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3 EXPERT PANEL ON LOTTERIES: OPERATIONS

4 CHAIRPERSON JAMES: And again, I would ask
5 our panel members to please try to summarize your
6 testimony and please feel free to engage in dialogue
7 and discussion. We really do appreciate your being
8 here.

9 The panel on lottery operations was
10 designed to provide Commissioners with an opportunity
11 to hear from individuals with expert knowledge on the
12 lottery related decisions, processes and procedures
13 which states implement in order to conduct lottery
14 operations. Among the options state policy makers can
15 choose are state administered lottery operations or
16 lottery operations which are contracted to private
17 sector vendors.

18 Since many states have chosen to contract
19 their lottery operations, the Commission invited
20 representatives of two widely known firms, GTECH and
21 AWI, to appear before us today. Unfortunately neither
22 company accepted our invitation, in part, I'm told due
23 to scheduling conflicts.

1 Mr. Richard Burt, Chairman of the Board of
2 Powerhouse Technologies, the parent company of AWI, did
3 provide a two-page letter to the Commission which
4 answers several questions regarding the role of
5 professional lottery management firms, and Mr. Steven
6 Nowick, Chief Operating Officer for GTECH Corporation
7 also responded to the Commission with a letter
8 declining the Commission invitation. Based on the
9 letter from Mr. Nowick, GTECH welcomed the opportunity
10 to cooperate with the Commission but believes that for
11 the purposes of today's panel, it is more worthwhile to
12 hear from state officials who administer lotteries as
13 opposed to the vendors who serve state agencies.

14 I thank both vendors for replying in
15 writing to our invitation and if Commissioners have any
16 questions for the vendors after reviewing the letters,
17 they may decide to formally ask for additional
18 information. Copies of both letters are available at
19 the sign-in desk outside the room and I've made them
20 available to Commissioners here.

21 Now, I'm pleased to introduce Dr. Richard
22 McGowan, Associate Professor of Economics at Boston
23 College. Professor McGowan has conducted extensive
24 research focusing on the interaction of the business

1 and public policy process as they related to the
2 gambling, tobacco and alcohol industries. Professor
3 McGowan is the author of numerous books and articles on
4 lotteries and gambling.

5 We had the pleasure of meeting Rebecca Paul
6 yesterday, but for those in the audience who were not
7 with us yesterday, Ms. Paul is the President of the
8 Georgia State Lottery Corporation and the North
9 American Association of State and Provincial Lotteries.
10 She's also the former director of the Florida and
11 Illinois state lotteries and the former president of
12 the International Association of Lotteries.

13 Thank you for joining us for a second day,
14 Ms. Paul. The Commission really appreciates it.

15 We're also pleased to have with us Arch
16 Gleason, President of the Kentucky Lottery Corporation
17 and President of the Multi-State Lottery Association.
18 Mr. Gleason served two terms as director of the West
19 Virginia State Lottery.

20 Thank you all for being here and at this
21 point, I'd like to take this opportunity to remind each
22 panelist that under the supplemental rules of the
23 Commission, testimony before the Commission shall be
24 considered to be conducted under oath.

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13 CHAIRPERSON JAMES:

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15 With that in
16 mind, I'd like to first recognize and welcome the
17 remarks of Dr. McGowan and thank you, so much for being
18 here.

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20 MR. MCGOWAN: Thank you, very much, Dr.
21 James, for allowing me to speak to you and the
22 Commission.

23

24 I had to chuckle on the way in at your last
25 session about budgets and since I've covered all three
26 sins of the sin industries and really, it's interesting
27 how the gambling industry also plays, like alcohol and

1 cigarettes, you know, I always chuckle when people ask
2 me, each one of these industries has three segments to
3 them. In tobacco you have cigarettes, cigars and
4 chewing tobacco, in alcohol you have beer, wine and
5 distilled spirits and in the gambling industry, which
6 is what I'd like to talk about a little bit today, you
7 have lotteries, casino gambling and parimutuel betting.

8 And in each one of those industries, it's
9 interesting, there's always a favored form of usage.
10 In alcohol beer is kind of, public policy makers kind
11 of bless beer us as opposed to the other two. In the
12 tobacco industry, cigars seem to be the blessed one way
13 of using it compared to the other way. And it's
14 interesting when you get to the gambling industry, it
15 seems like the lotteries are the blessed way of
16 gambling as compared to the other forms and it's
17 interesting the way public policy makers look all of
18 these things.

19 In my testimony, on page 2, one of the
20 things that hits you here right now, is that 1994 was
21 the first year where proceeds and now the money spent
22 in casino gambling finally outstripped lotteries, and
23 so really right now the lottery is in a mature phase of
24 its existence. So, what I would like to talk about

1 right now is just a little bit, I think, hearing your
2 previous panel, it is certainly, the rationale for
3 allowing a lottery is revenue and the good purposes,
4 I've heard lots of different things about the good
5 purposes that the revenue allows.

6 And so I'd just like to look at the three
7 segments of the lottery. I guess three is my big
8 number here. I guess to St. Patrick, I guess three
9 would be a big number. Just look at the very segments
10 of the lottery, which ones are more consistent and then
11 finally, also just look at what's the effect of casino
12 gambling on lottery sales too, and then just hopefully
13 pass it over to the two experts as to exactly how they
14 operate lotteries.

