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Folder Title:

Federal Firearms Licensing [1]

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Want a Gun? Become a Gun Dealer

By JOSH SUGARMANN

Sen. Bill Bradley's statement Thursday that Congress should raise the licensing fee on gun dealers to \$2,500 from \$30 highlighted one of the most overlooked aspects of the national debate on firearms: the ease with which nearly any American over the age of 21 can become a federally licensed gun dealer.

Mr. Bradley's statement follows the recent signing of an executive order by President Clinton directing the federal Bureau of Alcohol, Tobacco and Firearms to begin restricting federal firearms licenses (FFLs) to bona fide gun dealers. This sensible step will help stem the flow of guns to America's criminals, a move that conservatives, who repeatedly emphasize the "rights with responsibilities" ethic, should applaud.

The Type 1 FFL is the basic federal license required to sell guns in America and grants the licensee unique and broad privileges. America's 246,532 Type 1 FFL holders can ship and receive firearms and ammunition in interstate commerce via common carrier and purchase weapons at wholesale prices. Most activity can be conducted free of local and state regulations that apply to individual "over-the-counter" purchases, such as waiting periods or background checks.

Lax Procedures

One would assume that to become a federally licensed firearms dealer, a rigorous set of regulations would be in place to keep undesirables out of the business. But the reality is that any American over the age of 21 can become a gun dealer upon paying a \$30 three-year licensing fee and undergoing a loophole-ridden background check for possible felony convictions.

Because of the cursory nature of the application check, those with felony records can avoid detection merely by having relatives, girlfriends, or even pets, register for them. In 1990, ATF officials were embarrassed when it was revealed that they had approved a license application for two dogs. "The point is well taken," an ATF spokesman acknowledged. "The dogs would clearly pass a record check designed for human beings."

The result of these incredibly lax pro-

cedures is that in many states, it is easier to become a dealer in firearms than to purchase a handgun legally. It's not surprising that from 1975 to 1993, the number of Type 1 FFLs jumped more than 68%. The licensing procedure is so lenient that today the U.S. has more gun dealers than it does gas stations.

Yet according to a July ATF report, only 18% of the holders of Type 1 FFLs operate actual storefront businesses such as gun or sporting goods stores. The vast majority, 74%, are "kitchen-table" dealers who conduct business out of their homes—often in violation of state and local zoning, business, or firearms laws. (The remainder conduct business out of commercial premises not associated with the sale of goods to the public, e.g. real estate offices, auto repair shops, or beauty shops.)

While most of the ATF's regulatory lethargy as regards FFL issuance, renewal and revocation has been self-imposed, in 1986 Congress placed major roadblocks in the agency's way when it passed the Firearms Owners' Protection Act. The law helped curtail FFL enforcement by limiting ATF to one unannounced dealer inspection per year; reducing the record-keeping requirements for dealers selling guns from their "personal" collections; removing record-keeping requirements for ammunition dealers; prohibiting ATF from centralizing or computerizing dealers' records; and imposing a higher standard of proof (violations need to be "knowing" or "willful") while lessening penalties for dealer violations.

Moreover, less than 6% of all FFL holders are inspected in an average year. In 1990, the agency revoked only three of the 235,700 Type 1 FFLs then held. The ATF estimates that at current funding levels it

would take the agency more than a decade to inspect every FFL holder.

For the first time, however, the ATF recently began visiting or calling all new applicants. Two cases cited by former ATF Director Stephen Higgins in June testimony before the House Subcommittee on Crime illustrate the need for increased oversight.

The first case concerned a New Jersey man whose stated place of business was a room at the YMCA. The applicant had several guns in the room and was reloading ammunition while talking to the inspector. "The applicant," Mr. Higgins testified, "was also watching movies about the Viet-

nam War and appeared to be irrationally enthralled with that conflict." In a second case, after a preliminary inspection the prospective gun dealer withdrew his application. "One week later," Mr. Higgins continued, "the applicant was arrested for possessing ...

machine guns. He was subsequently released, only to later engage in a shootout with local police."

