect more tax.
- The Operator, Vendor, or MBP would have the opportunity to attract more players and different players that were not playing because the payouts were not high enough.
- The Charities would benefit by the increased play.

I do not believe that you can find the solution to the fiscal shortfall in one fell swoop or in a short period of time. I do however believe that there are some very smart people in this industry and as an industry, given time we could come up with solutions that would be a win win for the industry and the State of Alaska.

In closing I would recommend all the gaming bills be tabled and a task force be formed to evaluate this and many other possible solutions to determine the answer.

Thank you for taking the time, I am available for further comment if you are interested.
(907.243.7003)

Jerry Lewis



Additional Information
SB102 Charitable Gaming Revenue

- ~ New CS for SB102
- ~ Letter from Larry Persily, DOR
- ~ DOR Tax Structure Examples on Pull Tabs
- ~ Various Letters of Opposition
- ~ Prize Limit Comparisons with some other states
- ~ Pie Chart

Senate Labor and Commerce Committee
Senator Con Bunde, Chair

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101


State Capitol
Juneau, Alaska 99801-1162
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 24, 2003

SUBJECT: Title of CSSB 102(L&C) (Work Order No. 23-GS1131\D)

TO: Senator Con Bunde
Attn: Jane Alberts

FROM: Gerald P. Luckhaupt 
Legislative Counsel

Enclosed is the draft CS(L&C) you requested. I am not sure that the title fairly expresses everything that is in the bill,¹ particularly secs. 1 - 3 of the bill, relating to adjusted gross income. Reading "An Act increasing the amount of revenue received by the state from charitable gaming activities" does not necessarily lead one to expect that authorized expenses and adjusted gross income are being changed.

GPL:med
03-347.med

Enclosure

¹ Article II, §13, Constitution of the State of Alaska, requires "[t]he subject of each bill shall be expressed in the title."

23-GS1131D
Luckhaupt
3/24/03

CS FOR SENATE BILL NO. 102(L&C)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE SENATE LABOR AND COMMERCE COMMITTEE

Offered:
Referred:

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

A BILL
FOR AN ACT ENTITLED

1 "An Act increasing the amount of revenue received by the state from charitable gaming
2 activities; establishing a pull-tab series prize limit; and providing for an effective date."

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

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

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

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

8 (2) pay to each authorizing permittee annually at least 35 [30] percent
9 of the adjusted gross income, as determined under (1) of this subsection, from a pull-
10 tab activity or at least 10 percent of the adjusted gross income, as determined under (1)
11 of this subsection, from a gaming activity other than pull-tabs, received from activities
12 conducted on behalf of the authorizing permittee; or

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

14 * **Sec. 2.** AS 05.15.160(c) is amended to read:

1

2

(c) The total amount of authorized expenses that may be incurred under (a) of this section in connection with a pull-tab activity not conducted by an operator may not exceed 70 percent of the adjusted gross income from that pull-tab activity.

3

4

5

* **Sec. 3.** AS 05.15.160 is amended by adding a new subsection to read:

6

7

(e) The total amount of authorized expenses that may be incurred under (a) of this section in connection with a pull-tab activity conducted by an operator may not exceed 65 percent of the adjusted gross income from that pull-tab activity.

8

9

* **Sec. 4.** AS 05.15.184 is amended to read:

10

Sec. 05.15.184. Pull-tab tax. A pull-tab distributor shall collect a tax of five [THREE] percent of an amount equal to the ideal gross of [RECEIPTS LESS PRIZES AWARDED ON] each series of pull-tabs distributed. The pull-tab distributor shall pay to the department the tax collected in the preceding month at the time that the report under AS 05.15.183(d) is filed with the department.

11

12

13

14

15

* **Sec. 5.** AS 05.15.187 is amended by adding a new subsection to read:

16

(j) The ideal net of a pull-tab series sold in the state may not be less than 28 percent of ideal gross.

17

18

* **Sec. 6.** AS 05.15.188(h) is amended to read:

19

(h) If a permittee contracts with a vendor under (a) of this section, the contract must provide that the permittee shall receive no less than 75 [70] percent of the ideal net.

20

21

22

* **Sec. 7.** AS 05.15.690 is amended by adding a new paragraph to read:

23

(46) "ideal gross" means an amount equal to the total amount of receipts that would be received if every individual pull-tab ticket in a series were sold at face value.

24

25

26

* **Sec. 8.** The uncodified law of the State of Alaska is amended by adding a new section to read:

27

28

TRANSITION: REGULATIONS. Notwithstanding sec. 11 of this Act, the Department of Revenue may proceed to adopt regulations necessary to implement the changes made by this Act. The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the effective date of secs. 1 - 7 of this Act.

29

30

31

1 * **Sec. 9.** The uncodified law of the State of Alaska is amended by adding a new section to
2 read:

3 **UNSOLD PULL-TAB STOCK.** Notwithstanding contrary provisions of
4 AS 05.15.187(j), enacted by sec. 5 of this Act, a charitable gaming permittee, vendor, or
5 operator may sell pull-tabs from a series that offers total prizes in excess of 72 percent of ideal
6 gross on or after July 1, 2003, and until September 30, 2003, if the pull-tabs were in the state
7 before July 1, 2003.

8 * **Sec. 10.** Notwithstanding sec. 11 of this Act, sec. 8 of this Act takes effect immediately
9 under AS 01.10.070(c).

10 * **Sec. 11.** Except as provided in sec. 10 of this Act, this Act takes effect July 1, 2003.



Alaska State Legislature

Senator Con Bunde
Senate District P

Vice Chair: Senate Finance Committee
Chair: Senate Labor & Commerce Committee
Member: Legislative Budget & Audit Committee

During Session:
State Capitol
Juneau, AK 99801-1182
Phone: (907) 465-4843
Fax: (907) 465-3871
E-mail: senator.con.bunde@legis.state.ak.us

During Interim:
716 W. Fourth Avenue
Anchorage, AK 99501-2133
Phone: (907) 269-0181
Fax: (907) 269-0184
website: www.akrepublicans.org/bunde/index.php

FAX COVER SHEET

DATE: 3/26/03
TO: Landa Railey
FAX #: 465-2389
FROM: Anne Gilbert (S) L&C
RE: OC for SE 102
PAGES: 5 (including cover)

Here you go Landa!

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

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

March 17, 2003

The Honorable Con Bunde
Chair, Senate Labor and Commerce Committee
Alaska State Legislature
State Capitol, Room 506
Juneau, AK 9981

Dear Senator Bunde:

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

First, of that \$351 million total for all charitable gaming statewide, \$267 million went out as prizes and almost \$31 million went to the charitable organizations. Of the \$51.5 million in expenses, about \$2 million went to the state from the pull-tab tax and \$23.4 million went to rent, utilities, wages and payroll taxes. More than \$9 million was paid to buy the pull-tabs and bingo cards, leaving \$17 million for all other gaming expenses.

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

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

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

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

- 1) **Self-directed gaming by the permittees (the qualified charitable organizations are called permittees).** This is when the Elks or Moose or Little League run their own games, either on their own property (such as at the lodge) or at rented property. The charity pays its own expenses. There is no operator involved.
- 2) **Vendors.** This is when a permittee sells its pull-tabs to a bar, which then sells the game to its patrons. The charities get paid up-front for the "profit" from the box of pull-tabs. The bar deals with the risk of not selling all of the pull-tabs.
- 3) **Operators.** This is when a permittee (charity) contracts with a for-profit business to sell its pull-tabs, such as at a pull-tab parlor. The operator has to pay a minimum of 30% of the total after prizes and taxes to the charity.
- 4) **MBPs, or multiple-beneficiary permittees.** This is when several charities get together to form a cooperative to run a gaming site. The MBP hires a manager and pays its expenses.

