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Nancy Mohr Kennedy
Executive Director
National Gambling Impact Study Commission
800 North Capitol Street, N.W. - Suite 450
Washington, D.C. 20002

Dear Ms. Kennedy:

I would like to sincerely thank you for inviting us to address the National Gaming Impact Study Commission on the subject of lottery operations during your March 17th hearing in Boston.

Unfortunately, we will be unable to participate on your panel, however I did want to take this opportunity to briefly comment on the three questions you posed in your letter of February 27th. I am also enclosing some reference material that you might find useful at your hearing. This material should provide the Commission with an introduction to the issues associated with the debate regarding the extent of private sector involvement in the operation and management of state run lotteries.

In your letter you asked that our presentation on lottery operations address three specific questions:

1.) What do private corporations offer that states lack in terms of lottery management?

In terms of expertise, professional lottery management on the part of state agencies and officials has generally been of sound caliber. In particular, state agencies have in-depth expertise in the needs of their various state constituencies, and have done a good job of meeting those needs.

One difference lies in the area of efficiency. I think even state lottery officials would agree that their efficiency is often times hindered by bureaucratic rules and regulations that are more typical of the public sector than of the private sector. To that end several states have chosen to organize their lottery's as quasi-public agencies for the purpose of taking advantage of some of the private sector management flexibility that potentially will generate increased efficiency but without sacrificing their public accountability.

Further, lottery vendors bring a breadth of knowledge from their experiences with other lotteries or in specialized areas such as technology, which can contribute to more effective lottery management. Together, state officials working with experienced vendors should produce the right combination of skills and efficiency to effectively operate a lottery which meets the needs of that state constituents.

2.) What is the cost to the state when contracting with a private vendor to manage the state Lottery?

In terms of dollars and cents the costs vary from state to state and are a function of a variety of factors. Those factors include the level of lottery sales by product, the type of technology and amount of equipment required, and the actual level and extent of services to be provided. With these elements in mind private vendors are traditionally compensated as a percentage of actual ticket sales. (A state by state summary of those rates as compiled and published by LaFleur's Lottery World is attached for your review.) However, we believe that states could lower their costs by actually purchasing computer equipment and lottery terminals, using their lower cost of capital, and contracting to outside vendors for the licensing of the computer technology and the operation of the system.

3.) How are lottery operation standards established, monitored, and enforced (compare states that contract management to private vendor with states that manage their own lottery)?


While operating standards are the prerogative of the individual state lotteries, all states recognize their collective responsibility to protect the well being of the lottery industry as a whole, which only comes with all state lotteries adhering to the highest operating standards. In every state, regardless of the extent of lottery operations and management responsibility that may be delegated to a private vendor, the lottery in all cases retains the responsibility to the public to oversee and guarantee the integrity of the games being played and the money being accounted for. With this said, I believe any state by state comparison would show that the highest operating standards are being maintained by all state lotteries in operation today.

Summary:

While the stated topic for your panel does not use the specific term, the questions you pose all focus on an effort to measure the value of lottery "privatization" from economic, regulatory and policy standpoints. Unfortunately the empirical data to date does not really lend itself to the type of convenient comparisons that yield an easy and consistent answer. Instead, experience has shown that in each state policymakers have had to determine for themselves what level of daily involvement and oversight they feel is necessary, from a government perspective, to insure that public expectations regarding honesty, integrity and accountability in the conduct of the state's lottery games are met, and that the particular needs of that state's constituents are served..

Again I thank you for the invitation to address the Commission and hope these brief remarks and the attached material is of help to you.

Sincerely,


Richard Burt
Chairman of the Board *RAB*

Enclosures (2)