The bureau has also improved its inspection process by visiting the holders of FFLs in select urban areas prior to renewal, in an attempt to confirm that they have met all state and local licensing requirements. Those who have not met the requirements are informed that their licenses will most likely not be renewed.

Yet an unknown number of FFLs remain in criminal hands. Licensee abuses cited at the June House hearing included those of Detroit kitchen-table dealer Larry Wilson, who sold 2,169 handguns and assault rifles off the books to criminals; New York City resident John Adams, who ordered more than 1,000 handguns through the mail and then sold them on the city's

black market; and fellow New Yorker John Zodda, who over a five-year period used his own FFL and a series of falsified licenses to buy and sell more than 2,400 firearms, including assault weapons.

These are not isolated cases. A 1992 study by the Violence Policy Center found that kitchen-table dealers contribute significantly to criminal gun flow. In an analysis of ATF crime-gun traces for Detroit, the study found that one-third of all dealers who had five or more guns used in crimes traced back to them were kitchen-table dealers; the average number of crime guns traced per kitchen-table dealer was nearly 50% higher than that of gun shop owners; and six of the top 10 dealers with five or more criminal gun traces were kitchen-table dealers. These statistics illustrate the folly of the federal government's permissive firearms licensing procedures. Even opponents of gun control should be in favor of measures that would limit gun-dealing licenses to legitimate gun dealers.

What's Needed

As a result of President Clinton's directive, additional steps to be undertaken by ATF include the development of a more comprehensive application form, fingerprinting applicants, and automating the bureau's dealer records. The problem cannot be solved, however, until Congress moves to limit license availability to legitimate storefront operations by—at the very least—increasing the annual dealer licensing fee and requiring that before a federal license is granted applicants show proof of having obtained all necessary local and state permits. The recent resignation of Mr. Higgins from the ATF highlights the need for a new director who is committed to implementing these regulations.

These moves will not make it any more difficult for law-abiding citizens to obtain firearms. They will, however, be a big step forward in reducing the number of kitchen-table dealers and in the process limiting criminal access to guns. That's as effective a weapon as any in the fight against crime.

Mr. Sugarmann is executive director of the Violence Policy Center in Washington.

Any American over the age of 21 can become a federally licensed gun dealer upon paying a \$30 three-year licensing fee and undergoing a loophole-ridden background check for possible felony convictions.



Three Weeks to Bankruptcy ✓

By ELAINE LANZENDORFER

The president and other members of his administration have been traveling the country listening to health care woes and promising relief. But reform will come too late for me. My business will already be out of business—done in by the health premiums we're required to pay under the Coal Industry Retiree Health Benefits Act, a measure the administration endorses.

Developed by Sen. John Rockefeller (D., W.Va.) and passed as part of the 1992 energy bill, this legislation, with its controversial "reachback" tax, will force Lanzendorfer Trucking Inc. into bankruptcy on Oct. 25, the day the first premiums are due. And our case is far from unique.

Back when a trucking company needed a union card to haul union coal into the power plants, Lanzendorfer Trucking joined the union. In 1987, when we withdrew from the union, we paid our withdrawal penalty to the United Mine Workers of America Funds, and thought we had satisfied all current and future obligations. We didn't know that the rules of the game would change six years later.

About the end of February of this year, we learned that even though we had paid the withdrawal penalty, we would now be liable for a reachback tax to pay for benefits for seven former employees. The total for the first 12 months will amount to roughly 20% of our payroll.

Although once we had seven tri-axle coal-hauling trucks, we now have two and work is sporadic. There's only one union mine now operating in Cambria County, Pa., and some say it's slated to close soon. Our total payroll last year was \$124,000, and the highest salary paid was \$25,000. Perhaps you think you would not bother to run a company for such little money, but if you lived in Cambria County you would.

We cannot afford to pay this tax.

As a coal miner's daughter, I know what these benefits mean to retired miners and how hard they worked for them. But bankrupting our business won't help pay for their medical care—especially when our contribution isn't even necessary.

The reachback tax was supposed to make up for a projected shortfall in the funds that provide health care benefits to United Mine Workers of America retirees. But as I learned when I recently testified before Congress about the impact of the tax on my business, the shortfall never materialized.

