

**ALASKA STATE LEGISLATURE  
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT,  
INTERNATIONAL TRADE AND TOURISM**

April 9, 2003  
5:20 p.m.

**MEMBERS PRESENT**

Representative Cheryll Heinze, Chair  
Representative Lesil McGuire, Vice Chair  
Representative Pete Kott  
Representative Nancy Dahlstrom  
Representative Sharon Cissna  
Representative Harry Crawford

**MEMBERS ABSENT**

Representative Vic Kohring

**COMMITTEE CALENDAR**

HOUSE BILL NO. 240  
"An Act establishing a state lottery."

- MOVED CSHB 240(EDT) OUT OF COMMITTEE

**PREVIOUS ACTION**

BILL: HB 240  
SHORT TITLE: ESTABLISH STATE LOTTERY  
SPONSOR(S): ECON DEV, INT'L. TRADE & TOURISM

Jrn-Date	Jrn-Page		Action
04/04/03	0769	(H)	READ THE FIRST TIME - REFERRALS
04/04/03	0769	(H)	EDT, W&M, FIN
04/07/03		(H)	EDT AT 5:00 PM CAPITOL 120
04/07/03		(H)	Heard & Held
04/07/03		(H)	MINUTE(EDT)
04/09/03		(H)	EDT AT 5:00 PM CAPITOL 120

**WITNESS REGISTER**

DENNIS JACKSON, Vice President  
GTECH Corporation  
West Greenwich, Rhode Island

POSITION STATEMENT: During hearing on HB 240, explained how lotteries and electronic gaming machines work in other states, offered recommendations, and answered questions.

LARRY PERSILY, Deputy Commissioner  
Office of the Commissioner  
Department of Revenue  
Juneau, Alaska

POSITION STATEMENT: Explained the fiscal note for HB 240 and answered questions with regard to both the lottery and electronic gaming aspects of Version H.

REPRESENTATIVE TOM ANDERSON  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 240, Version H, and explained the electronic gaming provisions.

#### **ACTION NARRATIVE**

**TAPE 03-8, SIDE A**  
Number 0001

**CHAIR CHERYLL HEINZE** called the House Special Committee on Economic Development, International Trade and Tourism meeting, which had been recessed on 4/7/03, back to order at 5:20 p.m. Representatives Heinze, McGuire, Kott, Cissna, and Crawford were present at the call to order. Representative Dahlstrom arrived soon after the meeting began.

#### HB 240-ESTABLISH STATE LOTTERY

CHAIR HEINZE announced that the committee would hear HOUSE BILL NO. 240, "An Act establishing a state lottery." [HB 240 was sponsored by the House Special Committee on Economic Development, International Trade and Tourism; in packets was a proposed committee substitute (CS), Version H.]

CHAIR HEINZE indicated that because Version H changed the bill to include gaming, the hearing would be addressed in two parts: the lottery and the electronic gaming. First addressing the lottery portion, she paraphrased part of the written sponsor statement as follows:

Lotteries have a long history in the world. The Bible contains a reference to a lottery used by Moses to award land west of the River Jordan. Through history

and throughout the world, lotteries have been used to raise money for various purposes.

In North America, every Canadian province, 40 U.S. states, the District of Columbia, Mexico, Puerto Rico, and the U.S. Virgin Islands all offer government-operated lotteries. During the fiscal year 2002, U.S. lottery sales totaled \$42.9 billion. Funds raised from these lotteries have been used to fund education, economic development, natural resources, public health, corrections, transportation, and a variety of other issues. Considering the fiscal issues that are facing Alaska, ... lottery-generated revenue could help provide a whole new source of revenue stream for our state.

Number 0180

CHAIR HEINZE introduced Dennis Jackson as an expert who is vice president of GTECH Corporation ("GTECH"), the world's largest provider of lottery systems and services, which supplies systems and services in 80 jurisdictions around the world. She indicated Mr. Jackson's sales and governmental relations responsibilities in the Western U.S. include California, Oregon, Washington, Idaho, Arizona, New Mexico, and Nebraska. Prior to that, he was employed by International Game Technology (IGT), the world's largest manufacturer of slot machines and video lottery terminals (VLTs); he was responsible for sales of VLTs, [electronic gaming machines (EGMs)], and systems to [West Virginia, Rhode Island, South Dakota, and Oregon]. His previous experience includes serving as director of the Idaho state lottery, serving on the board of directors of Powerball, being a member of the executive committee of the National Association of State and Provincial Lotteries (NASPL), and chairing the NASPL security committee, Chair Heinze noted.

Number 0318

DENNIS JACKSON, Vice President, GTECH Corporation, informed members that in Idaho the lottery contributes about \$20 million yearly to education from kindergarten through grade 12. He explained that a lottery game is one in which a participant, for a fee, obtains a ticket that provides a certain amount of numbers from a field of numbers. Most in-state lottery games are "pick five": a person picks five numbers from a series of numbers, and how large the series of numbers is determines the odds of matching all five. If those numbers are drawn, the

person wins a prize; if four out of five are drawn, the person wins a smaller prize; and, in some instances, even if three numbers are drawn the person wins something. Noting that lotteries are in 40 states now, he reported that legislation has been approved in Tennessee as well.

MR. JACKSON suggested Alaska perhaps should investigate joining one of the two multi-state lotteries in the United States: Powerball or Mega Millions. These games enable states with small populations to amass the kinds of sales needed to provide jackpots people want to play for; this generates more revenue. Mr. Jackson said people play because of wanting to win and because of the jackpot size. Powerball currently has 25 states and the District of Columbia [participating]; because of this banding together, a small [population] state like Idaho or South Dakota can offer a jackpot starting at \$10 million and going as high as \$295 million. He recalled that in his earlier days, a jackpot of \$8 million to \$10 million was of considerable interest, whereas now people seem to enter when the jackpot is \$60 million or \$70 million.