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

- 1) **Self-directed gaming:** Of \$169 million in gross receipts, \$128 million went out in prizes, the charities paid \$23 million in their own expenses, with \$18 million in net proceeds to the charities.
- 2) **Vendors:** Of the \$35.5 million in gross receipts, almost \$28 million went out in prizes, with the vendors reporting \$3.6 million in expenses, and with \$4.1 million going to charities.
- 3) **Operators:** Of the \$69 million in gross receipts, \$53.3 million went out as prizes, the operators charged almost \$13 million in expenses, and charities received \$4.3 million.
- 4) **MBPs (charity co-ops):** Of \$77 million in gross receipts, prizes consumed \$59 million, with \$12 million to expenses and almost \$6 million to charities.

To elaborate further, operators, for example, reported \$2 million in rent and utilities, \$3 million in wages and payroll taxes, and \$4.7 million in operator fees. I suppose some might question the operator fees, but we need to keep it in perspective — that \$4.7 million is about 7% of the gross receipts of operated-run games. I'm not necessarily defending the fees, but there isn't enough there to dump the entire tax burden of this legislation (5% of the entire gross) on the operators.

As for self-directed games (run by the individual charity), of their \$23 million in expenses, almost \$10 million went out in wages and payroll taxes, with \$2 million for rent and utilities, and \$3.5 million to buy the pull-tab games. Truthfully, in some small communities, the games are a jobs program and a way for the community to "tax" its residents for needed community services.

The point being, after you deduct for prizes, deduct for what the charities and others pay in rent and wages (which is good for the local economy), and deduct for what does go back to the charities, there is no way to get \$12.5 million per year in increased tax revenue to the state without taking at least some of it out of the pockets of the players.

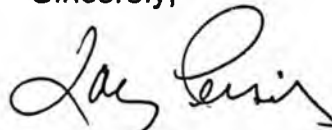
To summarize, the legislation (SB102, as amended) makes three significant changes in the state's charitable gaming laws:

- 1) It limits the prize pay-out in pull-tabs to no more than 72% of the total value of the box of pull-tabs (called ideal gross). That's the retail value of the pull-tabs, assuming all are sold. Expenses have nothing to do with this number. We believe the current average prize pay-out is around 78%. By limiting the pay-out to 72%, the charities will get more money from which to pay the higher taxes (the "hold-harmless" provision).
- 2) The bill reduces the amount of money that vendors (bars that sell the pull-tabs for a charity) may keep. Currently, a vendor can keep up to 30% of ideal net. Ideal net is what is left after all of the pull-tabs are sold and the prizes paid. For example, a box of 1,000 pull-tabs at \$1 each has an ideal gross of \$1,000. If the prize pay-out is 78%, that means \$780 would go out as prizes after all the tabs are sold, leaving \$220 as the ideal net. The vendor gets no more than 30% of that, with the rest (70%) for the charity (the charity gets paid up-front in these deals, and the charity has to pay for the pull-tabs out of its share of the money). The legislation would reduce the vendor's take to 25%. Even with the higher tax under this legislation, we believe the charities would come out ahead over the current formula. And because the ideal net would be higher — because of the lower prize pay-out — the vendor also would end up with a small increase in revenue from this legislation.
- 3) The bill reduces the amount of money operators may claim by increasing the percentage of adjusted gross (gross minus prizes and taxes) they must pay to the charities. Currently, an operator may pay the charity at least 30% of adjusted gross. For example, if the pull-tabs are worth \$1,000, and the prizes total 78%, or \$780, then the adjusted gross is \$220, with 30%, or \$66 to the charity. Under this bill, operators would have to pay the charities 35% of adjusted gross. From this higher number, the charities could pay the higher tax and still come out ahead over the current formula.

- 4) The bill, with the pay-out limit, also would ensure that self-directed charities (that operate their own games) and charity cooperatives would get more than enough additional money to cover the higher tax bill and still be ahead of the game.

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

Sincerely,



Larry Persily
Deputy Commissioner

cc: Mike Tibbies, Office of the Governor
Dan Branch, Assistant Attorney General
Larry Meyers, Deputy Director, Tax Division
Jeff Prather, Charitable Gaming Section, Tax Division

Department of Revenue

For Senate Bill 102 - March 18, 2003

Multiple-Beneficiary Permittee Sale of Pull-Tabs (Actual Example)

Current Tax Structure and 5% Proposed Tax on "Ideal" Gross Receipts

[Actual example pays out prizes at 77.5% of gross and reports expenses at 43.5%]

	Actual 2001 Reported Activity Under Current Tax Structure	Proposed Tax Structure
	3% Tax on Ideal Net	5% Tax on Ideal Gross
	Expenses at 43.5% Adjusted Gross	Actual Dollar Expenses Unchanged
	Prizes at 77.5% of Gross	Prizes limited to 72% of Gross
Total pull-tab sales	7,749,000	7,749,000
Proposed Tax on Gross Receipts	0	-387,450
Prizes	-6,007,000	-5,579,280
Adjusted Gross Income (after prizes & taxes)	1,742,000	1,782,270
Expenses:		
Current Pull-Tab Tax at 3% of "ideal net" <i>[Proposal Eliminates 3% Pull-Tab Tax]</i>	-61,650	0
Expenses (assumes no change in expenses)	-696,350	-696,350
Total Expenses	-758,000	-696,350
Net Proceeds Available for Charitable Organizations (adjusted gross less total expenses, taxes)	<u>984,000</u>	<u>1,085,920</u>

NOTES:

"Ideal Gross" is the value of all pull-tabs purchased from a distributor for a game.

"Ideal Net" is the value of all pull-tabs purchased from a distributor for a game, minus prizes.

Department of Revenue

For Senate Bill 102 - March 18, 2003

Multiple-Beneficiary Permittee Sale of Pull-Tabs
Current Tax Structure and 5% Proposed Tax on "Ideal" Gross Receipts
[Assumes expenses and prizes are at statutory maximums]

	<u>Current Tax Structure</u>	<u>Proposed Tax Structure</u>
	3% Tax on Ideal Net	5% Tax on Ideal Gross
	Expenses Limited to 70% Adjusted Gross	Actual Dollar Expenses Unchanged
	Prizes at Average 78% of Gross	Prizes Limited to 72% of Gross
Total pull-tab sales	1,000,000	1,000,000
Proposed Tax on Gross Receipts	0	-50,000
Prizes	-780,000	-720,000
Adjusted Gross Income (after prizes & taxes)	220,000	230,000
Expenses:		
Current Pull-Tab Tax at 3% of "ideal net"		
<i>[Proposal Eliminates 3% Pull-Tab Tax]</i>	-6,600	0
Expenses (assumes no change in expenses)	-147,400	-147,400
Total Expenses	-154,000	-147,400
Net Proceeds Available for Charitable Organizations (adjusted gross less total expenses, taxes)	<u>66,000</u>	<u>82,600</u>

NOTES:

"Ideal Gross" is the value of all pull-tabs purchased from a distributor for a game.

"Ideal Net" is the value of all pull-tabs purchased from a distributor for a game, minus prizes.

Department of Revenue

For Senate Bill 102 - March 18, 2003

Operator-Conducted Pull-Tabs (Actual Example)
Current Tax Structure and 5% Proposed Tax on "Ideal" Gross Receipts
[Actual example pays out prizes at 76.4% of gross and reports expenses at 66.3%]

	Actual 2001 Reported Activity Under Current Tax Structure	Proposed Tax Structure
	3% Tax on Ideal Net Expenses at 66.3% of Adjusted Gross Prizes at 76.4% of Gross	5% Tax on Ideal Gross Actual Dollar Expenses Unchanged Prizes Limited to 72%
Total pull-tab sales	10,581,000	10,581,000
Federal Excise Tax on Pull-Tabs	-26,500	-26,500
Proposed Tax on Gross Receipts	0	-529,050
Prizes	<u>-8,084,000</u>	<u>-7,618,320</u>
Adjusted Gross Income (after prizes & taxes)	2,470,500	2,407,130
Expenses:		
Current Pull-Tab Tax at 3% of "ideal net" <i>[Proposal Eliminates 3% Pull-Tab Tax]</i>	-79,700	0
Expenses (assumes no change in expenses)	<u>-1,559,300</u>	<u>-1,559,300</u>
Total Expenses	<u>-1,639,000</u>	<u>-1,559,300</u>
Net Proceeds Available for Charitable Organizations (adjusted gross less total expenses, taxes)	<u>831,500</u>	<u>847,830</u>

NOTES:

"Ideal Gross" is the value of all pull-tabs purchased from a distributor for a game.