In April 1992, the UMW Funds adopted measures—including enrolling eligible retirees in Medicare and reimbursing doctors at Medicare rates—that dramatically decreased the cost of providing care to the miners. It now costs far less to take care of them than was originally projected. For the fiscal year ended June 30, 1993, the actual costs were \$115 million less than the Bush-appointed Coal Commission expected, and \$66 million less than the Congressional Budget Office projected. The costs were actually dropping while the statute was being developed. But that doesn't help me or my family's business.

We are not alone in our predicament. Companies that have been out of the coal business for decades—or were never in it at all—are being hard hit to pay for this reachback tax. We're a diverse lot—all united by a sense of impending doom.

• Princeton Mining Co. of Terre Haute, Ind., now produces popcorn. It has been out of mining for nearly three decades. Yet it will owe approximately \$164,000 annually in reachback taxes.

• Templeton Coal, also of Terre Haute, stopped mining coal on May 28, 1954. Its reachback premiums will be \$92,000 a year.

• Industrial Maintenance & Fabricating of Lynchburg, Va., was never in mining at all. But its majority shareholder, a company that stopped mining nearly 10 years ago, expects a minimum annual assessment of \$264,000 in reachback fees. When it goes under, so will Industrial Maintenance.

• Same story with Cogar Mine Supply of Beckley, W.Va.

• In Pueblo, Colo., reachback liability threatens to scuttle a promising merger between Oregon Steel and the bankrupt CF&I Steel Corp. And on and on.

Coal trucking is hard and monotonous work. To drive the same route five times a day for years on end takes a toll on the body and mind. From the days that my father-in-law started hauling in 1916 with two mules and a wagon, the Lanzendorfers have worked side by side to keep the company going. All we are asking for is the right to conduct business as we have done for 77 years.

Cambria County has the dubious distinction of being one of the poorest counties in Pennsylvania. We have grown used to eating bad news for breakfast—but we doubt the poor conditions we witness daily have penetrated the Beltway. Otherwise, how could the administration dismiss our plight, and call the law "a reasonable solution to a difficult problem." Why won't it even consider a moratorium on premiums while Congress reviews the true cost of running the UMW Funds?

And why is Sen. Rockefeller so keen to protect his UMW constituents from the cost-sharing reforms he and President Clinton recommend for the rest of the country?

Mrs. Lanzendorfer is the bookkeeper of Lanzendorfer Trucking Inc., a coal trucking business in Cambria County, Pa.

Asides

The Moscow News

Probably no one in Russia, let alone the rest of the world, can guess the ultimate impact of the new outbreak of violence in Moscow. There is no magic formula for instant change to democracy and market economics from totalitarianism and a command economy; the road is bound to be rocky.

An intriguing item in the reports is that the anti-Yeltsin demonstrators include Red Army veterans disturbed at the disintegration of a once-proud fighting force. There are also reports

that secessionist movements in Georgia owe much of their recent success to de facto mercenaries, with weapons rented from Army units no longer receiving reliable pay or rations.

Still, another item makes it hard to believe the old Soviet Union will return, if only because such words never before could be seriously uttered on Moscow TV and carried live on CNN. A Yeltsin adviser appealed for calm, saying the Patriarch of the Russian Orthodox Church decreed that those who started violence would no longer be Christian.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503

January 26, 1994

TESTIMONY

LEGISLATIVE REFERRAL MEMORANDUM

LRM #N-1051

TO: Legislative Liaison Officer -

JUSTICE - Sheila F. Anthony - (202) 514-2141 - 217
ONDCP - Babette Hankey - (202) 395-6739 - 257

FROM: JAMES J. JUKES (for) *Jim*
Assistant Director for Legislative Reference

OMB CONTACT: Douglas STEIGER (395-3586)
Secretary's line (for simple responses): 395-3454

SUBJECT: TREASURY Proposed Testimony on Firearms
License Reforms

DEADLINE: 3 PM THURSDAY January 27, 1994

OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or receipts for purposes of the the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:
C. Walden/J. Cerda
Peggy Young
Mark Schwartz
Jim Duke
Harry Meyers
Milo Sunderhauf
John Kamensky
C. Cerda

