Chairperson James:

Mr. Gleason.

Mr. Gleason: Thank you, Chairman James.

Speaking of games or venues of preference, I couldn't help with argue with Dr. McGowan's remarks comment that the lottery isn't necessarily the venue or preference in Kentucky. We have a rather vibrant thoroughbred industry which we're quite proud of and probably the entertainment of preference is UK basketball, so we'll see how they fair.

Chairman James and members of the Commission, ladies and gentlemen, it is a pleasure to be able to -- is this not on.

Chairperson James: No, just get a little closer to it.

Mr. Gleason: Okay.
CHAIRPERSON JAMES: When your lips touch, you're close enough.

MR. GLEASON: When my lips touch I'm closer. It is, indeed, a pleasure to address you today. I'll try not to be redundant. Some of the things Rebecca has just said, I've had the experience as the chairman indicated of having run two different lotteries, both of whom were differently structured. In West Virginia, the lottery was structured as a division or department of state government. And Kentucky's lottery, which was created in 1988, was the first U.S. lottery to take the corporate, the public corporation form. Our lottery was initiated in November of 1988 with a voter referendum which passed by a vote of 60 percent of the citizens.

I would like to read just briefly from our enabling legislation, which I think is telling as it relates to the purpose of the corporation and within the statutory provision that I've included in my prepared remarks, there is a section that said, "The corporation shall be managed in such a manner that enables the people of the Commonwealth to benefit from its profits and enjoy the best possible lotteryames."
"The General Assembly hereby recognizes that the operations of the lottery are a unique activities for state government, that the corporate structure will best enable the lottery to be managed in an entrepreneurial business-like manner." Further, it says, "It is the intent of the General Assembly that the Kentucky Lottery Corporation shall be accountable to the governor, to the general assembly and the people of the Commonwealth."

Those words are very real and they echo exactly what Rebecca has told you with regard to how lotteries are operated in virtually every state. The Kentucky lottery began selling tickets in April of 1989, recognizing the unique position of thoroughbred racing in Kentucky and particularly in the spring of each year there is a rather well-attended thoroughbred race called the Kentucky Derby.

The lottery opened up with two games and was the first lottery to offer a $2 game at its inception called Derby Dreamstakes, which partnered with the Kentucky Derby and was conducted for the mutual benefit not only of the lottery but the thoroughbred industry.

In the fall of 1989, we began our on-line games. Since 1989, when the games began, the lottery
has sold $3.9 billion worth of tickets. We have paid some $240 million in commissions and incentive payments to retailers, have operated on some $325 million for expenses and turned over $1 billion, a little over $1 billion in profits to the state of Kentucky.

I, like Rebecca, as president of the lottery corporation, am appointed by the government and confirmed by the board of directors of the corporation. The corporation's board of directors likewise comes from the citizens of Kentucky comprised of seven individuals throughout the state of Kentucky with diverse backgrounds and who must have a political balance among them by statute. The state treasurer, by virtue of his constitutional office, is an eighth member of our board of directors and has, by statutory provisions, has a voting right on the board.

We too are subject to legislative oversight in a very real sense principally administered by three committees of the General Assembly, a state and local government committee, an appropriations and revenue committee and a capital projects and bond oversight committee. They have, in fact, exercised their authority on several occasions, both in a real sense and those authorities who are either delineated by
statutory provisions or at the discretion of the
general assembly.

Our corporation, like the Georgia Lottery
Corporation, is audited annually by an independent CPA
firm. That audit is directed and overseen by the
auditor of public accounts who is a constitutional
officer of the Commonwealth.

An example of how that authority is
exercised from time to time, in 1993, there were some
differences among the members of the General Assembly
and the then governor of the State of Kentucky as to
how the lottery was being operated and whether it was
truly fulfilling its mission. At the behest of that
group, that entire turnover of the management and board
of directors occurred and a new direction was set for
the corporation by it's current management and board of
directors.

The results of that have been quite
significant as it relates to the State of Kentucky and
an indicator of that is that our lottery has now on
three occasions and soon to be four hopefully, have
been recognized receiving the government finance
officials' certificate of excellence in financial
reporting. We are only the second U.S. lottery to have
received that distinction and only the second agency of
Kentucky state government to have received that
distinction.

As I said, we've turned over a billion
dollars to the state. The majority of our funds have
been placed in the general fund, which our legislative
research commission, and I know this is a much debated
issue as to how much these funds might actually go to
education, but some 40 percent of the general fund in
the state of Kentucky is devoted to the support of
education in Kentucky.

During a short two year period, during
fiscal years 1993 and '94, $214 million of revenues
were devoted to a program under the acronym of SEEK,
which stands for Support of Excellence in Education in
Kentucky, and which funds secondary, elementary and
secondary education within the state.

Early on in our existence, the legislature
did choose to award out of net revenues a $32 million
one time bonus to Vietnam Veterans.

There are two bills pending before the
General Assembly and it gets to a question that
Chairman James asked the day before in the discussion
and that was, can lotteries ever change the direction
of where their funding is going? There are two bills before our General Assembly, both of which have a high prospect of passing. One would take a small portion of our funds. Each have passed one or the other of the Houses of the General Assembly at this time. One would take a small portion of our funds and devote them to an affordable housing trust.