"Ideal Net" is the value of all pull-tabs purchased from a distributor for a game, minus prizes.

Department of Revenue

For Senate Bill 102 - March 18, 2003

Operator-Conducted Pull-Tabs

Current Tax Structure and 5% Proposed Tax on "Ideal" Gross Receipts

[Assumes expenses and prizes are at statutory maximums of gross]

	Current Tax Structure	Proposed Tax Structure
	3% Tax on Ideal Net	5% Tax on Ideal Gross
	Expenses Limited to 70% Adjusted Gross	Expenses Limited to 65% Adjusted Gross
	Prizes at Average 78% of Gross	Prizes Limited to 72% of Gross
Total pull-tab sales	1,000,000	1,000,000
Federal Excise Tax on Pull-Tabs	-2,500	-2,500
Proposed Tax on Gross Receipts	0	-50,000
Prizes	-780,000	-720,000
Adjusted Gross Income (after prizes & taxes)	217,500	227,500
Expenses:		
Current Pull-Tab Tax at 3% of "ideal net"		
<i>[Proposal Eliminates 3% Pull-Tab Tax]</i>	-6,600	0
Expenses	-145,650	-147,875
Total Expenses	-152,250	-147,875
Net Proceeds Available for Charitable Organizations (adjusted gross less total expenses, taxes)	<u>65,250</u>	<u>79,625</u>

NOTES:

"Ideal Gross" is the value of all pull-tabs purchased from a distributor for a game.

"Ideal Net" is the value of all pull-tabs purchased from a distributor for a game, minus prizes.

Department of Revenue
For Senate Bill 102 - March 18, 2003

Sale of Pull-Tabs at Vendor Locations
Current Tax Structure and 5% Proposed Tax on "Ideal" Gross Receipts
[Assumes vendor earns statutory maximum and prizes paid out at statutory maximum]

	<u>Current Tax Structure</u>	<u>Proposed Tax Structure</u>
	. 3% Tax on Ideal Net	5% Tax on Ideal Gross
	Permitee Receive 70% of Ideal Net	Permitee Receives 75% of Ideal Net
	Vendor Retains 30% of Ideal Net	Vendor Retains 25% of Ideal Net
Total pull-tab sales	1,000,000	1,000,000
Proposed Tax on Gross Receipts	0	-50,000
Prizes	<u>-780,000</u>	<u>-720,000</u>
Adjusted Gross Income (after prizes and taxes)	220,000	230,000
Expenses:		
Current Pull-Tab Tax at 3% of "ideal net"	-6,600	
<i>[Proposal Eliminates 3% Pull-Tab Tax]</i>		
Vendor Retention	-66,000	-70,000
<i>[Currently at 30% before taxes]</i>		
<i>[SB102 would change it to 25% before taxes]</i>		
Expenses [assumes no change in expenses]	<u>-27,400</u>	<u>-27,400</u>
Total Expenses	<u>-100,000</u>	<u>-97,400</u>
Net Proceeds Available for Charitable Organizations (adjusted gross less total expenses, taxes)	<u>120,000</u>	<u>132,600</u>

NOTES:

"Ideal Gross" is the value of all pull-tabs purchased from a distributor for a game.

"Ideal Net" is the value of all pull-tabs purchased from a distributor for a game, minus prizes.

Department of Revenue

For Senate Bill 102 - March 18, 2003

Permittee Self-Directed Sale of Pull-Tabs

Current Tax Structure and 5% Proposed Tax on "Ideal" Gross Receipts

[Assumes prizes paid at statutory maximums and no change in permittee expenses]

	<u>Current Tax Structure</u>	<u>Proposed Tax Structure</u>
	3% Tax on Ideal Net	5% Tax on Ideal Gross
	Expenses Limited to 70% Adjusted Gross	Actual Dollar Expenses Unchanged
	<u>Prizes at Average 78% of Gross</u>	<u>Prizes Limited to 72% of Gross</u>
Total pull-tab sales	1,000,000	1,000,000
Proposed Tax on Gross Receipts	0	-50,000
Prizes	<u>-780,000</u>	<u>-720,000</u>
Adjusted Gross Income (after prizes & taxes)	220,000	230,000
Expenses:		
Current Pull-Tab Tax at 3% of "ideal net"		
<i>[Proposal Eliminates 3% Pull-Tab Tax]</i>	-6,600	0
Expenses (assumes no change in expenses)	<u>-147,400</u>	<u>-147,400</u>
Total Expenses	<u>-154,000</u>	<u>-147,400</u>
Net Proceeds Available for Charitable Organizations (adjusted gross less total expenses, taxes)	<u>66,000</u>	<u>82,600</u>

NOTES:

"Ideal Gross" is the value of all pull-tabs purchased from a distributor for a game.

"Ideal Net" is the value of all pull-tabs purchased from a distributor for a game, minus prizes.

City of Pilot Station
P.O. Box 5040
Pilot Station, AK 99650
Ph# (907) 549-3211 or 3210
Fax (907) 549-3014
March 26, 2003

Governor Frank Murkowski
Juneau, AK 99802

Dear Newly Elect Frank Murkowski;

I am writing this letter to oppose SB102, because it will effect our little community, that has Charitable Gaming in the villages. Charitable Gaming Pull-Tabs helps us because it helps with funeral expenses in which most families can't afford, also with family emergencies that have to travel to Anchorage to get further Health Care, in which there is a life or death matter, the Charitable Gaming helps in paying family members fare to get there. City of Pilot Station also gives monthly donations to both (Russian Orthodox and the Catholic Church) for the monthly bills and expenses in which they can not afford to pay. Pull-Tab profits really help our community with all of the above I have mentioned.

Communities that have Charitable Gaming will hurt from this bill, the committee should focus on the villages too. On a village level, they don't make money by the millions, they make money by the ~~hundreds~~ thousands. Please, reconsider and look into village levels. Thank-you for your time.

C.C. Governor Frank Murkowski
Con Bunde
Ralph Seekins

Sincerely;
Cynthia M. Jancyko
City of Pilot Station Gaming Manager



Convention & Visitors Bureau, Inc.

March 14, 2003

Dear Honorable Member of the Alaska State Legislature:

I write to you today on behalf of the Board of Directors of the Kenai Convention and Visitors Bureau, of which I am executive director. The Kenai CVB is a non-profit membership organization representing the visitor industry in the city of Kenai and the greater Kenai area.

The purpose of my letter is to strongly urge the Alaska State Legislature to reject SB 102 and HB 169, companion pieces of legislation that would replace the current 3% tax on net receipts with a 5% tax on gross receipts of charitable gaming. In my opinion, this legislation, which has had no input from the charitable gaming industry itself, is ill-conceived, hastily prepared and would in effect kill charitable gaming in Alaska, thus placing a severe hardship on non-profit organizations that currently receive revenues through charitable gaming.

The Kenai CVB, in conjunction with the Peninsula Oilers baseball team, operates *Old Town Bingo* in Kenai, through a Multiple-Beneficiary Permit. The Kenai CVB just formed the MBP with the Peninsula Oilers due to recent changes in the state gaming regulations, which came about from recommendations of an appointed task force that had yearlong public input. Prior to this year we ran a self-directed gaming operation.