Number 0544

MR. JACKSON turned attention to definitions. With regard to vendors, he explained:

When I look at a lottery vendor, I think of someone like GTECH who sells lottery computer systems. If you go to a state where we have a lottery, such as Washington, if you buy a lottery ticket, that terminal that's [sitting] there on the counter is a GTECH terminal, and it's connected to our central system either by a phone line or by some wireless mechanism. The central system is where the wagers are being recorded; the sales are being recorded. So I would call this a vendor.

MR. JACKSON offered, by contrast, that a lottery retailer sells lottery tickets; typical examples are a Circle K or 7-Eleven convenience store.

Number 0611

MR. JACKSON clarified that his purpose wasn't to advocate gambling or gaming in Alaska, even though he represents a company with a considerable interest in that business; that decision clearly is to be made by the policymakers in Alaska -

the voters, the legislature, and the governor. He expressed hope that his company could become a resource as the legislature works its way through this sometimes difficult and often controversial legislation, but acknowledged that his company would compete aggressively for the business if the state authorized a lottery through legislation.

Number 0645

MR. JACKSON concurred with the analysis in the six-page fiscal note [from the Department of Revenue, prepared in part and approved by Larry Persily, Deputy Commissioner, dated 4/7/03, relating to the original bill] that the bill as it applies to lotteries essentially is a raffle drawn twice a year. He offered his opinion that what is proposed in the bill isn't a lottery, which typically is drawn at least once a week or, more often, twice a week. He questioned whether the twice-a-year drawing will be successful and said people like to know how much they are playing for. Mr. Jackson said he believes the concept of a lottery, if the state chooses to raise revenue through that mechanism, is a good one, but suggested that the approach within the bill probably could use some improvement.

Number 0718

MR. JACKSON informed the committee that he didn't necessarily agree with Mr. Persily's use [in the fiscal note analysis] of South Dakota, Montana, and Nebraska as states for comparison. He explained that South Dakota and Montana aren't strong on the "lottery side" - scratch tickets and online lotteries - because those states have the most emphasis on video lottery machines. He also related his belief that Nebraska probably has the worst legislation in the country for a lottery and thus is a model for an unsuccessful lottery.

MR. JACKSON emphasized that good legislation is needed for a lottery to be successful and to generate the maximum benefit. Saying there are many successful lotteries out of the 40 in the U.S., Mr. Jackson told members that every one has a good piece of legislation behind it - well thought out and well crafted in conjunction with people who have some experience. By contrast, states that struggle, including Nebraska, don't have good legislation in this regard.

MR. JACKSON suggested a better comparison would be Idaho, which has about 1.2 million people: lottery sales are about \$100 million a year, including \$98 million last year and \$101 million

the year before, to his recollection, and \$18 million to \$20 million is turned over every year to education, which is about 20 percent. New Mexico, with a population of 1.7 million, last year did \$130 million in sales and turned over a little more than \$30 million to education, he told members.

Number 0835

MR. JACKSON, answering questions from Representative Crawford, explained that both Idaho and New Mexico are members of Powerball and participate in the drawings with the 25 other jurisdictions. In addition, they have instant-scratch-ticket products and some in-state lotteries; typically, those lotteries are about 60 percent "on the instant side" and 40 percent "on the online side." For a state like Idaho that does \$100 million [in sales], about \$40 million is from Powerball sales. He offered his belief that in a state like Alaska the net return to the state on a multi-state game such as Powerball would be around \$10 million a year, from \$40 million in sales, which is well within the capabilities of the state.

MR. JACKSON observed that the \$300 million-plus a year now wagered in Alaska on pull-tabs - which he called "break-opens" or "pickle cards" because they are sold in his state in pickle jars - is much more than he'd have expected from his experience in other states. In Idaho, he reported, the amount is \$3 million.

Number 1003

MR. JACKSON recommended Powerball for Alaska, since the other multi-state game [Mega Millions] is played in [high-population] states like Georgia, Michigan, Illinois, and New Jersey. He said the cost to Alaska to join Powerball in a year would be \$30,000 to \$50,000; it was \$30,000 the last year he was in Idaho. He explained that the [Powerball] group in Iowa simply administers the game, collecting wagers from all 25 participating states through the computer system; it estimates the jackpot, collects the money, "and when there's a winner they send you the money in your state, and you write the check."

Number 1068

MR. JACKSON addressed whether a lottery in Alaska would be successful, saying, "Yes, with good legislation, if success is determined by returning a reasonable profit to the good causes that you should choose to put it to in your state." He also

mentioned good, frugal management and good practices with regard to those people who are appointed; he observed that the bill appoints a lottery commission and director. Again recommending a connection to a multi-state lottery game, he cautioned, "I don't believe on your own that you'll be successful."

Number 1104

REPRESENTATIVE CRAWFORD inquired about expenses and income for those who actually sell the tickets.

MR. JACKSON answered that most lottery tickets in established lotteries are sold through convenience stores such as Circle K or 7-Eleven; some are sold through large food chains. A lottery retailer like that across the states generally receives 5 cents to 7 cents for a \$1 ticket. The last year when he was director of Idaho's lottery, he said, \$5 million was paid out to 1,200 retailers in Idaho. He added:

They have no cost because ... when you decide that you're going to have a lottery, you will go out with a request for proposals from companies like mine. And the company will come in ... and they will make a proposal, generally developed around how you make ... your presentation and how you ask for it. But as a general rule, for a percentage of sales, which generally runs in a state this size about ... 8 or 9 percent, ... a company like mine's going to come in, bring the terminals, install them in the retailers, hook them up to the central system through some communication link, and service them ... if there is a problem.