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TESTIMONY

01/26/94 16:41 OMD LRD/ESCC 003
JAN-26-1994 15:58 202 0220073 TREAS EXEC SEC 0020
14:07 FROM ATF CONG & MEDIA AFFAIRS TO 96220073 P.03

Testimony of

John W. Magaw

Director, Bureau of Alcohol, Tobacco and Firearms

Before The

U.S. Senate Judiciary Committee

Subcommittee on the Constitution

January 31, 1994

1/26/94; 9:30 am

Mr. Chairman, thank you for inviting me here to

talk about the serious issue of firearms trafficking.

The Senate, the Administration, the media, gun store

owners, gun owners, law enforcement...it seems

everyone's talking about gun dealers -those 258,000

Federal firearms licensees that sell guns to the

public. We're glad that attention has been focused

on dealers and the crucial role they play. The

drama they act in could be good or bad...it's their

choice. ATF urges them to make the responsible

choice.

-2-

Senator, you have been an invaluable leader in the effort for Federal firearms licensing reform. All of us in law enforcement are grateful for your work in this critical area.

Let me tell you how Federal Firearms Licensees-- FFL's--can interact in gun trafficking. They can be part of the problem, and sometimes are, but also have a great capacity to be part of the solution.

-3-

Clearly, they have the potential to be involved in some serious, illegal operations. In many ATF cases, what's central to catching the violator is our work in tracing a firearm. That trace could be the key lead in ATF's effort to find a suspect... but we can't do it ourselves.

-4-

Our National Tracing Center, in a successful trace, takes the serial number and traces the gun's path from the manufacturer all the way to the retailer. It's that licensee who can make a difference. He can go through his records and find to whom that gun was sold. In the Long Island Railroad shooting, our trace took a mere few hours, with everyone's cooperation. It found the gun was bought by the suspect. That adds evidence in court. Suppose he fled...our trace would have identified him.

-5-

To give you more of an idea how tracing is an
integral part of cracking both interstate and
international gun trafficking cases, and how gun
dealers play a pivotal role, let me share with you a
few of our recent cases.

-6-

1.) Following up on a trace of 3 firearms recovered in New York, ATF agents investigated a Dayton, Ohio resident with alleged ties to the Gotti crime family in New York. He moved about 400 firearms from Ohio to New York within 13 months. With the cooperation of the FFL, ATF conducted surveillance on the individual and arrested him in New York with 21 firearms he bought in Ohio.

-7-

2.) In August of 1993, ATF traced 58 of the 179 firearms seized in a Mexican drug cartel shootout in Guadalajara to U.S. gun dealers. The 179 guns seized included four M-60 military machine guns, 11 M-16 U.S. military assault rifles, and 36 to 40 Chinese-made AK-47 rifles. The AK-47's are the type of rifle used by the gunmen who killed Cardinal Juan Jesus Posadas Ocampo during the shootout.

-8-

Now for how FFL's on the wrong side of the law
can have a hand in crime.

1.) At an ATF inspection of a North Carolina FFL,
licensee Fletcher Johnson revealed to ATF
inspectors that he had no records. Johnson gave
varying accounts on the accidental "destruction" of
his records, making inspectors question his
credibility.

-9-

Through tedious investigation, the inspectors discovered the FFL bought 419 firearms from 2 suppliers during eight months. In July, 1993, 8 people were charged in connection with a drug and firearms ring that put over 1200 guns in the hands of East Coast criminals. 81 guns recovered in the Raleigh part of this ring were traced to Johnson, who pled guilty.

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JAN-26-1994 14109 FROM ATF CONG & MEDIA AFFAIRS TO

96220073

P.13 0036

-10-

2.) Take another major case, involving a Chicago gun dealer. Chicago ATF agents executed a warrant on the residence (also the business) of FFL Richard Tylkowski, after he and his son were arrested for delivering five M-11, 9 MM machine guns to an undercover ATF agent. During the warrant, agents found a M-16 machine gun with obliterated serial number and tools to convert firearms.

