

NATIONAL COUNCIL OF LEGISLATORS FROM GAMING STATES
COMMITTEE ON LOTTERIES
LA JOLLA, CALIFORNIA
JUNE 6, 2014
11:00 A.M. – 12:00 NOON
MINUTES

The Committee on Lotteries of the National Council of Legislators from Gaming States (NCLGS) met at the Hyatt Regency La Jolla in San Diego, California, on Friday, June 6, at 11:00 a.m.

Sen. William Coley II of Ohio, acting committee chair, presided.

Other legislators present included:

Rep. Helene Keeley, DE
Rep. David Richardson, FL
Sen. Maria Sachs, FL
Rep. Jim Waldman, FL
Rep. Tom Burch, KY
Sen. Art Wittich, MT
Rep. Lois Delmore, ND
Rep. Kevin Killer, SD

Others present were:

Susan Nolan, Nolan Associates, NCLGS Executive Director

MINUTES

The Committee accepted the minutes of its last meeting on January 10, 2014, in Hollywood, California.

INTERNET LOTTERY SALES AND INITIATIVES

Paula LaBrie, Acting Director of the California Lottery, representing the North American Association of State and Provincial Lotteries (NASPL), said that NASPL feels that iGaming is a state's rights issue and that NASPL makes no judgment on what video or Internet games should be offered or if state should be offering them. She said that it should be left up to the states because states are simply in the best position to determine what is best for their residents.

Ms. LaBrie said that beneficiaries for state lottery revenue are vast and many and that the need is great. She noted that California alone contributed \$1.28 billion to education, its beneficiary, and is on track this year for \$1.3 billion. She said that this is very significant in terms of what the lotteries offer to states.

Ms. LaBrie said that federal regulation of iGaming would put states on two different tracks and could be costly, so it is preferable to maintain one system.

Ms. LaBrie said that lotteries in Georgia, Illinois and Minnesota recently began selling online. She said that there are subscription states as well, New Hampshire, New York, North Carolina, North Dakota, and Virginia, and some states are doing subscriptions by mail. She said that as states begin to embark on this area, eventually more will want to join in. Ms. LaBrie said that NASPL's position is that they should have the opportunity to do so if they choose.

Ms. LaBrie said that NASPL also is supportive of NCLGS draft guiding principles for Internet gaming and appreciates consideration of proposed amendments to its policy framework. She said that NASPL has one more amendment to offer at the appropriate time. She said that NASPL is clearly supportive of NCLGS efforts and encourages the work of the organization to preserve states' rights.

Kurt Freedlund introduced himself as President of Lottointeractive, Inc., a provider of mobile interactive social wagering games. He said that for the prior ten years he had served as COO and general counsel for the Georgia Lottery and for the Illinois Lottery ten years before that. He noted that these states comprise two out of three states selling the lottery online.

Mr. Freedlund said the Illinois Lottery commenced internet sales in March 2012 and that it started out with two games at launch, Mega Millions and Little Lotto. He said that in November 2012 the Illinois legislature authorized the addition of PowerBall. He said Illinois also offers a weekly subscription of five of its 39 twice-daily games, at a minimum.

Mr. Freedlund said the Georgia Lottery commenced a soft launch of its Internet sales on Thanksgiving weekend in 2012, with Mega Millions, PowerBall, and its in-state Fantasy 5. He said that Keno was added in December 2013, which has done very well.

Mr. Freedlund said that in Minnesota, legislation that was passed to prohibit Internet lottery sales online was vetoed by the Governor.

Mr. Freedlund then spoke to the impact of Internet sales on brick and mortar institutions, since he said that they truly are the backbone of our products. He said his philosophy is that there can be a balance between the two and that the presence of Internet lottery can drive sales in brick and mortar establishments.

In response to a question from Sen. Coley regarding the California experience, Ms. LaBrie said that in California, online gaming is prohibited for lotteries as part of the Lottery Act. She said that she did not see the California lottery embarking into that territory in the near future. She said regarding cannibalization that NASPL, from its research, is looking at the Internet as a new audience coming in that would not jeopardize brick and mortar and its existing customers. She said that the younger demographic does everything online.

Mr. Freedlund said that the current product that Georgia and Illinois offers is more of a convenience product and is really not meant to drive sales, but gives the opportunity to buy a Mega-Millions ticket from home instead of getting up and going out to a convenience store. He said it is not an Internet session, but that you are just going online and buying a ticket. He noted it is a step you have to take to get to the kind of product that will appeal to the younger generation.

Mr. Freedlund said that in Georgia sales of its three products offered over the Internet stayed about the same in most quarters since the launch but when Keno came online in December 2013 it became very popular and still has not hurt Keno brick and mortars, so those are all additional sales. He said currently an average of five and one half to six percent of Keno sales are online sales.