MR. JACKSON pointed out that four to six years ago a lottery system likely couldn't have been done in Alaska because of the unique nature of some of the remote communities and the lack of buried phone line in some locations. Now, however, an entirely wireless solution is possible, and is being used in New Mexico; it also will be used for the 19,000 retailers in California, where his company just won the bid; calling it an efficient, workable solution, he said it costs considerably less as well.

Number 1229

MR. JACKSON, in response to a question from Chair Heinze with respect to non-lottery transactions using the lottery lines, characterized this as a "giant transaction-processing network."

He said GTECH, because of its size, processes more transactions back and forth across its lottery lines than Visa and [MasterCard] combined. In Idaho, he noted, hunting and fishing licenses are sold the same way that a lottery ticket would be sold: the database recognizes a person by his or her social security number or some other identification number in that system, which calls up the person's "history" and prints out a fishing or hunting license or deer tag or moose tag, for instance. The retailer then receives a fee, which to his recollection is \$1 per transaction.

MR. JACKSON reported that in Brazil, people pay utility bills across the lottery system; in Minnesota, people have a "smart card" that registers lottery numbers and which the person swipes through a machine for ease of play; and bus passes are sold across the network in some places. He noted that in the past, one issue with food stamps was the mailing cost; he said any transaction like that can be conducted across a lottery network.

Number 1335

CHAIR HEINZE posed a scenario in which a person buys a moose tag, buys a lottery ticket, and pays an electric bill all at once. She asked whether it would be a company like [GTECH] that would track where the money goes.

MR. JACKSON affirmed that, indicating it is similar to online banking. If a person paid an electric bill, for example, there would be an electronic transfer of funds: the lottery would "sweep" the account of the retailer where the payment was made, and would transfer it to the account of the power company.

Number 1381

MR. JACKSON, in response to a request from Chair Heinze, offered the following explanation of Powerball. Started in about 1993 or 1994, it is a game in which a person pays \$1 and picks numbers from two sets of fields: a set of 5 numbers out of a field of 39, to his recollection, and 1 number out of a field of 41. The odds of matching all 5 [of the first set] and the additional 1 are about 1:120,000,000 under the current Powerball scheme; that is why the jackpot can get to be \$250 million. A person who matches 5, but not the 1, wins \$100,000. A person who matches 4 plus the 1 wins \$7,500, to his belief. There are nine different ways to win a prize, and prizes go down to as little as \$3.

MR. JACKSON, in response to questions from Representative Crawford, further explained that in the traditional lottery games such as Powerball, about 50 percent goes toward prizes. The retailer makes 5 to 7 percent, depending upon how the legislation is structured; most make a base 5 percent, but sometimes there is an additional 1 percent for selling a winning ticket. A vendor such as GTECH or its competitors receives a percentage that typically depends on the sales volume - as little as about 2 percent in California to about 11 percent in Nebraska. And the lottery administration, including salaries for the [state's] lottery director and advertising, can be expected to be another 10 to 12 percent. Thus the state will receive around 20 to 25 percent. He offered his belief that the only money leaving the state will be whatever fee is paid to a company like GTECH or its competitors, around 8 to 12 percent.

Number 1571

REPRESENTATIVE CRAWFORD related a complaint he'd heard from people in Louisiana, where he'd lived previously: unless there is a big jackpot winner in the state, a huge amount of money goes outside the state and the people don't get the benefit; rather, it shrinks the economy. He asked whether Mr. Jackson's testimony is that it will be won back in prizes and therefore won't shrink the economy.

MR. JACKSON replied that he doesn't believe it would shrink the economy, but that [the money retained in the state] wouldn't all be in prizes. About \$5 million would be paid in commissions to local retailers, who would pay their employees and sales tax, if applicable. From a study on the Idaho lottery he'd done at one time, he reported that about 94 percent of the money stayed in the state, including salaries for people who administered the lottery and employees of whoever won the bid - GTECH or one of its competitors. He indicated whatever company won the bid in Alaska would have a cadre of Alaskan employees. He estimated 94 percent of the money would stay in the state, although only 50 percent would be paid in prizes.

Number 1640

REPRESENTATIVE KOTT posed a scenario in which Alaska joins the Powerball game and GTECH wins the contract to set it up. He asked whether there would be a permanent presence of GTECH in Alaska in that instance.

MR. JACKSON answered that it depends a lot on how the RFP [request for proposals] is written. He explained that [GTECH] has a permanent presence in most states, but also has a remote data center in Austin, Texas, since modern communications allow these calculations to be done [almost anywhere]. He added:

There will be a presence here because somebody's going to have to go to Nome if that terminal breaks down and fix it. ... And the price that a company like mine would quote would depend upon how many of those people they thought they had to have. ... It's not really an issue that's particularly unknown to us, because we had lotteries across Latin America in areas that are much more difficult to get through than they are in Alaska. But, yes, there would be a permanent presence here, at least for the length of the contract.

Number 1701

REPRESENTATIVE KOTT asked how long a contract is generally for.

MR. JACKSON replied that it depends. Typically, vendors want contracts for five to seven years, with three to five options to extend. He pointed out that these terminals aren't inexpensive; for the price to be reasonable for a customer, a company needs considerable time to take depreciation [for tax purposes].

Number 1730

MR. JACKSON, in response to questions from Representative Kott, explained that typically the RFP specifies the number of terminals, say, 1,000. He explained:

The way we would arrive at that price is that we would sit down first and we would do the necessary calculations based upon ... our history. ... The modern-day lottery in the United States started in 1964 in New Hampshire, so we have a wealth of information and history. So we'll be able to [sit] down with our "numbers guys," I call them, and ... we'll be able to calculate pretty well what we believe the volume of sales will be in the state of Alaska. And through our experience in doing business in places like Brazil and South Africa, Turkey, and many [remote places], ... we'll arrive at some price.

