

NATIONAL COUNCIL OF LEGISLATORS FROM GAMING STATES  
COMMITTEE ON LOTTERIES  
NAPA, CALIFORNIA  
FRIDAY, JUNE 13, 2008  
MINUTES

The Committee on Lotteries of the National Council of Legislators from Gaming States (NCLGS) met at the Napa Valley Hotel & Spa in Napa, California, on Friday, June 13, 2008, at 9:00 a.m.

Senator Richard Lerblance from Oklahoma, Chair of the Committee, presided.

Other members of the Committee present were:

- Sen. Tom Harman, CA
- Rep. Michael Caron, CT
- Rep. Kevin Ryan, CT
- Sen. Steven Geller, FL
- Rep. Christopher Sainato, PA
- Rep. Tim Solobay, PA

Other legislators present were:

- Rep. H. Mac Gipson, AL
- Rep. Perry Thurston, FL
- Rep. Jim Waldman, FL
- Rep. Brian Quirk, IA
- Rep. Trent Van Haaften, IN
- Rep. Arlen Siegfried, KS
- Rep. Charlie Hoffman, KY
- Rep. Joni Jenkins, KY
- Rep. Dennis Keene, KY
- Rep. Darryl Owens, KY
- Sen. Walter Michel, MS
- Rep. Larry Miller, TN
- Sen. Jerome Delvin, WA

Others present were:

- Susan Nolan, Nolan Associates, NCLGS Executive Director
- Nicholas Brozean, Nolan Associates, NCLGS Assistant Legislative Coordinator

#### MINUTES

The Committee voted unanimously to accept, as submitted, the minutes of its January 4, 2008, meeting in Scottsdale, Arizona.

#### LOTTERY INITIATIVES IN THE STATES

Rebecca Paul Hargrove, president & CEO of the Tennessee Education Lottery Corporation and region II director of the North American Association of State & Provincial Lotteries (NASPL),

said there are currently 42 lotteries plus the District of Columbia operating in the United States. She said the two newest lottery startups are Oklahoma in 2005 and North Carolina in 2006.

Ms. Paul Hargrove said eight states do not have a lottery, including Alabama, Arkansas, Alaska, Hawaii, Mississippi, Nevada, Utah, and Wyoming. She said all of the states without a lottery, except Hawaii and Utah, have had discussions about forming a lottery. She said Arkansas is attempting to place a lottery bill on the ballot this November.

Ms. Paul Hargrove said state lotteries accounted for \$57.4 billion in revenue for fiscal year 2007 (FY07). She said of the \$57.4 billion, states took in \$15.8 billion for public services, which on average is about 26 percent of lottery sales. She said in FY07, prizes totaled about \$30 billion, which equals approximately 52 percent of sales, and retail commission amounted to nearly \$3.4 billion or 6 percent of sales.

Ms. Paul Hargrove said last year lottery ticket sales went down about 10 percent nationwide. She said the decline is due to many factors, including the formation of new lotteries, highs and lows of multi-state game jackpots, and state legislatures cutting advertising budgets, reducing prize payments, or reducing retailer sales commissions.

Ms. Paul Hargrove said, from her perspective, while during the past 25 years lottery ticket sales have never felt an impact from the economy, gasoline prices have begun to affect sales. She said 72 to 75 percent of ticket sales come from retailers that also sell gasoline.

Ms. Paul Hargrove said additional competition from other forms of gaming also impact ticket sales, as lotteries tend to have more legislative restrictions than other industries.

Ms. Paul Hargrove said about 50 percent of the \$15.8 billion in lottery profits last year went to state education. She said the remaining funds went to state economic development, capital improvements, natural and environmental resources, fire retirement programs, health and human services, tax relief, responsible gaming programs, and senior citizen programs.

Ms. Paul Hargrove said lotteries are paying a great deal of attention to corporate responsibility, including minority participation; retail, employee, and product manufacturer base of the jurisdiction; responsible gaming and problem gambling; and integrity of lottery games.