With regard to pull-tabs, last year the Kenai CVB had about \$850,000 in gross receipts, \$660,000 in prize payouts, which left \$190,000 in net receipts. After expenses of \$120,000, we had \$70,000 in net revenue. It should be noted that the \$660,000 in prize payouts is NOT the cost of goods sold, as there is no real value added to the product but instead just returns to the players. The COGS is one item of expense covered in the total gaming expenses of \$120,000.

Currently, we paid a 3% tax on the net receipts of \$190,000, which came to \$5,700, plus 1% tax charged at the end of the year, which came to \$1,900. Altogether, we paid \$7,600 on the net pull-tab receipts, an effective tax of 10% on our net revenues.

SB102 and HB169 would fundamentally change how pull-tabs are taxed, and it would place a 5% tax on the gross receipts. Using last year's numbers as an example, we would have had to pay 5% tax on the \$850,000 in gross receipts, which would have amounted to \$42,500! That would come to an effective tax of over 60% on our net revenues. This ill-conceived and hastily prepared legislation is a 600% increase in the taxation rate of charitable gaming and is simply outrageous.

The amendment proposal to set the ideal net of a pull-tab series at no less than 28% of ideal gross is equally ill-conceived and hastily prepared. People will not play pull-tabs on games with only a 72% payout rate. The break point is generally accepted by the industry to be about 77%, and the more popular games run between 83-to-85%. There are no games popular today that have a 72% payout rate. The key to pull-tabs is "playbacks," or the one dollar cards which, in most cases, are turned back in to play more. The higher the number of playbacks in a series, the more "grease" the game has and the quicker that series will turn over. Games with a 72% payout rate are not popular and will not move quickly. The effective of this ill-conceived and

www.visitkenai.com

11471 Kenai Spur Highway • Kenai, Alaska 99611 • (907) 283-1991 • Fax (907) 283-2230 • E-mail: kenaicvb@visitkenai.com

hastily prepared amendment will be to torpedo pull-tab sales and effectively kill this type of gaming in the state of Alaska.

It costs the state of Alaska \$700,000 per year to oversee the administration of charitable gaming in Alaska, and the state collects \$1,600,000 per year in gaming taxes. The state's profit margin to manage the state administration of gaming is 56%, which means the state is already making a good profit in its management of charitable gaming.

Philosophically, there is a reason why "non-profits" are called non-profits and are generally exempt from taxation: they are voluntary organizations that take care of social needs and responsibilities that neither the governmental sector nor the private sector wants, or can, afford to do. These social concerns are tended to by non-profit organizations and as such are generally viewed as relieving a burden from government. By not taxing the non-profit sector, government ensures that its overall burdens to provide services to the general populace will be lessened.

The proposed legislation places a new 600% tax burden on the non-profit sector in Alaska, the effect of which will reduce each organization's ability to achieve its mission. The real question on the table is this: Does the state of Alaska want to assume the duties and responsibilities now accomplished by the myriad of non-profits in Alaska that currently depend on a substantial portion of their revenues through charitable gaming? If this ill-conceived and hasty piece of legislation passes, I can guarantee that many of Alaska's non-profits will be put in severe economic hardship and may be forced to cease operations altogether.

In addition to being the executive director of the Kenai CVB, I am affiliated as a board member or volunteer in the following non-profit organizations that receive direct or indirect benefits from charitable gaming: the Kenai Chamber of Commerce, the Kenai Peninsula Tourism Marketing Council, the Peninsula Art Guild, the Kenai River Council on the Arts, the Kenai Watershed Forum and the Peninsula Oilers. If this ill-conceived and hastily prepared piece of legislation passes, can all these organizations, which exist just in our little corner of the state, come running with their hands out to the Legislature and receive funds to accomplish their respective missions?

The Golden Goose that lays the Golden Eggs in this situation is all the good work that gets accomplished by the non-profit sector in the state of Alaska. Many non-profit organizations in the state of Alaska depend on charitable gaming revenue, especially more so in these turbulent and difficult economic times. Grants, corporate sponsorships and government contracts are rapidly shrinking. To hastily slash charitable gaming as a primary income source for many Alaskan non-profits is stunning in its short-sightedness and is just plain folly. I strongly urge you to purge this ill-conceived and hastily prepared piece of legislation and let the Golden Goose live to lay another day.

Respectfully,



Ricky Gease

Executive Director, Kenai CVB

Subject: FW: Charitable gaming comparisons

Date: Mon, 24 Mar 2003 19:55:54 -0000

From: Morgan Tom Mr YMCA <Tom.Morgan@ELMENDORF.af.mil>

To: Dennis DeWitt <Dennis_DeWitt@gov.state.ak.us>

CC: Will King <Will.King@ELMENDORF.af.mil>, Senator Con Bunde <Senator_Con_Bunde@legis.state.ak.us>, Senator Fred Dyson <Senator_Fred_Dyson@legis.state.ak.us>, Senator Gretchen Guess <Senator_Gretchen_Guess@legis.state.ak.us>, Senator Scott Ogan <Senator_Scott_Ogan@legis.state.ak.us>, "Rep. Beverly Masek" <Representative_Beverly_Masek@legis.state.ak.us>, Representative Bill Stoltze <Representative_Bill_Stoltze@legis.state.ak.us>, Representative Mike Hawker <Representative_Mike_Hawker@legis.state.ak.us>, Representative Nancy Dahlstrom <Representative_Nancy_Dahlstrom@legis.state.ak.us>, "Speaker of the House, Rep. Pete Kott" <Representative_Pete_Kott@legis.state.ak.us>

Good morning Mr. DeWitt,

Thanks for the follow up Denny.....I want to have Will look at the attached more closely but at first blush, I see two issues that are not addressed that could have serious adverse effects on our bottom line. (1) The assumption that with the payout being reduced 6% from 78 to 72 this would NOT result in less sales.....I think it will. (2) The proposed change in split between vendor (bar) and permittee (us) from the present 70 for us 30 for them to 75/25. As previously stated in my letter, it is difficult now to fill the existing vacant position, it would be made more difficult if this portion of the law was changed. By the way we think 70/30 is a good split and a win win situation for all concerned.

As you know Denny, the self directed folks are, I believe the closest to the actual intent for the charitable gaming statue. I believe we are doing what was intended by the charitable gaming law and run a superb operation.....one that puts more money in our hands, with which to do good things, than any other form of gaming.....

Let me ask this: For self directed folks only, could you support (1) No change to the existing 70/30 split and (2) an increase on ideal net instead of gross?????

This would raise revenue (could actually double it if you went to 6%), we would be part of the solution to the budget crisis not the problem, and speaking as a self directed charity, is something that would not put us out of business.....

Thanks as always for your time, we appreciate it,

Tom :o)

PS: Again, this is an initial response to this email.....we have not dissected it or reviewed it in detail. -----Original Message-----

From: Larry Persily [mailto:Larry_Persily@revenue.state.ak.us]

Sent: Wednesday, March 19, 2003 11:15 AM

To: Denny Dewitt; Dennis C Fradley; Michael Tibbles; Heather K Brakes; Landa B Baily; Dan Branch; Jeffrey M Prather; Barbara J Post; Larry Meyers

Subject: Charitable gaming comparisons


Attached are six different scenarios, comparing the existing world in charitable gaming (3% tax on ideal net) vs. the new world after the amended version of SB102 (5% tax on ideal gross, with a limit on prizes). As you can see in all six runs, the charities can pay the higher tax and still come out ahead.

The six runs are:

- 1) An actual operator-conducted pull-tab operation. (No name used.)
- 2) An actual multiple-beneficiary permittee (MBP, or charity cooperative). (No name used.)
- 3) A typical vendor operation, per \$1 million in sales.
- 4) A typical operator-conducted game, per \$1 million in sales.
- 5) A typical MBP operation, per \$1 million in sales.
- 6) A typical self-directed charity operation (where they run the game on their own), per \$1 million in sales.