Number 1790

MR. JACKSON, in further response to Representative Kott, addressed reliability of the terminals, saying it is pretty good and is considerably better than eight to ten years ago, when terminal malfunctions became a problem. He said the lottery industry, including GTECH, has "up time" of about 99 percent. He explained:

We're in business with you if we're being paid a percentage of sales, and we certainly don't want that terminal to be nonfunctioning. It's got to be running for us to get paid. Also, typically, ... your contract that you would negotiate with a company like mine will specify some liquidated damages for failure to perform, and one of the areas that is typically addressed in liquidated damages is the length of time it would take a company like mine to respond to a terminal failure somewhere.

Now, obviously, if you say, "If a terminal goes down in Nome, we expect you to be there in 30 minutes," we're going to probably have to talk about ... how we get there. But it typically would assess a penalty if we're not there within a certain amount of time to fix that.

CHAIR HEINZE invited Mr. Persily to join Mr. Jackson at the witness table.

Number 1862

LARRY PERSILY, Deputy Commissioner, Office of the Commissioner, Department of Revenue, informed the committee that the fiscal note was put together on relatively short notice with the idea of raising some of the issues that the committee should consider. He emphasized the desire, if the state has a lottery, to do it well and make some money from it. Noting that the bill creates a twice-a-year "50-50" raffle [with one winner per drawing who receives 50 percent of the ticket sales less the expenses of the lottery], he pointed out that a person buying a ticket wouldn't even know the amount of the winnings until all tickets were sold. He offered to work with legislators, if that is the policy call, to put together a lottery commission and system that raises revenue for the state. He added that the governor looks at a lottery as one tool to consider along with his other proposals for raising revenue.

MR. PERSILY suggested considering that Alaska has a lot of charitable gaming, including pull-tabs, bingo, and raffles among 1,200 different charitable organizations in the state. As to why Alaska has so much charitable gaming compared with other states, he mentioned the lack of competition in the form of a statewide lottery, Powerball, casinos, and so forth. In addition, the percentage from charitable gaming that goes to prizes is close to 80 percent, but it is closer to 50 percent for a lottery. Noting that it is a policy call for the legislature, he suggested considering how a lottery might affect charitable organizations that depend on gaming for their revenues, since with a well-marketed, well-run lottery - even though the odds of cashing in big are 1:120,000,000 - someone could win substantial money, a lot more than a \$500 pull-tab prize. He offered to answer questions about the fiscal note and some of the estimates and discussion points, in order to come up with a good bill.

Number 1991

CHAIR HEINZE asked whether joining Powerball would be a much more profitable way for the state to proceed.

MR. PERSILY answered that people buy lottery tickets because of the possibility of winning. Prizes in the tens of millions of dollars are a lot more attractive than top prizes of \$500,000, for instance, which might be provided by the raffle [proposed in the bill]. He concurred that if the state wants a lottery, the way to go is with a multi-state lottery, weekly or twice-a-week drawings, and multiple games, for example. He added, "We looked at states: three or four different games is certainly more common than just one, because you're marketing a product. You want people to buy it so that you can make money off of it."

Number 2029

REPRESENTATIVE KOTT asked whether research suggests a nexus between playing the lottery and potential loss of revenue to charitable organizations that receive funding through pull-tabs. Offering a personal example, he said he buys five or so lottery tickets when he goes to Michigan, even though he knows the chances of winning are slim; it doesn't detract from also going to the harness-racing tracks there. The lottery is "distant gratification," whereas the horse racing is immediate. He suggested the same would be true for pull-tabs, which provide instant gratification and a fairly good chance of winning something. He mentioned per-capita spending in some communities

[in Alaska] of \$5,000 or \$10,000, and suggested those people are winning and then cashing tickets in and continuing to [buy more pull-tabs]. He questioned whether there would be a loss to nonprofit organizations if people spent a few dollars on a lottery.

MR. PERSILY answered that if the bill went through with the requirement of waiting up to six months to find out who wins, he doubted that there would be much affect on pull-tabs, bingo, or local raffles. He agreed that people play pull-tabs for the instant winning, but suggested there also is a social aspect to it. If there were twice-a-week drawings or instant winners, however, he asked whether that would affect pull-tabs or bingo, and said it is a point to consider.

MR. PERSILY said there is no "science" to his knowledge as to how much the effect would be in Alaska, but surmised that some money might [be transferred to buying lottery tickets]; whether it would be significant, he indicated he didn't know. He also posed the possibility that people might [buy lottery tickets] initially and then return to their former practice. He offered his belief that much charitable gaming [participation] is tied to supporting a local organization. For example, when people buy raffle tickets for a soccer club, it isn't because of really believing a prize will be won, but because of supporting that club. He concluded that probably a strong segment of local charitable gaming wouldn't be affected [by a lottery]. He said the rest is probably speculation, but something to think about.

Number 2167

REPRESENTATIVE KOTT asked, for states that have successful lotteries, whether their legislation gives specific direction to the commission or has some latitude.

MR. JACKSON opined that the [unsuccessful] Nebraska legislation might have been from a paternalistic attitude of wanting to protect some people from gambling or perhaps to mollify non-gambling opposition. Noting that Nebraska is required to return 35 cents out of every dollar to the state in the form of profit, he explained:

The problem with that is, that severely restricts the prizes they can play. And people play to win. The most successful lotteries are those lotteries that have no restriction on what percentage is returned to the state, and it's left up to the good decisions of

the management of the lottery and the lottery commission as to what is an acceptable [ratio].

Nebraska is prohibited by statute from having what we call ITVMs - instant ticket vending machines - a machine where you can go up, in a controlled environment, put a dollar in, pull a tab, and your scratch ticket comes out. And those areas where we have those in the state of Idaho, sales are 25 percent higher where we have a vending machine.