Mr. Freedlund showed a chart of Georgia Internet and retail sales for all four quarters of 2013 and compared them with correlating ones from the prior year to evidence the consistent growth of brick and mortar retail sales since the advent of Internet sales. Mr. Freedlund said that with respect to Europe, Canada, and other jurisdictions that have entered into Internet sales, brick and mortar sales have not gone down in one documented jurisdiction. He said that they have enhanced sales and have enhanced the brand, which is the most important thing.

TECHNOLOGICAL ADVANCEMENTS IN STATE LOTTERY OPERATIONS

Chris Robertson of Diamond Game said that lotteries are very basic, that they have either a draw game or an instant game. He said that when you are talking about modernizing or bringing a new product to the lottery you are talking about a new way to present one of these two products.

Mr. Robertson spoke to three new products in the market, i.e., play-at-the-pump and ETMs, eSCRATCH, and electronic pull-tab dispensers. He said that two-thirds of people who buy gas do not go into the convenience store, so perhaps the lottery could sell tickets at the pump, with a part going to the retailer. He said Minnesota, Missouri, and soon North Carolina and California also may be doing this. He said you will see this more and more coming to your states.

Mr. Robertson said that another new product is created by bringing an instant game online. He compared it with Keno and said that Minnesota put its instant game online a few months ago. He said it had a 70 percent popular approval rate and that the Minnesota legislature passed a bill to not allow online "play at the pump" or instant games. He said the legislature thought that it was just too threatening and that the Lottery did not have the authority to do that. He said the Governor disagreed last week and said that it was within the Lottery's authority.

The third product out there in a number of states, said Mr. Robertson, is the electronic pull-tab dispenser, a kind of misnomer, because it is a ticket vending machine that gives out instant/scratch tickets. He said that five states, Idaho, Missouri, Maryland, Ohio, and Michigan, are using these machines. He said North Dakota and Minnesota are using similar products, as well as Ontario, Canada.

Mr. Robertson said that according to studies, no evidence to suggest that addition of new lottery products, such as video lottery terminals (VLTs), in bars and clubs have a negative effect on Casino revenue. He said that research by Christian Marfels, professor of Economics at Dalhousie University in Nova Scotia, concludes "Simply stated the notion of substitution effect and gaming do not mix. There is simply no empirical evidence whatsoever to support such a claim. Rather, the introduction of VLT gaming to a jurisdiction with other forms of commercial gaming, including casino gaming, leads to more variety within the gaming industry."

Mr. Robertson said that the studies showed an effect that Marfels called the "supplementation effect," or "growing the pie" when you bring in new products. He said in South Dakota from 1990 through 1996, VLT revenue grew from \$46 million a year to \$175 million a year and that casino revenue went from \$14 million a year to \$45 million a year. He said in Manitoba from 1990 to 1996, VLT revenue went from \$0 a year to \$185 million a year and casino revenue from \$5 million a year to \$101 million a year. He noted that in Nova Scotia from 1992 to 1997, VLT revenue went from \$17 million a year to \$106 million a year and casino revenue went from \$0 a year to \$71 million a year.

In West Virginia, Mr. Robertson said from 2000 to 2007, VLT revenue went from \$0 million a year to \$397 million a year and casino revenue from \$283 million a year to \$955 million a year. He said in Iowa from 2000 to 2007, mobile vending machine (MVM) revenue, when introduced and then removed, grew from \$0 million a year to \$121 million a year and casino revenue went from \$899 million a year to \$1,044 million a year. He noted that casino revenue the year that MVMs were removed had a smaller growth rate than during years MVMs were introduced. Mr. Robertson said that in British Columbia from 2003 through 2011, VLT revenue went from \$0 million a year to \$170 million a year and casino revenue from \$374 million a year to \$960 million a year.

Mr. Robertson said that Christian Marfels, PH.D, in *Casino Gaming and VLT Gaming: Substitution Effect or Supplementation Effect?*, **GAMING LAW REVIEW**, Volume 1, Number 3, 1997, said that:

“...the extension of the substitution effect of casino gaming to other forms of commercial gaming in general, and to VLT gaming in particular, in the sense of cannibalization of gaming revenues, is misguided. If anything, the one dollar spent on VLT gaming is simply *one dollar more* spent on gaming. Why? Because VLT and casino activities are two vastly different forms of commercial gaming. As a consequence, the substitution effect can be laid to rest, and it can be safely replaced by the supplementation effect.”

After a lively discussion relating to new products and concerns such as cannibalizing retailers and convenience stores, age verification protections, and others, Sen. Coley said that he feels that it is a legislator's duty to keep its lottery dynamic and yet responsible and professional.

ADJOURNMENT

There being no further business, the meeting adjourned at 12:00 noon.