For these comparisons, we show the old and new tax and prize and expense structure. And, we assume that the charities and operators and MBPs do not increase their expenses just because there is more money on the table from the new (lower) prize limit in statute.

I will deliver these to Senator Bunde today, for distribution to the Senate Labor and Commerce Committee (which has the bill, SB102).

 SB102comparisons.xls	Name: SB102comparisons.xls Type: Microsoft Excel Worksheet (application/vnd.ms-excel) Encoding: base64 Download Status: Not downloaded with message
--	--

FAX TRANSMISSION

A/PIA
201 E. Third Avenue
Anchorage, AK 99501
907-276-2700
Fax: 907-279-4351

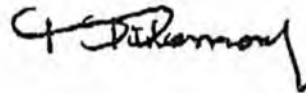
To: Hon. Con Bunde, Chair
Senate Labor & Commerce
Committee

Date: March 13, 2003

Fax #: 907-465-3871

Pages: 3, including this cover sheet.

From: Dimitri Philemonof, Pres/CEO



Subject: Testimony on SB 102

COMMENTS:

Please include the following testimony on SB 102 as part of the official record of today's scheduled hearing. I expect to be in contact with the other Committee members soon in both the Senate and the House to express our strong opposition to this measure.

**TESTIMONY ON SB 102
'AN ACT INCREASING THE AMOUNT OF REVENUE RECEIVED BY THE
STATE FROM CHARITABLE GAMING ACTIVITIES'**

PRESENTED BY:

**ALEUTIAN/ PRIBILOF ISLANDS ASSOCIATION, INC.
201 E. THIRD AVE.
ANCHORAGE, ALASKA 99501**

- ▶ The Aleutian/Pribilof Islands Association, Inc. (APIA) is a regional Native non-profit tribal organization with members consisting of the thirteen (13) federally recognized tribes of the Aleutian Chain and Pribilof Islands of Alaska. APIA is a founding member and one of the three current owners of Gold Cache Bingo, a multi-beneficiary gaming partnership. APIA has been involved in charitable gaming for approximately 10 years. Gold Cache Bingo is the largest and arguably the most successful and best run gaming operation in the State of Alaska.

- ▶ *APIA is adamantly opposed to SB 102 and its companion bill in the House.*

- ▶ This bill is inequitable from any perspective and would devastate our ability to continue to provide a broad range of charitable services and programs to our members and communities. Our mission to promote and protect the health, safety, social, economic and cultural well-being of the member communities and individuals of the region would be severely impacted.

- ▶ Currently we use charitable gaming resources to support programs directly involved in promoting village based economic development (this in a region already reeling from the disastrous collapse of the fishing industry); education, natural resource protection, environmental health and improving relations with our Russian relatives in the Far East, to name just a few of

the targeted areas. Many individuals are also assisted with medical and other humanitarian emergency needs when no other source of funds are available. Although APIA is a significant federal and state contractor, our sources of discretionary funding are extremely limited and SB 102 strikes at the heart of this limited pool of discretionary funds.

- ▶ *SB 102 has been calculated to be a 650% tax increase on charities!* It would increase our current multi-beneficiary permit tax liability from approximately \$51,000 per year (an amount we view as already adequate, fair and reasonable), to an astounding \$400,000!! This is almost an eight fold increase in taxes.

- ▶ SB 102 is grossly unfair to those of us in the Industry who serve the neediest of the needy and we strongly urge that it be withdrawn from consideration or defeated if brought to a vote.

Subject: [Fwd: What is the intent of SB102?]
Date: Thu, 13 Mar 2003 08:30:42 -0900
From: Con Bunde <Senator_Con_Bunde@Legis.state.ak.us>
Organization: Alaska State Legislature
To: Jane Alberts <Jane_Alberts@legis.state.ak.us>

----- Original Message -----

Subject: What is the intent of SB102?
Date: Thu, 13 Mar 2003 05:48:47 -0900
From: "Sharilyn/Mike Zellhuber" <mzell@aptalaska.net>
To: <con_bunde@legis.state.ak.us>, <ralph_seekins@legis.ak.us>, <gary_stevens@legis.ak.us>, <bettye_davis@legis.ak.us>, <hollis_french@legis.ak.us>
CC: <governor@gov.state.ak.us>, <larry_meyers@revenue.state.ak.us>, <jeff.prather@revenue.state.ak.us>, "Sharilyn/Mike Zellhuber" <mzell@aptalaska.net>, "Ruby Kingery" <rubydoo2002@msn.com>, "Michelle Hartley" <hartley99@excite.com>, "Cheryl Fifield" <beringc@hotmail.com>

I would like to voice my opinion of SB102, which aims to increase the taxes on charities by a huge amount. I am the gaming person in charge for both the Craig Child Care Center and the Craig PTSA groups. Both are very important organizations for our young children on Prince of Wales Island. We count very heavily on the gaming income to support our work. Without gaming income, the Craig Child Care Center/Prince of Wales Preschool would not be in operation. Working families would be unable to find adequate care for their children and young developing minds would not be given the proper guidance and education to give them a healthy start in life. Without gaming income, the PTSA would be unable to support the student's extracurricular activities and art/music activities that it currently does, supplementing the school district's limited budget. The proposed change in tax from 3% to 5% does not sound like a big deal, but that fact that it will be imposed on the GROSS instead of the NET is a HUGE deal! It is a substantial increase that will affect everyone in our community because of the decreased activities of the non-profit groups that count on that money. I'm hoping someone just mis-worded the description for IDEAL GROSS, but I fear that is not the case. Please remember that this gaming money is funding critical elements of our community - as well as helping to maintain jobs at both the permittee and operator levels. Please leave the tax on the NET income, only. Thank you for your consideration. Sharilyn Zellhuber PO Box 978 Craig, Alaska 99921 907-826-2944 (day), 826-3373 (eve) mzell@aptalaska.net

Subject: [Fwd: SB102]

Date: Thu, 13 Mar 2003 08:31:04 -0900

From: Con Bunde <Senator_Con_Bunde@Legis.state.ak.us>

Organization: Alaska State Legislature

To: Jane Alberts <Jane_Alberts@legis.state.ak.us>

----- Original Message -----

Subject: SB102

Date: Thu, 13 Mar 2003 08:24:44 -0900

From: "Colton, Theresa" <Theresa.Colton@acsalaska.com>

To: "'con_bunde@legis.state.ak.us'" <con_bunde@legis.state.ak.us>

Dear Senator Con Bunde, Please vote against SB102. The 5% gross receipts tax is a 650% increase in taxes on charities. The tax will take from charities 37% of all money raised, which raising money for a charity is difficult in itself. The money raised by non-profits should go toward the purpose that the donor had intended, to help those in need. Sincerely, Theresa Colton Soldotna, AK Soldotna Chamber of Commerce

This transmittal may contain confidential information intended solely for the addressee. If you are not the intended recipient, you are hereby notified that you have received this transmittal in error; any review, dissemination, distribution or copying of this transmittal is strictly prohibited. If you have received this communication in error, please notify us immediately by reply or by telephone (collect at 907-564-1000) and ask to speak with the message sender. In addition, please immediately delete this message and all attachments. Thank you.



Alaska State Legislature

Please enter into the record my testimony to the SENATE WAIVER
committee name

Committee on SB 102, dated 3/13/03
bill # / subject

REWRITE THIS WITH PEOPLE WHO ARE IN THE BUSINESS & KNOW THE DETAILS/GAMES & WHAT WORKS.

DAVE & THE MARY MESSER IN SHORTS A

I AGREE WITH JONHEU TESTIFERS-DAVID SANDLEIN'S BREAK OUT HE RECEIVED KUDOS FROM THOSE WHO KNOW THE BUSINESS HERE IN KENAI - WHILE HE SPOKE, AS THE BILL STANDS NOW, OUR LOCAL GAMING & THE CHARITIES THEY SUPPORT WOULD GO AWAY.