-11-

He is suspected of trafficking hundreds of firearms
and homemade hand grenades to Chicago street
gangs. Tylkowski is also suspected of working with
Yugoslavian nationals who were purchasing firearms
smuggled from Chicago to Bosnia-Herzegovina by
the Bosnian-Muslims for use in the ongoing civil
war.

-12-

ATF strongly supports your amendments to the
Senate Crime Bill and the proposals by the Treasury
Secretary regarding gun dealers. 284,000 licensees
with only 240 ATF inspectors to check their
premises, ensuring compliance? It would take us 10
years to inspect all of them.

What we need are reasonable measures to ensure
only legitimate dealers are in the firearms business.

-13-

The much talked-about \$600 fee for gun dealers
seems reasonable; that's what it costs ATF--and
ultimately the taxpayer--to process and administer
that license. Shouldn't the dealer pay his own cost?
Up until the Brady Law, it was \$10 a year, so
taxpayers were subsidizing \$590 of it. As Secretary
Bentsen said, "Best bargain in town."

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Mr. Chairman, you have focused on a gaping

loophole, the license fee is not the only issue.

Under Federal law, you can get a license without

complying with state and local laws! Because of

this, ATF initiated giving FFL listings to local

authorities, so they could find who may be evading

laws in their areas.

-15-

For example, many local zoning ordinances do not allow business out of homes. Federal law does. In an ATF study, we found that 74% of dealers do business from their homes. Some of them are break local laws.

-16-

Some cities allow selling from homes, but a fee must be paid; since the kitchen-table FFL is not paying, the city is loses revenue. When ATF inspectors and New York City authorities told new applicants of state and local laws and fees, 90% did not go through with the application process. All ATF is saying is "law abiding" means obeying ALL laws- Federal, state and local.

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What we're looking at here is just making sure
dealers are responsible...they pay their fee and do
credible, responsible business. And responsible
business is turning over to ATF names of suspicious
purchasers that may be traffickers. Being compliant
means abiding by the law, doing business the good,
old-fashioned way...NOT dealing weapons to
Yugoslavian nationals or to criminals who work the
East Coast, West Coast, anywhere there's a pipeline
of guns.

-18-

The integrity of the tracing system and control of the access to the millions of guns in the marketplace rests with the licensed dealer. It is imperative that we set reasonable standards and costs for those we authorize to enter the gun business.

Legitimate gun dealers have been as great a help to law enforcement as they have been to their customers. Illegitimate gun dealers are law enforcement's worst nightmare.



DIRECTOR

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
WASHINGTON, D.C. 20226

NOV 10 1993

MEMORANDUM TO: Assistant Secretary (Enforcement)

FROM: Director

SUBJECT: Progress Report on Implementing The President's
Directive On Gun Dealer Licensing

Recently, the President issued a memorandum to the Secretary stating that the Secretary will direct the Bureau of Alcohol, Tobacco and Firearms (ATF) to take steps to ensure compliance with the present firearms licensing requirements. The memorandum listed a series of specific initiatives that should be addressed, and directed the Secretary to report progress on the implementation of the initiatives within 90 days and annually thereafter. Attached for transmission to the Secretary is a letter to the President and the initial progress report from ATF.

John W. Magaw
for John W. Magaw

Attachment

Approve: _____

Disapprove: _____

Other: _____



DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

MEMORANDUM FOR SECRETARY BENTSEN

FROM: Ronald Noble
Assistant Secretary (Enforcement)

SUBJECT: Progress Report On Implementing The President's
Directive On Gun Dealer Licensing

ACTION FORCING EVENT: The President issued a memorandum requesting you to direct the Bureau of Alcohol, Tobacco and Firearms (ATF) to take whatever steps are necessary, to the extent permitted by law, to ensure compliance with present Federal firearms licensing requirements. The memorandum listed a series of specific initiatives that should be addressed and directed you to report progress on the implementation of the initiatives within 90 days and annually thereafter.

RECOMMENDATION:

That you sign the attached memorandum to the President.

_____ Agree _____ Disagree _____ Let's Discuss

BACKGROUND:

On September 7, 1993, ATF drafted a proposal containing specific strategies aimed at implementing the President's firearms initiatives. Accompanying the letter to the President and the progress report is a copy of ATF's proposal for your information.