The other would take the great majority of our funds, over a seven-year period, gradually increasing the level of funding until it would be virtually all of our funding for a program, a scholarship program patterned somewhat after the HOPE scholarship program in Georgia. Although a major difference of the proposed legislation would be half of it would be a program similar to Georgia's and the other half would go to a need-based program.

It's important to note that during the nine years that the lottery has been in existence, the funding for education in the State of Kentucky has increased from $2.1 billion to $3.5 billion, an increase of approximately 64 percent in the intervening years. That's during a time when the population of Kentucky has been relatively stagnant and economic
conditions have been such that inflation is relatively modest.

Obviously, as has been commented by others, if the lottery didn't exist in Kentucky, there would have to have been a billion dollars worth of taxes imposed on the citizens of Kentucky during that nine year period if programs were to be continued at their present level, which amounts to $110 million worth of taxation annually on a population of 3.9 million people.

The benefits that are realized in Kentucky are much the same as in any jurisdiction. One of the comments that the panel has been interested in is, you know, what are the benefits to retailers and in particular what quality of jobs might exist in the retail environment?

Convenience stores throughout the country are of two types. Probably the majority in our state and virtually every other state, are stores that are parts of multi-location chains, chains like the Dairy Mart which has some 160 locations. Super America, a former subsidiary of Ashland Oil and now a joint venture with Marathon Oil, has some 120 locations and
the Kroger Food chain has about 100 locations in Kentucky.

Those were the three most significant retail operations within the state of Kentucky and they do provide a good quality of jobs for the people who work in those stores and a lot of the people who work in those stores work on a part-time basis while they're furthering their education.

In Louisville, Kentucky just recently, as an aside, the United Parcel Service announced it was going to invest some $860 million in an expansion and create some 6000 part-time jobs of high caliber and high quality and relatively high compensation level and significant economic benefits available to the employees.

And one of the things that's unique about the UPS operation is that they really have a great number of their jobs on a part-time basis and there is a need for other part-time jobs to fill the hours available from those employees. And they operate on a part-time basis at UPS because of the production level required of their employees in a relatively high paced burst of energy and effort.
One of the things that's been recognized as an economic benefit by the convenience stores across the country, is that the lottery brings traffic into their stores and that the lottery player patron of their stores does spend more and put more in their shopping basket of non-lottery products than the non-lottery customer. They did an extensive study nationwide recently, and the Commissioners may wish to get a copy of that report from the National Association of Convenience Stores.

There have been questions about who plays the lottery and in the Kentucky it's much the same as everywhere else. One of the interesting comments and recently Dr. Dobson made reference to a research study in Kentucky in 1994 in his press release last week, and in particular he made reference to play among the economic group of players that had an income of $15,000 or less. I've attached to my testimony, a copy of that research report.

And one thing I'd like to point out to the panel is that while the citation by Dr. Dobson was, in fact, correct, that group is by far, its player profile is such that more individuals from that income group choose not to play the lottery than do choose to play
the lottery. And in fact, in response to that research which the report shows, 40 percent of them indicated they had never played the lottery. Again, I think that is a demonstration of what many of the panels have recognized that individuals are capable of making an informed judgment.

I'd like to conclude by making reference to a couple of the questions, that and we are involved with compulsive gambling, meeting our social responsibility. In Kentucky, my testimony makes reference to that, and the executive director had asked for comments with regard to operations and out-sourcing. And I would simply say that in lotteries, and this is explained in more detail within my written testimony, have, like every other business decision, an economic decision to make and a decision about best delivered services.

Lotteries traditionally do a significant amount of out-sourcing and the judgment as to the level of out-sourcing is one that each lottery makes based on their own facts and circumstances and the political climate in their state and may even be a governing factor. I've been involved in lotteries in West Virginia where out-sourcing was maximized. Because of
the flexibility afforded us to operate as a public
corporation in Kentucky, we make those decisions on an
individual case-by-case basis, and during the course of
my tenure as president there, we've made different
decisions depending on the unique circumstances of each
of the matters at hand.

Let me just say in conclusion that as
Rebecca said, it's important in closing for me to
mention a few things to you. First that the citizens
of Kentucky chose by a referendum in 1988 to have a
lottery. Research shows that 67 percent of Kentuckians
support it. That referendum nearly 10 years ago
allowed our Kentucky legislature to enable the lottery
to benefit the people of Kentucky. Our lottery has,
and is fulfilling its statutory and corporate mission,
generating revenue for the treasury and providing fun
and entertaining games for the broad, general public
that are conducted in the highest standards of
integrity, security, while operating within a framework
of public accountability and social responsibility.

Members of the Commission, the voters and
citizens of the Commonwealth have elected to have and
support a lottery. It is the job of the board members
of the Kentucky Lottery Corporation, its management and
employees to see that we deliver the best lottery that
we can to them and it is the job of the general
assembly and the elected officials of the state of
Kentucky to see that we do just that.

Again, I want to thank you for the
opportunity of hearing before the Commission and I
applaud you for being willing to take this, undertake
this important task with which you are charged. I'm
sure that we will all substantially benefit from your
efforts.

Thank you, very much.

CHAIRPERSON JAMES: Thank you, Mr. Gleason.