Nebraska is not permitted to have ... what they call pickle cards - pull-tabs. Specifically, they're ... given to three or four charities in the state. They can't do interactive keno because ... there's keno legislation. So, yes, it is very specific legislation. And most often ... it has to do with the mandated required return to the state that restricts their ability to pay prizes.

Number 2264

MR. PERSILY responded that in Alaska currently, with pull-tabs, there [are] in the law limits on expenses with respect to operators, the return to the charities, and the vendors. He also noted that Alaskan law is very specific, allowing bingo, pull-tabs, and raffles. Drawings are actually listed in statute by name, including the Nenana Ice Classic, the Iditarod Trail Committee drawing, and so forth; there is no leeway, and their inclusion requires legislation. He suggested looking at giving a commission more leeway to run a truly successful lottery, rather than requiring legislation whenever someone wants to add a new game.

Number 2309

REPRESENTATIVE KOTT asked about the terminals that would be placed around the state, and where that would occur. He noted that in Michigan, for example, some lottery tickets can be purchased in supermarkets. He asked how that is determined [in states with successful legislation] when there are 20,000 possible locations but only 1,000 terminals allowed, for example. As a business owner, he suggested that 7 percent is a "pretty reasonable return for doing very little."

MR. JACKSON answered:

In the early days, like in the beginning of the Idaho lottery, there really wasn't a system because so many of us ... were so new that basically we put lottery terminals wherever some vendor said, "I'll take one." And that ended up being a little bit of an issue because it is important ... not only to a company like mine, as a vendor, but also to the lottery that that terminal ... is in a position where it at least ... carries its own weight.

MR. JACKSON reported finding that there were a lot of terminals in locations that weren't generating enough money. Typically, he indicated, now the lottery commission sits down, draws up rules, and defines what makes a retailer and the number allowed. [Not on tape, but reconstructed from the committee secretary's log notes, was that one decision is where it is best to place terminals in a community.]

**TAPE 03-8, SIDE B**

Number 2380

MR. JACKSON mentioned that one state restricts the distance a lottery terminal must be from a church. Emphasizing that terminals should be in high-traffic areas, he said the best lottery retailers seem to be convenience stores; for example, 7-Eleven does about 25 percent of the California lottery business. He again cautioned that without rules [promulgated by the commission] with regard to placement, there can be terminals that don't carry their weight. However, many retailers believe although a terminal might not make money [directly], it keeps players from going to a nearby competitor and buying other products there. Mr. Jackson added, "We would be happy, as any of the competitors would, to provide you with some of the things that other lottery commissions have done in their determination."

MR. JACKSON emphasized the need to discuss security and law enforcement, which aren't included in the bill. He urged the committee to consider providing for a lottery security department, which applies to gaming as well. Noting that every lottery he knows of in the U.S. has a lottery security department, he said usually it's a law enforcement group consisting of employees of the lottery, but in some places it's a division of the state police. This group does a number of things including background checks on those who apply to be a retailer, since a lottery retailer will need a reasonable credit record and no felony convictions; background checks on companies

like GTECH; and addressing lottery crime such as when a person attempts to manipulate a ticket or steals tickets, which are like money.

Number 2278

MR. PERSILY suggested looking at Alaska's statute for the Alcoholic Beverage Control Board, which regulates the number of liquor licenses in a community, tied to the population: so many per population, with some physical restrictions in terms of proximity to schools, for example.

Number 2265

MR. JACKSON, in response to Representative Cissna, said the price for a lottery ticket is \$1 as a general rule, on line. He noted that an international game coming out in January will cost \$2.

Number 2233

MR. JACKSON, in response to a question from Representative McGuire, advised members that some states require that a percentage of the profit to the state go to gambling-awareness organizations; different states handle it differently. He offered his recollection that in Nebraska the first \$500,000 a year goes to Gamblers Anonymous, but said when he was in Idaho the only requirement was age-related. In most places, he reported, the age is 18 in order to buy a lottery ticket, although one state just raised it to 21. The "security people" make sure that vendors aren't selling [to underage purchasers].

MR. JACKSON, acknowledging compulsive behavior and addiction, reported seeing polls that indicate [problem gamblers] are from 0.1 percent to as high as 6 percent of the population; he offered his own belief that it's closer to less than 1 percent, but said he didn't know for sure. Mr. Jackson said every lottery web site he knows of has a message to play responsibly; typically, the phone number of the local Gamblers Anonymous is provided as well. He conveyed his impression that lotteries and lottery directors have taken their charge in that respect seriously because this is a controversial business; for the most part, lotteries have done a pretty good job of trying to get that message out. He opined that people who vote for a lottery recognize the problem, but feel that the money which goes to good causes perhaps outweighs it.

Number 2103

REPRESENTATIVE McGUIRE interpreted Mr. Jackson's testimony to be that some states mandate this by statute, whereas others handle it through the commission and its directors. Indicating support for [a lottery], she said she'd also like to have some "intent language," for example, clarifying that one directive from the legislature to the lottery commission is to address the social problem of gambling addiction. She questioned the sufficiency of a disclaimer on the lottery web site, but suggested perhaps PSAs [public service announcements] run at certain times with a phone number to call might help. She asked legislators to think about the need for this, highlighting its importance to her.

MR. JACKSON replied that every piece of lottery legislation he has seen has some statement of intent. In Idaho, for example, the director had the responsibility to run the lottery "consonant with the sensibilities of the citizens of the state" and to be aware that this is a controversial business for which the integrity must be primary. He remarked, "If we don't have integrity in our lotteries, we don't have anything to sell." He noted that Idaho - as he surmised other states do - spent a fairly good-sized percentage of its advertising budget, which was about 1.5 percent of sales, on what he called "beneficiary advertising" to tell citizens how the state's lottery money was being spent, along with a message to play responsibly. He agreed with the need to include it in the legislation and certainly include it in the charge to [the lottery] staff.