In response to a question from Sen. Geller regarding the cost-effectiveness of increasing lottery advertising budgets, Ms. Paul Hargrove said tight state budgets cause legislatures to discuss cutting lottery advertising budgets. She said impacts from cuts in lottery advertising budgets this year should be apparent in next year's ticket sales.

#### LOTTERY PERSPECTIVE ON FEDERAL INTERNET GAMING LEGISLATION

Ernie Passailaigue, president of the North American Association of State & Provincial Lotteries (NASPL) and director of the South Carolina Education Lottery, said the Unlawful Internet Gambling Enforcement Act (UIGEA) is a states' rights issue.

Mr. Passailaigue said NASPL is concerned that UIGEA prohibits lotteries from using Internet lottery sales lawfully. He said regulators are considering the blockage of all credit and debit card transactions from merchants that have a 7995 classification. He said all gambling businesses, including the lottery, have a 7995 classification.

Mr. Passailaigue said a blockage could limit lotteries from selling products over the Internet and hinder lotteries that use subscription sales. He said NASPL member lotteries are requesting a separate classification for lotteries that operate lawfully.

Mr. Passailaigue said with legislative and gubernatorial oversight, lotteries should be able to conduct business within state borders as they deem fit. He said NASPL comments were sent to the U.S. Treasury and Federal Reserve regarding the enforcement of the UIGEA by the banking industry.

#### NASPL UNIFORMITY INITIATIVES

Mr. Passailaigue said in reaction to a number of studies done in conjunction with the National Association of Convenience Stores (NACS), the lottery industry undertook a multi-million dollar investment to create a best practices and standards initiative for various activities within the lottery industry.

Mr. Passailaigue said NASPL best practices and standards reduce costs within the lottery industry for all stakeholders, increase efficiency, and create additional profit for retailers. He said best practices dealt with inventory management regarding ordering, shipping, receipts, status, and disposition of lottery products with the retailer.

Mr. Passailaigue said improving quality and integrity results in lower costs and more revenues for lotteries, vendors, and retailers. He said many lotteries and vendors are moving towards the verification stage of the best practices and standards initiative. He said best practices not only reduce costs, but allow lotteries to do business with big-box stores that require a uniform reporting system, such as Wal-Mart.

In response to a question from Rep. Caron regarding the amount of influence private industry would have when working with state lotteries to sell lottery tickets, Mr. Passailaigue said state legislatures need to determine how much influence the industry will have over state-run lotteries when introducing best practices and standards initiatives in big-box stores.

#### EFFORTS TO ENHANCE REVENUES, E.G., FINANCIAL BONDS

Mr. Passailaigue said currently, a California lottery revenue bond proposal being sought by Governor Arnold Schwarzenegger asks for \$15 billion from investors.

Mr. Passailaigue said financial bonds monetize the profits of the lottery business and possibly speed up the collection of lottery revenues. He said the state maintains ownership of the lottery, but the bonds impact a state's credit rating.

Mr. Passailaigue said leverage, or the ability to generate upfront proceeds, is lower because of debt service coverage. He said the lottery and the state are liable to repay the financial bonds.

He said the lottery is able to tap financial markets in the future even though the obligation exists to pay the existing debt off.

Mr. Passailaigue said state law might limit the use of lottery revenue bonds to specific activities. He said the state needs to maintain a budget to fund taxable and tax-exempt revenue bonds in the future, which impacts the state's net debt credit limit.

Mr. Passailaigue said the financial market for lottery revenue bonds remains uncertain because money is harder to obtain now in a regressing economy.

In response to a question from Sen. Lerblance regarding financial bond payback, Mr. Passailaigue said revenue from investors needs to be paid back in the future.

In response to a question from Sen. Geller regarding excess lottery revenue after financial bond payments, Mr. Passailaigue said lottery profits exceeding the amount of money necessary to repay financial bond investors go to lottery revenue. He said if lottery profits are not enough to repay investors, the state general fund needs to pay the difference.

#### ADJOURNMENT

There being no further business, the meeting adjourned at 9:45 a.m.

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