Signed: Marian Nelson
Testifier

KENAI CULTURAL & VISITOR CENTER & OTHER NON-PROFITS
Representing (optional)

PO Box 1535 KENAI AK 99611
Address

907-283-4632
Phone number



Alaska State Legislature

Please enter into the record my testimony to the Senate Labor & Commerce
committee name

Committee on SB 102 Charitable Gaming Revenue, dated 3-13-03
bill # / subject

My name is Len Malmquist and I am the Secretary / Treasurer of the AFCA. We hold a gaming permit and SB 102 will effect of efforts to raise funds through gaming. Gaming profits have been set up legislatively to allow non-profit groups to raise funds to be used for charitable purposes. These purposes are NOT covered by state or local governments. They are critical to the local and state citizenry.

We are opposed to SB 102 for the following reasons:

1. It takes money from charities who provide essential funding for youth and other groups.
2. It will raise the taxes we pay by 650% and lower our charitable funding by 37%.
3. It may put our suppliers and / or some charities out of business.

Thank you for allowing me to testify. Please contact me if you have any questions.

Signed:

Handwritten signature of Len Malmquist in cursive script.

Testifier

Alaska Fire Chiefs Association
Representing (optional)

231 S. Binkley Soldotna, AK 99669
Address

262-7375
Phone number



Alaska State Legislature

Please enter into the record my testimony to the L & C committee name.

Committee on SB 102, dated 3/6/03
bill # / subject

SB102 will be devastating to local charities at a time when fiscal tightening is both reducing other available funding and increasing community need.

I have been doing bookkeeping and gaining reports of a number of local non-profits for many years so I fully understand the effect these proposals will have on the community.

Any tax on gross sales is unrealistic. The people writing these regulations do not understand the concept that yes we may sell \$100 of pulltabs but \$80 was refunded to the customer in the form of prizes, they really only spent \$20. They left home with \$20, they bought \$20 worth of pulltabs and got \$16 worth of winners, they then turned in the \$16 worth of winners and bought \$16 of pulltabs and got \$12 worth of winners and so on and so on until they ran out of money(winners) and went home. If you ask them what they spent they'll tell you they spent \$20. If you ask me what the charity took in I'll tell you \$20. Then the charity had to pay the cost of doing business such as buying the product, paying the help, paying the rent and paying the taxes just like any other business. Along with the existing 3% local net state tax on pulltabs there is a 1% state tax on the bottom line of all gaming. Although the cash register will show \$100 in sales the customer only ever had \$20 to spend. If you decrease the money available to pay in prizes - first off the customers will not be happy and will probably play less putting less money in the pool. But even if they played the same they still only have \$20 to spend and they will run out of money quicker and go home sooner and gross sales will be drastically reduced. The notion that they will just spend more to make up for the tax is just not valid, they only have so much to spend.

I reviewed the numbers for two organizations that I am familiar with using the scenario of this bill with the included amendment changing the payout ratio to 72/28. Assuming that the customer will spend the same - the first organization would pay an additional tax of nearly \$22,000 decreasing their bottom line by 19%, the other organization would pay an additional \$24,000, 29% percent of the bottom. Realistically these numbers will be even worst, everyone in the industry agrees that the customer will not like the new payout ratio and will spend less money.

Multiply these dollar amounts by the many charities that exist and I worry what impact these cuts in charitable giving will have on our community.

Representing (optional) Signed: Linda Duran

PO Box 699 Kenai AK 99611
Address

260-9335
Phone number



Alaska State Legislature

Please enter into the record my testimony to the LABOR and Commerce committee name
SB 102 3/13/07

SB102 reads like a quick money grab for the State of Alaska. I was present in Kenai, March 12th, for the teleconference and televised committee meeting. It was no surprise to me that the employees from the State were having a difficult time explaining the proposed legislation to the Senators. Charitable gaming is difficult to understand unless you work the floor selling pull-tabs, and/or providing Bingo to the public.

I am not a pull-tab employee; my job is volunteer board member. As a board member I can see where SB102 will only handcuff our charitable efforts in the community. Pick up the phone call some managers of pull tab operations ask them to educate you. I have been involved with charitable gaming since taking a seat as a board member. I still do not know the finer points of selling pull-tabs, and/or the happenings at Bingo. The proposed tax is not the way to gain revenue for the State's operation or provide the Department of Revenue with justification to increase State government or add employees.

The information and letter accompanying SB102 talks briefly about the revenue to be generated and then moves to how this bill will control gaming and discourage "professional gaming operators" from passing the cost along to charities. The Department of Revenue spent an entire year writing new legislation to address this very problem. I would assume the legislation has not been successful since the department has identified it in their presentation.

If SB102 goes forward as presented with the amendment many charities will be finished. Most of us operate on a tight budget. The per capita figures given at the close of the committee meeting do not reflect the social life in the villages that surround Bingo and pull-tabs. I also believe this figure was pulled from the total amount of gaming conducted in the village. This amount is inflated by the ability of the player to use playback for purchases. The revenue reported as being spent by each individual includes the money the individual came in with, money that was won, played back and never left the building.

Signed: [Signature] KAREN A. KESTER
Testifier

KENAI ELKS 2425 and PENINSULA BILLERS
Representing (optional) BB Club, INC

PO Box 3422, KENAI, AK 99611
Address

907-8800 907-8770 348-1151
Phone number

HB 169/SB 102 Research

State	Tax Rate	Tax Base	Paid By	Expense Limit	Prize Limit
Illinois					
Pull-tab tax	5.00%	Gross receipts	Permittee	None found	\$500 per single ticket \$5,000 per day No annual limit
18-year age limit to play					
Minnesota					
Pull-tab tax	1.70%	of gross receipts on purchase of the game	Distributor	55% of AGI	\$500 per single ticket
Combined Receipts Tax	}	2.00% of gross receipts between \$500,000 and \$700,000	Permittee		
		4.00% of gross receipts between \$700,000 and \$900,000	Permittee		
		6.00% of gross receipts over \$900,000	Permittee		
Sales tax		paid on retail sales to permittees	Distributor		
New York					
Pull-tab tax	5.00%	Net proceeds	Permittee	None found	\$500 per single ticket
Sales tax	2.00%	Pull-tab game sales price	Manufacturer		\$3,000 per game
Sales tax	2.00%	Pull-tab game sales price	Distributor		No annual limit
Oklahoma					
No state tax shown on web site, contact in Oklahoma knew of none.					
Colorado					
Sales tax	1.20%	Pull-tab game sales price	Manufacturer	None found	No prize limits
Sales tax	1.20%	Pull-tab game sales price	Distributor		
Pull-tab tax	0.30%	On gross receipts up to \$100,000 per quarter	Permittee		
Pull-tab tax	0.40%	On gross receipts over \$100,000 Per quarter	Permittee		
Massachusetts					
Pull-tab tax	10.00%	on ideal gross receipts	Distributor	None found	No prize limits
Washington					
No state tax, but state limits local taxes to 10% of AGI				Loosely limited	\$500 per ticket
Michigan					
There is no state tax on pull-tabs, but the state controls sales as intermediary between manufacturer and distributor, and generates revenue through state-controlled mark-up of games sold to distributors. Only fourteen games are legal. The permittee price of a game is 40% of ideal net proceeds; the distributors share comes out of that.			Permittee Distributor	None found	\$300 per ticket 75% per game No annual limit
North Dakota					
Excise tax	4.50%	Gross receipts on all gaming activity	Permittee	Limited on a sliding scale-	\$500 per ticket
Pull-tab tax	}	5.00% of AGI under \$200,000	Permittee	51% to 45%	No annual limit
		10.00% of AGI between \$200,000 and \$400,000	Permittee		
		15.00% of AGI between \$400,000 and \$600,000	Permittee		
		20.00% of AGI above \$600,000	Permittee		
Note: North Dakota allows net proceeds to be used to establish a permanent fund.					
Nebraska					
Pull-tab tax	10.00%	of ideal net [except for games sold to tribes]	Distributor	Under 9% AGI,	65% to 80% of gross
Sales tax	5.50%	on the distributor's selling price	Distributor		

Subject: Pie chart for charitable gaming

Date: Fri, 21 Mar 2003 16:09:51 -0900

From: Larry Persily <Larry_Persily@revenue.state.ak.us>

Organization: Department of Revenue

To: Jane C Alberts <jane_alberts@legis.state.ak.us>

We put together the attached pie chart to show how charitable gaming in Alaska compares to a national average for prizes, taxes, expenses and net to charities. It shows Alaska under existing law and under the proposed CSSB102.