15 Again, when people talk about lotteries,
16 you really do have to break it down to the three
17 segments. You have the daily number segment; you have
18 the lotto segment; and you have the instant game
19 segment. One of the things you'll see if you look at
20 the last couple of years is that lottery sales have
21 basically been flat and the only growth area of the
22 three segments, by the way, is the instant games. That
23 both the lotto segment and the daily numbers segment of
24 lotteries have been basically flat.

1 And in fact, this past year, the only
2 reason why lottery sales grew nationwide is because
3 video lottery was instituted in certain states and it
4 really boosted up sales nationwide. The other
5 interesting thing about that, if you looked on page, I
6 think page 4, I have a table there where I show you how
7 various states actually have strategies about what
8 segment of the lottery they're really going to
9 emphasize. So that, for instance, in this state, the
10 instant games have been the segment of the lottery that
11 has really been emphasized. A state like D.C. and
12 Pennsylvania, by the way, they emphasize the daily
13 number and certain large population states like
14 Florida, Illinois, New York, their game that they
15 emphasize is the lotto and there are some very definite
16 strategic reasons why they do that.

17 Getting back to the instant game and why
18 you can grow it, I think one of the reasons why is
19 that, and Massachusetts is a classic example, is the
20 number of games that you can offer and it allows you to
21 change games, and it doesn't allow people to get bored
22 with the game. The daily number, by the way, in
23 general, in most locations is declining and so daily
24 number sales as part of the product life cycle, it

1 would seemingly say that people are, right now are
2 tired of playing the daily numbers game and that's
3 where they're coming at.

4 It's interesting, for instance,
5 Pennsylvania, one of the reasons why the daily number
6 has been successful in Pennsylvania is because
7 Pennsylvania has one of the highest median ages in the
8 country and it looks like the elderly like to play the
9 daily number.

10 The instant games, by the way, are played
11 by, definitely between 18 and 25-year olds for the most
12 part, and I can attest after living in the college dorm
13 now for the last 15 years, that's the game the kids
14 like to play. They are certainly not going to stay
15 around to watch the evening news at 7:00 to see if they
16 win. If they're going to gamble, they're going to play
17 instant games or, of course Boston College, I should
18 mention about betting on other things, but we won't get
19 into that right now.

20 But it's an interesting phenomenon that all
21 these games go for, they are a niche market. The lotto
22 game, by the way, basically, among the testimony
23 you'll heard later on, the lotto game really does go
24 across economic spectrums. People love to play the

1 dream of winning \$20 million. The problem with the
2 lotto game, by the way, is right now that most lotto
3 games are experiencing what they call jackpot fatigue.
4 And what they mean by that is that unless the jackpot
5 really grows to a certain extent, people don't really
6 bother to play the game and so for it to be a
7 consistent source of revenue, somehow or another you've
8 got to grow the jackpot and that's a difficult task to
9 do to say the least.

10 The final thing I'd just like to talk about
11 and hand over my time for general questions, would be
12 about the effect of casino gambling, the institution of
13 casino gambling on lottery sales. The six states I
14 studied, by the way, are mostly the ones that are
15 involved in riverboat gambling, which, I gather, you're
16 going out to Chicago later on, so you can see the
17 various things going on out there.

18 It's very interesting by the way, the six
19 states that have riverboat gambling, five out of the
20 six also have lotteries. So one of the things that
21 hits you here is that those state governments certainly
22 made a choice saying that they didn't think the lottery
23 could grow quick enough to bring enough revenue to
24 where they want it and so they decide to go into

1 casino, to riverboat gambling. The only state that
2 isn't true with, by the way, was with Mississippi.
3 Mississippi kind of made the jump all at once, not only
4 did they not have parimutuel betting or lottery, they
5 just went right into casinos.

6 I talk about how usually the states evolve
7 their gambling policy. It looks like Mississippi just
8 took the one big jump period. But in general,
9 riverboat gambling really doesn't affect lottery sales
10 that much. They seem to be different markets. The one
11 segment of the lottery that does get affected somewhat
12 in the short run are instant games.

13 Now, again, that might really have a
14 concern for a lottery official if the one segment of
15 the lottery you can grow is the instant game and the
16 one segment that casino gambling will affect is the
17 instant game, it certainly seems like you might be
18 cannablizing your own sales there. For instance,
19 Illinois; their lottery sales have basically been flat.
20 It's interesting right now in Illinois that the
21 riverboat gambling revenue is starting to turn flat
22 and, in fact, even down turn a little bit.

23 So, the lottery, lotteries in general right
24 now are flat. It's not growing and in general the

1 gambling revenue itself right now is flat. What will
2 turn that around or, you know, what future growth that
3 can happen is something, I think probably in the one
4 segment of the lottery, and to me it's the one thing
5 that probably this Commission ought to look at is what
6 is the affect of video lotteries. It seems like it
7 does grow in leaps and bounds and it's interesting when
8 the state of Oregon came up with video lottery, it
9 certainly seemed like it hurt Washington State's
10 lottery.

11 Thank you, very much for your time.

12 CHAIRPERSON JAMES: Thank you.

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