EXPERT PANEL ON LOTTERIES: OPERATIONS

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

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

Since many states have chosen to contract their lottery operations, the Commission invited representatives of two widely known firms, GTECH and AWI, to appear before us today. Unfortunately neither company accepted our invitation, in part, I'm told due to scheduling conflicts.
Mr. Richard Burt, Chairman of the Board of Powerhouse Technologies, the parent company of AWI, did provide a two-page letter to the Commission which answers several questions regarding the role of professional lottery management firms, and Mr. Steven Nowick, Chief Operating Officer for GTECH Corporation also responded to the Commission with a letter declining the Commission invitation. Based on the letter from Mr. Nowick, GTECH welcomed the opportunity to cooperate with the Commission but believes that for the purposes of today's panel, it is more worthwhile to hear from state officials who administer lotteries as opposed to the vendors who serve state agencies.

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

Now, I'm pleased to introduce Dr. Richard McGowan, Associate Professor of Economics at Boston College. Professor McGowan has conducted extensive research focusing on the interaction of the business
and public policy process as they related to the
gambling, tobacco and alcohol industries. Professor
McGowan is the author of numerous books and articles on
lotteries and gambling.

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

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

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

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

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

MR. McGOWAN: Thank you, very much, Dr. James, for allowing me to speak to you and the Commission.

I had to chuckle on the way in at your last session about budgets and since I've covered all three sins of the sin industries and really, it's interesting how the gambling industry also plays, like alcohol and
cigarettes, you know, I always chuckle when people ask me, each one of these industries has three segments to them. In tobacco you have cigarettes, cigars and chewing tobacco, in alcohol you have beer, wine and distilled spirits and in the gambling industry, which is what I'd like to talk about a little bit today, you have lotteries, casino gambling and parimutuel betting.

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

In my testimony, on page 2, one of the things that hits you here right now, is that 1994 was the first year where proceeds and now the money spent in casino gambling finally outstripped lotteries, and so really right now the lottery is in a mature phase of its existence. So, what I would like to talk about
right now is just a little bit, I think, hearing your
previous panel, it is certainly, the rationale for
allowing a lottery is revenue and the good purposes,
I've heard lots of different things about the good
purposes that the revenue allows.

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

Again, when people talk about lotteries,
you really do have to break it down to the three
segments. You have the daily number segment; you have
the lotto segment; and you have the instant game
segment. One of the things you’ll see if you look at
the last couple of years is that lottery sales have
basically been flat and the only growth area of the
three segments, by the way, is the instant games. That
both the lotto segment and the daily numbers segment of
lotteries have been basically flat.
And in fact, this past year, the only reason why lottery sales grew nationwide is because video lottery was instituted in certain states and it really boosted up sales nationwide. The other interesting thing about that, if you looked on page, I think page 4, I have a table there where I show you how various states actually have strategies about what segment of the lottery they're really going to emphasize. So that, for instance, in this state, the instant games have been the segment of the lottery that has really been emphasized. A state like D.C. and Pennsylvania, by the way, they emphasize the daily number and certain large population states like Florida, Illinois, New York, their game that they emphasize is the lotto and there are some very definite strategic reasons why they do that.

Getting back to the instant game and why you can grow it, I think one of the reasons why is that, and Massachusetts is a classic example, is the number of games that you can offer and it allows you to change games, and it doesn't allow people to get bored with the game. The daily number, by the way, in general, in most locations is declining and so daily number sales as part of the product life cycle, it
would seemingly say that people are, right now are
tired of playing the daily numbers game and that's
where they're coming at.

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

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

But it's an interesting phenomenon that all these games go for, they are a niche market. The lotto game, by the way, basically, among the testimony you'll heard later on, the lotto game really does go across economic spectrums. People love to play the
dream of winning $20 million. The problem with the lotto game, by the way, is right now that most lotto games are experiencing what they call jackpot fatigue. And what they mean by that is that unless the jackpot really grows to a certain extent, people don't really bother to play the game and so for it to be a consistent source of revenue, somehow or another you've got to grow the jackpot and that's a difficult task to do to say the least.

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

It's very interesting by the way, the six states that have riverboat gambling, five out of the six also have lotteries. So one of the things that hits you here is that those state governments certainly made a choice saying that they didn't think the lottery could grow quick enough to bring enough revenue to where they want it and so they decide to go into
casino, to riverboat gambling. The only state that isn't true with, by the way, was with Mississippi. Mississippi kind of made the jump all at once, not only did they not have parimutuel betting or lottery, they just went right into casinos.

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

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

So, the lottery, lotteries in general right now are flat. It's not growing and in general the
92  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.