Larry

Name: Gaming Pull Tab Pie chart.xls

Type: Microsoft Excel Worksheet
(application/vnd.ms-excel)

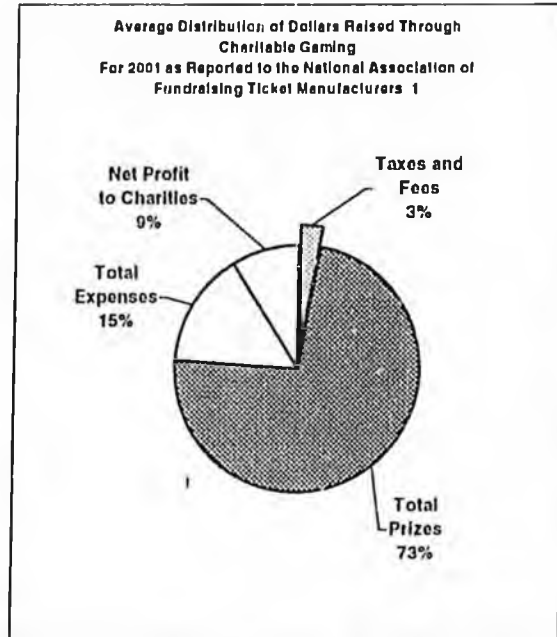
 Gaming Pull Tab Pie chart.xls

Encoding: base64

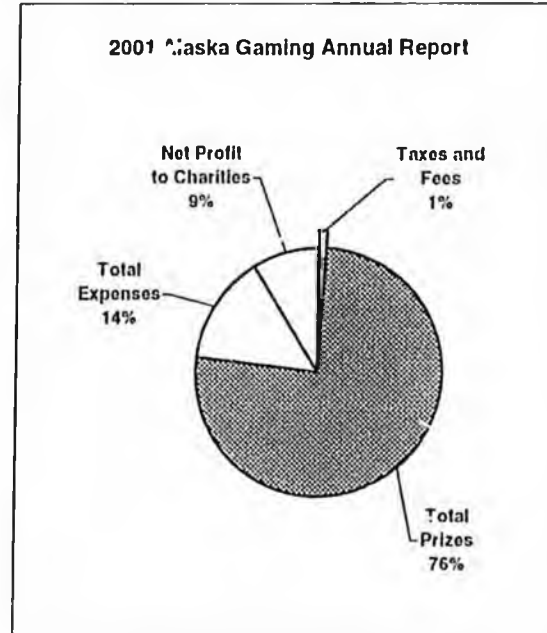
Download Status: Not downloaded with message

Comparison of Alaska's Total Gaming to NAFTM* 2001 Averages

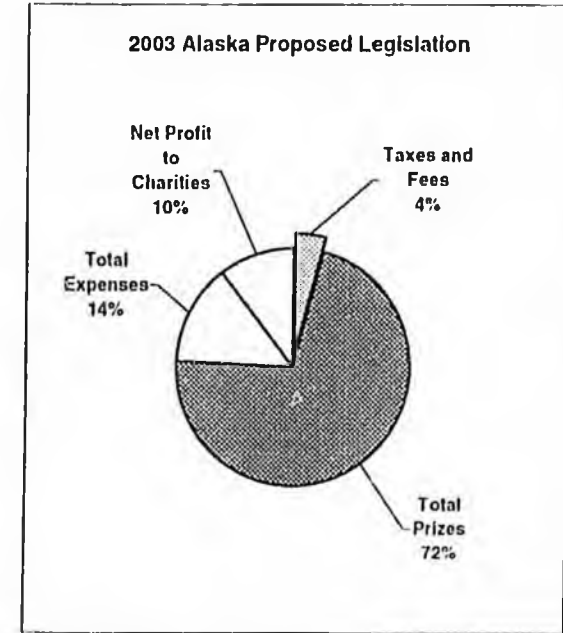
* National Association of Fundraising Ticket Manufacturers



Percentages Based on Gross Receipts
Pull-Tabs, Bingo, Raffles, etc.



Total Gross Receipts: \$357,016,581
Pull-Tabs, Bingo, Raffles, etc.



Based on Total Gross Receipts of \$357,016,581
Pull-Tabs, Bingo, Raffles, etc.

To determine the average distribution of dollars raised through charitable gaming, we looked at the states with complete information in each of the following five categories: total gross revenue, total prizes, total amount to charity, total tax revenue generated and total expenses. It is important to note that all of these categories vary from state to state. Allowable expenses and tax rates are typically determined by each state's regulatory body.

Other terms used in this report:

"Gross Receipts" is the total amount of money spent on a game by the participants. In a bingo game, it is the total amount wagered through the purchase of bingo cards. In a pull-tab game, it is the total amount wagered through the purchase of all the pull-tabs in a game.

"Adjusted Gross Receipts" is the amount of money left in a game after all prizes have been paid to players.

"Net Proceeds" is the amount of money left after gaming expenses have been deducted from the adjusted gross receipts. It is the amount of money available to charities to spend on their individual programs. Depending on the state, net proceeds may include taxes and fees.

Proposed Legislation for Pull-Tabs

- > 5% Tax on gross receipts.
- > Prizes limited to 72% of gross receipts
- > Operators must return at least 35% of adjusted gross receipts to permittees
- > Vendors must pay permittees 75% of adjusted gross receipts.

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



P.O. Box 110001
JUNEAU, ALASKA 99811-0001
1907-465-3500
FAX 1907-465-3532
WWW.GOV.STATE.AK.US

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 5, 2003

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

Dear President Therriault:

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

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

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

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

GOVERNOR'S TRANSMITTAL LETTER

The Honorable Gene Dierriault

March 5, 2003

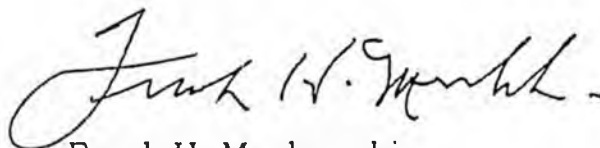
Page 2

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

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

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in cursive script, reading "Frank H. Murkowski".

Frank H. Murkowski
Governor

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 102
(S) Publish Date: 3/6/03

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

Expenditures/Revenues (Thousands of Dollars)

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

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

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	11,500.0	12,500.0	12,500.0	12,500.0	12,500.0	12,500.0
-------------------------------	-----------------	-----------------	-----------------	-----------------	-----------------	-----------------

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

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

ANALYSIS: (Attach a separate page if necessary)

This legislation would increase the state's charitable gaming tax rate from 3 percent of ideal net on pull-tabs to 5 percent of ideal gross receipts for pull-tabs. This marks the first change in tax rates since 1988. This legislation the state tax rate on raffles, bingo and other charitable gaming.

The tax increase would take effect July 1, 2003. The Department of Revenue estimates the increase will generate \$12.5 million in additional state revenue for a full fiscal year, with approximately \$11.5 million in Fiscal 2004 because the state would receive the higher revenues for 11 months in the fiscal year. (Taxes are paid one month after sales for distributors on pull-tab games.)

