MR. DePHILLIPPO: Thank you. Good morning Commissioner James and members of the National Gambling Impact Study Commission, Commission Staff and Distinguished Guests, good morning.

I'm Sam DePhillippo and I'm the Executive Director of the Massachusetts State Lottery Commission, a position that I have held since 1995. Prior to accepting my current position, I was a senior executive in retailing for many years.

Most importantly, since I'm going to be the first speaker here, or actually, the second speaker that you're hearing from the state of Massachusetts, I want you to understand that what you'll be getting from me is a Philadelphia accent. This is not how they talk in Boston, and the occasional stuttering also comes from Philadelphia.
Before I do begin, I must say that it is with great pride that we welcome you here to our wonderful state and our capital city. Being in Boston on St. Patrick's Day is a very special experience, even if you are sitting in this conference room at the Westin Hotel, and I respectfully request that you indulge me for a minute to make some personal remarks.

As you know, the lottery industry is very small here in North America and today it's an industry whose members are in a state of mourning. Otho Brown, the President of the Connecticut Lottery, was a business colleague and a personal friend of mine. He was a competent and an able executive and a caring and devoted father, and he died trying to save his employees. On behalf of myself and the whole Massachusetts State Lottery, I want to express my condolences to Otho's family, to his friends and to his colleagues.

And although we didn't, I didn't personally know the other three people that passed away as well that day, I've heard nothing but great things about them and they were known as good, dedicated employees. These senseless deaths creates a void. And I want everyone to know that the Massachusetts Lottery has
offered to assist the Connecticut Lottery in any way we possibly can during the next several months, and my hat is off to the Governor of Connecticut for the wonderful response he has made there. Thank you for indulging me in that.

For more than 30 years, lottery organizations in North America have provided revenue for much needed programs that otherwise would be funded by increased taxes. Across the nation in the 37 lottery jurisdictions and the District of Columbia, all taxpayers, whether they play the lottery or not, reap the benefits of their lottery.

This is through the specific programs and services provided by lottery dollars. One hundred percent of lottery revenues are used to provide financial assistance to support education in 12 states, among them, California, Florida and New York. In six other states, a portion of the revenue goes to help education. Minnesota and Colorado contribute their revenues to the environment and natural resource funds. In Indiana, the money goes to the police and fire pensions and the teachers retirement and capital projects, while Wisconsin uses their lottery revenue to provide property tax relief. In Pennsylvania, the
funds are distributed exclusively to support much
needed programs and services for their senior citizens.

Thirteen other states direct their lottery
funds into the general state funds allowing for great
flexibility in the programs which lottery revenues
support. And, of course, we are all aware of the
extremely successful project HOPE program that Rebecca
Paul spoke about in her state of Georgia.

In 1996 alone, U.S. lottery organizations
contributed more than $2.6 billion to state general
revenue funds and more than $6.8 billion to education.
Since the inception of the first state lottery in 1964,
lottery organizations have generated more than $115
billion in net revenues, contributed more than $57
billion to support education and more than $23 billion
to general revenue funds. In Pennsylvania alone, $10
billion has been contributed to support their senior
citizens.

In addition, in the United States, lottery
organizations have paid more than $2.2 billion in
commissions to retailers last year and have paid $20
billion since the start of the lottery. Today, more
than 240,000 retailers sell lottery products throughout
North America, many of whom would not be in business
today if it were not for the lottery, for many of these retailers, the most noted would be the small independent merchants, lottery products provide the competitive edge needed in today's business world.

Gross lottery sales last year totalled slightly more than $34 billion of which $18 billion were paid out in prizes. Net revenues for the states from their lotteries approached $12 billion. Now, these figures may seem large, but we must keep in mind that they represent less than eight percent of the more than $586 billion wagered in North America in 1997. Most importantly, no other form of gaming has a higher rate of return for government than lotteries. After subtracting prizes, more than 70 percent of consumer net spending on state lottery products was returned to the states in fiscal year 1997.

In Massachusetts we are extremely proud of our lottery. It enjoys enormous public support and participation. Our latest figures show that two-thirds of the adult population of Massachusetts plays the lottery on a regular basis. Our surveys show that the average Massachusetts lottery player, actually reflects, even is a little bit better than the general characteristics of the state's population.
Massachusetts is a state blessed with low unemployment, high education rates and above average income. The typical Massachusetts lottery customer is between 25 and 54 years old, has an annual income of over $35,000 and the majority of them possess at least some college education.

Our lottery is often hailed as one of the most successful lotteries in the United States. In our view, our real success is the record amounts of money going back to the people who buy our tickets, the people who sell our tickets and the city and towns where they live. We're unique in a number of very important ways. First, we have the highest per capita sales in the nation. Secondly, we pay out the highest percentage of prizes in the country. Third, we provide our retailers with the highest average annual dollar commissions and, fourth, we make available about 75 percent of what the players lose back to their cities and towns.

Most of the net revenue from our lottery is distributed to cities and towns which are free to spend their lottery aid on police, fire, education, libraries and programs for seniors and the other local government programs. The remainder of our net revenue is given to
the state legislature to support local arts programs,
public health programs for problem gamblers and state
projects that benefit cities and towns.

That is the nature of the social compact
that exists between the Massachusetts lottery and our
citizens, in exchange for accepting legalized gambling,
our cities and towns get to enjoy the fruits of that
wagering. Our players win more in prizes than any
other lottery in the country. The Massachusetts
lottery pays approximately 70 percent of gross sales
back to our players. This simply means our customers
have an opportunity to win more often and the games are
more fun and exciting, thereby providing a wider
appeal.