Number 2004

REPRESENTATIVE KOTT concurred with Representative McGuire about including intent language, but asked Mr. Persily whether there are provisions whereby pull-tab money is spent to help people who have a gambling problem. Speaking of an unspecified village, he said, "I would submit, then, in a population of 200 where every man, woman, and child is spending in excess of \$15,000, there are problems already there." He projected that adding a lottery would increase the number of addicted gamblers [in Alaska] by less than 0.5 percent. He highlighted the odds against winning a lottery, surmising that people probably wouldn't buy more than a few tickets a week because of the low expectation of winning, whereas with pull-tabs a person expects to win something.

MR. PERSILY replied that there is no requirement with respect to pull-tabs now, although a chapter of Gamblers Anonymous might be

a licensed charitable organization [receiving money from pull-tab sales], since he didn't know the exact nature of the 1,200 permittees. He noted that \$2 million to \$2.5 million from pull-tabs goes into the state general fund; it cannot be traced with regard to whether it goes back out in grants. He suggested that either intent language could be added or, like the legislature did with the alcohol-tax increase last year, a fund could be set up from which [the legislature] may appropriate every year to pay out grants to organizations such as [Gamblers Anonymous].

Number 1887

CHAIR HEINZE commended the North American Association of State and Provincial Lotteries (NASPL) web site that talks about gaming studies and so forth. She encouraged members to read some of the figures provided there.

MR. JACKSON explained that [NASPL] is an association of all lotteries in Canada and the United States. He estimated it has been in existence since the late 1980s. In answer to Representative McGuire's question, he said the vast majority of work on [gambling addiction] has been done by the Minnesota Lottery; he recommended looking at the "very definitive studies" posted on that lottery's web site. He noted that the last time he'd looked, the average transaction was less than \$3 for a Powerball jackpot of \$284 million to \$285 million.

Number 1826

CHAIR HEINZE turned attention to the electronic gaming portion of the legislation.

Number 1808

REPRESENTATIVE MCGUIRE moved to adopt the proposed CS, Version 23-LS0914\H, Luckhaupt, 4/7/03, as a work draft. There being no objection, Version H was before the committee.

Number 1785

REPRESENTATIVE TOM ANDERSON, Alaska State Legislature, explained the electronic gaming portion of Version H, noting that some members had asked him to testify because of his interest in alternative revenue sources for the state. He expressed hope that the bill would be moved from committee expeditiously and with "hearty analysis."

REPRESENTATIVE ANDERSON offered his belief that electronic gaming machines are a great source of revenue under Version H not only for charities, but also for the state and local governments. He said this would be the first time in the U.S. that such a "charitable gaming schematic" would be adopted, with a significant amount of revenue going towards the state's charities. He told members Version H wouldn't affect pull-tabs whatsoever, and indicated the addition of electronic gaming wouldn't affect the lottery portion.

REPRESENTATIVE ANDERSON noted that the first handout he'd provided, an eight-page document titled "Proposed EGM Charitable Gaming Legislation," lists frequently asked questions and responses; reporting that he'd spoken with people from charities and the hospitality industry, he suggested the questions and answers would be "forever evolving." The second handout, a sectional analysis of Version H that Representative Anderson indicated he'd drafted with staff that day, notes [both changes and] where changes didn't occur from the original bill; for example, he indicated Version H doesn't change the lottery sections.

Number 1683

REPRESENTATIVE ANDERSON told members he's not an expert on electronic gaming. From his analysis, however, he said that under Version H, 30 percent of the revenue from EGMs would go to the State of Alaska, with 30 percent distributed to charities and another 30 percent to vendors. He noted that EGM vendors are limited to two entities under Version H: full-liquor-license establishments that aren't restaurants or hotels, meaning bars; or licensed clubs such as those run by the Elks Club, Moose, VFW [Veterans of Foreign Wars], or American Legion. He said that is unique because those clubs have a membership.

REPRESENTATIVE ANDERSON related a question about a "dry" village where pull-tabs are played but there are no liquor-license establishments. He said [Version H] prohibits EGM use in establishments without a full liquor license, and surmised that it resolves part of that question. If a dry village were to create a club, he said, subsection 501(c)(3) [of the federal Internal Revenue Code], which is "attached" to Alaska's statute, says a club must exist three years before applying for a pull-tab permit; since EGMs would be linked to that same requirement, it would be three years [after creation] before such a club could operate EGMs. He added, "Additionally, there would have to be a membership, and there could be no ... liquor sold in

that respective dry village. ... If a question arises, ... I can go on with that more, but that might counter the fear that in dry villages we'd have EGMs."

Number 1581

REPRESENTATIVE ANDERSON told members the majority of changes in Version H are technical; the legislative drafters were trying to attach [EGMs] to pull-tabs for clarity, since both fall under the umbrella of charitable gaming. He emphasized the difference between charitable gaming and gambling such as occurs in Las Vegas.

Number 1545

REPRESENTATIVE ANDERSON pointed out that the sixth page of his eight-page handout shows information on the Oregon Lottery. Suggesting the GTECH representative could speak more about the video lottery terminals [owned and operated by the Oregon Lottery], Representative Anderson reported that the maximum number of VLTs per location [in Oregon] is five. He said the majority of [Version H] mirrors the laws of South Dakota and Oregon, and pointed out that [Version H] allows ten EGMs to be in the "two allowable locations." Highlighting the amount of revenue Oregon receives from VLTs - from approximately \$480 million [in sales, with \$278 million going to the state] - he reported that Oregon has a different "percentage sequence" whereby 58 percent goes to the state. By contrast, Version H proposes that 30 percent go to the state, 30 percent to charities, 30 percent to vendors, and 10 percent to a local government or borough; for an unorganized [borough], that 10 percent also would go to the state.