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

Prepared by: Jeff Prather and Larry Meyers Phone 465-3410
Division: Tax Division Date/Time 3/5/03 2:10 PM
Approved by: Larry Persily, Deputy Commissioner Date 3/5/2003
Agency: Department of Revenue

**Department of Revenue
Charitable Gaming Tax**

SB 102 FN #1 Page 2 of 2

Operating Expenditures

The Department of Revenue is requesting general fund program receipts to cover the cost of one Revenue Auditor III position and an Investigator III position. With such a large increase in taxes due the state (an estimated \$12.5 million per year), the department anticipates the need to strenuously verify the gross receipts that the new tax increase is based upon. A lack of sufficient staff to verify, audit and enforce the state's higher charitable gaming tax rate would exacerbate an already serious shortage in the state's enforcement effort.

The incidence of taxation under this legislation would be focused on gross receipts, an area that is possible for manipulation in an industry that is very cash oriented. These two new positions would focus on distributor-reporting practices and audits for the sale of pull-tab games. The projected annual salary cost for these new positions totals \$125,000.

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

Comparison to other states

The National Association of Fundraising Ticket Manufacturers 2001 Annual Report on the Charity Gaming in North America lists 34 states that tax pull-tabs and/or bingo. Four states have rates equal to or greater than 5% of gross receipts on pull-tabs, the two highest being Massachusetts and Oklahoma, both with a 10% tax on gross receipts.

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

P.O. BOX 110400
JUNEAU, ALASKA 99811-C-100
TELEPHONE: (907) 465-2300
FACSIMILE: (907) 465-2389

March 6, 2003

The Honorable Con Bunde
Chair, Senate Labor and Commerce Committee
Alaska State Legislature
State Capitol, Room 506
Juneau, AK 99801

Dear Senator Bunde:

One element of Governor Murkowski's budget plan for Alaska is an increase in the tax on pull-tab games, and I am writing on behalf of the governor to request a hearing on Senate Bill 102 at your committee's earliest possible convenience.

Pull-tab sales are an important part of the annual revenue picture for hundreds of charities statewide. But pull-tab sales also are part of a large industry in our state — more than \$273 million in gross sales in calendar 2001. Of that amount, about \$23 million went to the charitable organizations that are to benefit from the sales. The existing state tax on pull-tab sales is 3% of the net (gross sales, minus prizes), which produced about \$2 million in state revenue in 2001. The governor's proposal would raise the tax to 5% of ideal gross, which would generate an additional \$12.5 million for the state in a full fiscal year.

It is the governor's intent that the additional tax not come out of the funds retained by charities. State law allows gaming only for qualified charitable organizations, and the governor would like to see those organizations receive as much benefit as possible from their gaming activities.

The Charitable Gaming Section at the Tax Division is ready to work with you and your committee members on this important piece of legislation. Please let me know if we can answer any questions or provide any additional information to assist you in your work.

Sincerely,


Larry Persily
Deputy Commissioner

c: Mike Tibbles
Office of the Governor

EFFECTS OF PROPOSED TAX REGULATIONS ON CHARITIES

\$ 2,219.00 Total proceeds generated by charity selling the pulltab game, Criss Cross Form # 7120B.

\$(1,840.00) Total proceeds paid by the charity to the players for the same game.

\$ 379.00 Total ideal net for the charity after payments to the players.

\$ 11.37 State receives 3% of the ideal net under **CURRENT REGULATIONS**

\$ 2,219.00 Total proceeds generated by charity selling the pulltab game, Criss Cross Form # 7120B.

\$(1,840.00) Total proceeds paid by the charity to the players for the same game.

\$ 379.00 Total ideal net for the charity after payments to the players.

\$ 110.95 State receives 5% of the ideal gross under **PROPOSED REGULATIONS**
This is a **976%** increase in taxes under **PROPOSED REGULATIONS**

\$ 2,219.00 Total proceeds generated by Juneau charity selling the pulltab game, Criss Cross Form # 7120B.

\$(1,840.00) Total proceeds paid by the charity to the players for the same game.

\$ 379.00 Total ideal net for the charity after payments to the players.

\$ 110.95 State receives 5% of the ideal gross under **PROPOSED REGULATIONS**

\$ 110.95 City & Borough of Juneau receives 5% of the total proceeds generated.

\$ 221.90 Total taxes to be paid by Juneau charities under proposed regulations.

\$ 379.00 **TOTAL IDEAL NET FOR THE CHARITY AFTER PAYMENTS TO THE PLAYERS**

\$ 221.90 **TOTAL TAXES PAID BY JUNEAU CHARITIES UNDER PROPOSED REGS.**

**59% TOTAL PERCENTAGE OF JUNEAU CHARITIES
NET PROFIT TAKEN AS TAXES**

Subject: Senate Bill 102 & House Bill 169

Date: Mon, 10 Mar 2003 09:38:47 -0900

From: "Tabs Unlimited" <tabsunlimited@acsalaska.net>

To: "Jane Alberts" <jane_alberts@legis.state.ak.us>

Jane:

Enclosed is information showing the effect of the proposed taxes on charities. Re Sec. 05.15.184. Pulltab tax, it looks like both bills want to tax on the total proceeds of an entire game (they have chosen to delete the text "RECEIPTS LESS PRIZES AWARDED ON" from the current language.

Since the City & Borough of Juneau currently have a 5% sales tax on the total proceeds of an entire game, the last portion of the info shows the devastating effect this additional tax has on Juneau Charities.

Thank you for your time and if you have any questions, please give me a call at 780-4888.

John Vanderboom
Frank Burr
Tabs Unlimited of Alaska, LLC

 Proposed State Tax Changes.xls

Name: Proposed State Tax Changes.xls

Type: Microsoft Excel Worksheet (application/vnd.ms-excel)

Encoding: base64



Allied Charities of Alaska Association

Stop HB169 and SB102

HB169 and SB102 Will Take 25% of the Charities' Ideal Net

- The proposed 5% Gross Proceeds Tax will take approximately 25% of the Charities' Ideal Net*
- The Charities need the Ideal Net to pay their expenses of raising money and to give to those in need
- If the Government takes 25% of the Charities' Ideal Net, the Charities' will not be able to pay their bills or continue to help those in need
- If the Government takes 25% of the Charities' Ideal Net, Charities will go out of the business of helping those in need

I am opposed to HB169 and SB102. Do not take 25% of the Charities' Ideal Net.

John L. Anderson
Print Name

(907) 835-4665
Phone Number

[Signature]
Sign Name

Valdez
City

KCHA
Organization

Fax this sheet to the Committee (465-3871) the Governor (269-7461) and Gaming (269-6595)

*This assumes the permittee plays games with a 20% ideal net.

The Trade Association for Alaska's Charitable Gaming Industry

5761 Silverado Way, Unit Q
Anchorage, Alaska 99518
Phone 907.677.1644 Fax 907.677.0644



Allied Charities of Alaska Association

HB169 and SB102 Raise Taxes on Charities By 650%

- Taxes on Charities today is 3% of Ideal Net paid monthly plus 1% of Total Net Proceeds (similar to Ideal Net) paid on the Charities' Annual Report for a total of 4% of Ideal Net
- Taxes under HB169 and SB102 are 5% of Gross Proceeds paid monthly plus 1% of Total Net Proceeds (similar to Ideal Net) paid on the Charities' Annual Report or a total of 26% of Ideal Net*
- This is a 650% tax increase on Charities

I am opposed to HB169 and SB102. Do not raise taxes on Charities by 650%. Let the Charities keep the funds they so desperately need to do their good work.

John L Anderson
Print Name

(907) 835 - 4665
Phone Number

[Signature]
Sign Name

Walden
City

KCAU
Organization

Fax this sheet to the Committee (465-3871) the Governor (269-7461) and Gaming (269-6595)

*Assumes Permittees run games with an Ideal Net of 20%.

The Trade Association for Alaska's Charitable Gaming Industry

5761 Silverado Way, Unit Q
Anchorage, Alaska 99518
Phone 907.677.1644 Fax 907.677.0644