Now, let's examine what really happens, I
have a prop here, to the dollar spent by our customers.
These three dollar bills represent approximately the $3
billion that we do in sales. Two of the dollars, or $2
billion, goes right back to the players in the form of
prizes. The remaining dollar, which I have up there on
the chart, $.07 goes to pay for the administrative
cost, $.19 of the remaining dollar goes as commission
to our retailers and $.74 is available to go back to
our cities and towns. We think that's a pretty good return.

This illustrates the importance of distinguishing between gross lottery sales and net consumer spending, also known as the drop. Many other gaming venues like to compare our gross sales to their net drop. As your Commission examines the impact of lotteries, casinos and race tracks, et cetera, on our citizens, we should be comparing apples to apples. Massachusetts is a $1 billion operation not a $3.2 billion operation in terms of net spending. Because of the high prize pay out in Massachusetts, our per capita sales of $525 results in a per capita spending or a drop of actually $160, and after accounting for administrative cost and retailer commissions, $120 per person is made available for distribution to our cities and towns.

Now, we've done a study of casino gaming and video lottery machines by an independent outside firm and it was found that no other form of gaming could provide anywhere near the return for the state from a gaming dollar than our lottery can provide.

The next group of winners is the small business owners who sell our lottery products. We paid
more than $187 million in commissions last year and the 
average income per retail location in Massachusetts is 
$23,000. That's average. That's per agent. This 
average commission is a significant portion of the 
annual income of hundreds, indeed thousands, of mom and 
pop independent convenience stores, newsstands, package 
stores and the like. In many cases, these commissions 
are the difference between staying in business or not.

Not too long ago, when I visited my mom in 
Philadelphia, she lives in a neighborhood comprised of 
row homes and a high percentage of elderly residents, 
when I went out to buy a gallon of milk I had to drive 
over a mile and a half to the nearest chain convenient 
store to get her milk. In the same neighborhood here 
in Boston or in our state, I would have encountered 
many independent convenient stores within that same 
mile and a half. I am convinced that many of those 
stores, these many small family businesses, are able to 
survive because of the Massachusetts lottery.

Our third group of winners is the taxpayers 
in the state's cities and towns. The net revenues of 
the Massachusetts lottery are distributed principally 
to the general funds of the state's municipalities. 
This direct aid is allocated according to a formula
based on the city's population and property values. Municipalities with more residents and lower property values receive proportionally more assistance.

If you hold up that two minute sign, I'm going to really stutter. Okay. Just give me five more minutes if I may because I really want to talk, just finish an important point, so, let me just try to fly through this.

CHAIRPERSON JAMES: I would remind you that we do have your written testimony, so it's not that the Commissioners don't have that.

MR. DePHILLIPPO: Terrific.

CHAIRPERSON JAMES: So if you could summarize it.

MR. DePHILLIPPO: Terrific. Let me just tell you that lottery aid is used for some very, very real things from fire trucks to police to libraries, and in my testimony I have listed many of those examples.

I want you to know that a passion of this lottery is efficiency. We spend just 2.2 percent of gross sales on administration, the lowest percentage of any state lottery in the country. We spent $69 million last year, one million dollars less than we did seven
years ago when we were doing half the sales we're doing now. And we take these operational responsibilities seriously because each dollar we save in administrative expenses is an additional dollar for our beneficiaries.

Now, we also take a great deal of pride in our social responsibility. One of the things we are most proud of is that when anyone wins a prize over $599, they come to lottery headquarters, we put them through two checks. One, to see if they owe any back child support and we subtract the amount of their winnings from that. And second, we notify the welfare department and if they've won over a certain amount, they are taken off of the welfare rolls.

When Keno was debated five years ago, Treasurer Joe Malone, who is the Chairman of the Commission, expressed concern about its impact on our communities. Legislation was passed with no restrictions on how many stores could sell Keno, what type of stores could sell Keno. We have initiated, even though we really don't have the law on our side, a cap on the amount of Keno establishments there can be, what type of stores they can go into. And we only allow them now in age controlled stores and only with the prior approval of the local town.
We also have Dr. Howard Shaffer, he leads our council, our Advisory Council on Compulsive Gambling, and his passion is that and his belief is that compulsive gambling starts by gambling when you're a teenager, and as a result we have formed a three strikes and you're out underage gambling program. Basically what happens is our superior staff, during the school vacation, will hire teenagers to go into the stores to try to buy lottery products.

If an agent is caught selling three times within any period of time, and we're now on our second round -- the first time they get suspended for two days and the second time five days, and the third time they lose their license permanently. We also have these posters at all of our registers and signs. We've also increased the amount of money going to compulsive gambling threefold, to a million dollars a year with the support of the legislature. And finally, the lottery this year received the state award for the fine work we've done in recycling and using recycled products.

In conclusion, I want to just say that our lottery is one with tremendous public support. We're a
state agency and we operate under the laws of the state
and we're accountable to the legislature.

Two, is that as you listen to people speak
and read in the newspaper about our lottery, you must
also understand that Massachusetts is an incredible
hardball political state and everyone involved, who
touches the lottery seems to be running for governor,
except me.

And the third thing is that the, that this
is a lottery that has spent, at least since I've been
the director, hours and hours, the mandates to
mandates, visiting stores and talking to our players.

Thank you, very much.

CHAIRPERSON JAMES: Thank you.