REPRESENTATIVE ANDERSON said in Alaska a charity can only have five pull-tab permits or "boxes" in total, whether in one bar or several; that doesn't change with [Version H], since there can only be five EGMs per charity. Noting that 1,200 charitable organizations [now can get money from pull-tabs], he indicated it would be quite a few EGMs if each used five machines. He mentioned both 501(c)(3) and 501(c)(6) designations [under the Internal Revenue Code], indicating there are some differences in the code with regard to pull-tab use.

Number 1406

REPRESENTATIVE ANDERSON told members only people [21 or older] could use the EGMs. From his own forecasts and talking with

people in Oregon, he predicted [sales of] \$70 million to \$100 million in the beginning, but acknowledged that it is speculative. Noting that Alaska has a high tourist population and a high migrant-worker population, he mentioned the North Slope as an example. He said there is a presumption that tourists and migrant workers would patronize a full-liquor-license establishment or a club as described earlier; he suggested Alaska would see a higher percentage who play these machines than Oregon does, relative to its [population] size.

REPRESENTATIVE ANDERSON suggested that many questions were answered in the earlier discussion about excessive gambling, for example. He suggested that can be measured with pull-tabs now, and that EGMs would be no different. He added, "I don't think there is such an excessive amount that there is an alarm, other than maybe in villages, and I think we've addressed the village aspect with the limitations."

Number 1309

CHAIR HEINZE asked Mr. Jackson to address EGMs.

MR. JACKSON noted that he'd worked for International Game Technology (IGT) - the world's largest manufacturer of slot machines and VLTs, with about 78 percent of the world's market - for a number of years. His responsibility was sales to states where video lottery gaming is controlled by [state] lotteries: West Virginia, Rhode Island, Delaware, South Dakota, Montana, Oregon, and New Mexico, to his recollection. He reported that he'd set up a very successful video lottery system in West Virginia, for example, and spent a considerable amount of time in this area.

MR. JACKSON told members that, early on, it was necessary to differentiate between slot machines and EGMs or VLTs, for many reasons. For one thing, slots were considered casino gaming, but most states didn't want to have casino gambling or gaming in the state. Second, an issue existed in many states between the sovereign nations of the Native Americans and the [state's] responsibilities; tribes in the Lower 48 were basically allowed to have whatever gaming was legal within the state. So there was a real question of trying to determine what a video lottery terminal is.

Number 1198

MR. JACKSON advised the committee that basically a VLT is a television monitor in which a game is simulated; it may even simulate spinning reels [of the old slot machines]. He indicated today the lottery applications include more card games such as five-card stud or other poker games, rather than "watermelons and lemons and oranges" and other [spinning objects that the player tries to line up in order to win], which are seen mostly in casinos.

MR. JACKSON highlighted another important aspect: with a VLT, the "win/no win" decision is made by the host computer at the central site, whereas in a casino that decision is made via computer chip in that machine. Thus there is a need to hook up terminals to a central system through a communication link, which in Alaska would almost have to be wireless. The central system not only makes the "win/no win" decision, but also provides security over the system. He remarked, "If any door is open on any video lottery terminal anywhere in the state, that system immediately shuts that terminal down."

Number 1150

REPRESENTATIVE ANDERSON emphasized that the odds of being able to tamper with such a machine are almost infinitesimal, whereas with pull-tabs there have been many occurrences of graft or theft.

MR. JACKSON concurred. He added that the central system also provides a complete and accurate accounting of what took place within that unit. As an example of a less secure system, he noted that Montana has more VLTs than any other state in the Union, with something like 19,000 video lottery terminals, none hooked up to a central system. Calling it a "route system," he explained, "Somebody went around every so often, opened up the door, and took the money out, much like they would for the Coke machine or one of those kind of things, which leaves itself open for fraud, for theft."

MR. JACKSON pointed out that the central system also provides the vehicle through which a state gets paid. He told members:

One of the issues that I have with this piece of legislation is, it does not ... allow or call for the state to sweep the accounts of these retailers. It says the retailer ... has to go down to the bank and make a deposit. If you do write this legislation, please change that. ... You go in there and you sweep.

... But [the central system] allows you to do that, and you do that on a predictable time, so that the retailer knows when his bank account is going to be swept. ...

In this business, we work on what we call "net win." We don't work on sales. Net win is ... money in less money out. And typically ... about 50 percent of that net win ends up going to the state and the other 50 percent is split up among the operator of the machines and the vendor.

MR. JACKSON, noting that machines can cost up to \$12,000, depending on the game, called Oregon an "interesting example" because it is one of the few states that chooses to buy its machines; he remarked, "This last procurement that they did was a change for them." He said Oregon also is one of the few that chooses to do its own maintenance. Mr. Jackson reported that Rhode Island, "the shining star of video lottery" in terms of success, has a GTECH central system controlling machines from four different manufacturers; GTECH is paid a percentage of sales for operation of that system, and each manufacturer is paid a percentage of the net win from its machines.

Number 0980

MR. JACKSON stated his preference for such a system, making the vendor responsible for maintenance of not only the system, but also the machines. If a local bar in Alaska wanted to buy 10 machines, he pointed out, it would cost 10 times \$8,000 or \$10,000. If it were done through a distributor, then a "middle man" would require a cut. He therefore recommended that [the state] go out for bid and "require a company like IGT or GTECH or Williams Gaming (ph) or Spielo out of Canada to come in and set up your system for a percentage of sales."

Number 0946

REPRESENTATIVE ANDERSON said he wasn't an expert on how Version H is drafted in terms of the charities' ownership [of the terminals]. Indicating the hospitality industry had recommended that, he asked whether Mr. Jackson agreed.

MR. JACKSON replied:

I'm not sure. ... I believe that you are better off in this business if you have the vendor as your partner.