ATTACHMENT: Memorandum to the President, Progress Report, ATF
Proposal to Implement the President's Firearms
Initiatives.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

MEMORANDUM FOR THE PRESIDENT

FROM: Lloyd Bentsen
SUBJECT: Progress Report on Gun Dealer Licensing

This memorandum is in response to your directive addressing the subject of gun dealer licensing. Your memorandum directed the Department of the Treasury and the Bureau of Alcohol, Tobacco and Firearms (ATF) to take whatever steps necessary, to the extent permitted by law, to ensure compliance with the present licensing requirements of the Gun Control Act of 1968. Additionally, you directed me to report progress on the implementation of these initiatives within 90 days and annually thereafter.

Subsequent to my receipt of your memorandum, I directed ATF to develop a course of action addressing each of the strategies which you enumerated and to periodically report to me their progress. Attached is ATF's original proposal to implement your firearms initiatives, and the initial progress report on the implementation of their proposal.

These initiatives are already having a measurable impact on the Federal firearms licensing system. For the first time in years, the total population of Federal firearms licensees has actually decreased. While the numbers remain unacceptably high, we are confident that when all of these initiatives are implemented, we will continue to see a decrease in the Federal firearms licensee population. These initiatives will ensure that only those persons who have a reasonable expectation of engaging in a firearms business will be issued a Federal firearms license.

Attachments

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS



PROGRESS REPORT ON IMPLEMENTING THE PRESIDENT'S DIRECTIVE ON GUN DEALER LICENSING



Recently, the President issued a memorandum to the Secretary of the Treasury stating that the Secretary will direct the Bureau of Alcohol, Tobacco and Firearms (ATF) to take whatever steps are necessary, to the extent permitted by law, to ensure compliance with present firearms licensing requirements. The memorandum listed a series of specific initiatives that should be addressed and directed the Secretary to report progress on the implementation of the initiatives within 90 days and annually thereafter.

The following is a synopsis, as of October 31, 1993, of the actions that have been implemented or are in the process of being implemented.

The Firearms and Explosives Licensing Center (FELC) has begun conducting computer queries with State departments of motor vehicles to verify the drivers license numbers of all applicants for a Federal firearms license (FFL). This will enhance our ability to accurately identify applicants for an FFL.

The FELC has implemented the use of an automated address verification system (CODE 1) which will allow ATF to identify applications for an FFL that use non-existent addresses for proposed business premises.

Application for firearms license, ATF Form 7, is currently being modified to require additional information, including fingerprints, photographs, past places of residence, diagrams of proposed premises, zoning requirements, lease agreements and any restrictive covenants. The modified form is presently in review. It is anticipated that the target date of 12/31/93 for completion of the redesign will be met.

ATF will require the submission of the redesigned Form 7 for all FFL renewals until all licensees have provided ATF with the information required by the revised Form 7.

ATF is in the process of modifying ATF F-8, Renewal of Firearms License. The new form will be completed by 12/31/93.

A separate application and license for collector of curios and relics have been developed. The application and license will make it clear that the license may not be used to deal in firearms.

A liaison program with various State/local regulatory and enforcement agencies has been established. Each Compliance area office has established contact with the various licensing, revenue, and local law enforcement offices within their jurisdiction to enhance our efforts in ensuring compliance with the Gun Control Act of 1968.

- **Liaison with State and local agencies will be maintained to assist in verifying that an applicant for a license has the requisite business premises.**
 - **ATF has initiated and maintained working relationships with numerous State/local enforcement and regulatory agencies. A Memorandum of Understanding (MOU) has been drafted to aid in the reduction of firearms licensing and trafficking problems and is being transmitted to the participating governors along the Eastern seaboard for signature.**

ATF has developed a program with a goal of conducting full field investigations of all FFL renewal applications located in designated high crime areas, to ensure compliance with licensing requirements.

Proposals have been submitted to the Bureau of Justice Assistance to secure grants to State and local agencies to assist ATF in investigating applicants for an FFL.