If it is my responsibility to make sure that the thing operates, and my responsibility to make sure that the system functions, you're better off than if you have a machine that is now owned by the charity. What happens if it breaks down? Who fixes it? If it breaks down and I'm being paid some percentage of sales, I guarantee, I'm going to have somebody there to get it fixed and get it running.

MR. JACKSON surmised that if this were put out for bid, there probably would be two competitors that do central systems - GTECH and IGT - and four "machine bidders" - IGT, Spielo out of Canada, Williams Gaming, and Aristocrat. He indicated one prerequisite for programming a central system, regardless of who wins the bid, is that it accept machines from all suppliers. He added, "That's a protocol issue that ... those people that understand software know how to do."

Number 0834

REPRESENTATIVE ANDERSON, in response to a question from Representative McGuire regarding establishments that sell beer and wine, referred to the third question on the second page of his handout. He offered his belief that the way the legislation is drafted, EGMS can only be placed in an establishment [restricted to those] age 21 or older. He suggested that Jerry Luckhaupt, legislative drafter, could verify that it is only in bars or clubs [that EGMS can be placed].

Number 0769

REPRESENTATIVE MCGUIRE referred to Representative Anderson's mention of migrant workers and the North Slope. She said that if the goal is to get revenue from some of these people "that come in and drive on our roads and do other things and don't pay into our state coffers," she believes it is a good goal. She asked, however, how to get at those people if [EGMs] will be placed only in clubs or bars.

REPRESENTATIVE ANDERSON replied that he simply meant that people who work in fishing, timber, tourism, or [oil-related jobs] on the North Slope come through Anchorage and other city centers. He related his belief that Alaska has more of those people than other states have.

Number 0719

REPRESENTATIVE KOTT asked whether a liquor establishment that is part of a hotel is eligible.

REPRESENTATIVE ANDERSON answered in the affirmative.

REPRESENTATIVE KOTT referred to page 19 of Version H and offered his understanding that the eligibility would apply if the establishment conducted the electronic gaming in the bar area that is controlled. He then said:

One of the thoughts we had when we crafted up this piece of legislation, especially in the lottery part of it, is that there may be ... some potential for offering the sale of those lottery tickets to our visitor industry, which is seemingly growing, and ... many of the visitors come in by way of cruise ships or our state ferry system. [Are] there any restrictions ... that you know that would prohibit that, especially when it got into our waters? Or can we sell it as soon as it departs the port in Bellingham [Washington], for instance, on our state ferry? ...

We've got some uniqueness up here in the sense that we have a large number of visitors that are coming, and they're basically a captive audience for three to seven days on a ferry system; that may be an attraction that we can take advantage of. Of course, we have a disadvantage: we only have a small population. But I think we can make up for that, at least in three or four months out of the year, if there's some way that we can tie those lottery efforts onto the cruise ships.

REPRESENTATIVE KOTT concluded by asking whether Mr. Jackson had any experience with other states that have cruise ship travel.

MR. JACKSON said he hadn't, but pointed out that the technology exists, if the desire is to put a lottery terminal on a moving vessel, to hook it up through a wireless communication link to a central-system computer. He asked whether the cruise ship would be the retailer and get paid 5 to 7 percent.

REPRESENTATIVE ANDERSON surmised that the liquor licenses are owned by the state on its ferries.

Number 0561

MR. PERSILY questioned whether cruise ships would use their floor space to put an Alaskan lottery terminal that would generate 5 to 7 [percent], when their onboard casinos probably take in a much higher percentage on craps, blackjack, and other tables. He said he wasn't aware of any technical prohibition. He noted that right now the casinos operate in international waters but shut down when the ship hits state waters coming into port, since Alaska doesn't allow gambling. He suggested a law could be crafted to allow gambling in Alaska through VLTs on cruise ships, if the ships wanted to do that and give [the state] what they might see as a small percentage.

MR. PERSILY pointed out that ferries are different because there is no competition. Acknowledging that he isn't a lawyer, he surmised that once a ferry is in international waters after leaving Bellingham and Puget Sound, VLTs possibly could be operated because Washington State wouldn't have jurisdiction.

REPRESENTATIVE KOTT mentioned existing technology to put these terminals on a moving vessel.

Number 0470

MR. JACKSON reported that there is a bill before the Nevada legislature to create a state lottery, which he said he finds amazing. However, Nevada has a [budget] deficit and is considering inclusion of a lottery in the casinos there.

REPRESENTATIVE KOTT submitted that in lieu of a \$100 head tax, cruise ship companies might be willing to "dedicate a small space for the Alaska lottery."

Number 0382

REPRESENTATIVE KOTT asked how quickly a system could be set up after passage of a bill.

MR. JACKSON replied that if his company or one of its competitors were given an order today by the State of Alaska to put in a lottery system for perhaps 1,000 locations around the state, it would require four to six months. From the time of an RFP, it typically takes a year, including a period of time for the RFP to be sent to interested parties, for them to ask questions, for a response, for evaluation, and then for implementation. For VLTs, however, it would take a little longer. He recalled selling an order in West Virginia and going to the manufacturing plant in Reno, Nevada; it was 14 weeks

before he could get an order in because of the number slot machines being sold around the world.

Number 0259

MR. PERSILY added, "To be safe, you'd probably look for the start of the next fiscal year, July 1, '04, because certainly the bid process, the RFP, possible protest, ordering, installing around the state - a year, I think, would be a conservative estimate to do a good system."

Number 0247

REPRESENTATIVE CRAWFORD observed that no one had testified with regard to what he considers the wreckage and ruin caused by this in other states. He offered his personal experience from Louisiana, saying it began innocently enough with horse racing, for example, but then included casino gambling and the most insidious, to his belief, which is electronic gaming machines - video poker. He said people will sit there and lose their whole paycheck again and again. He'd even had to evict tenants because they wouldn't save enough money to pay the rent; after several months, he couldn't afford to rent to them.

REPRESENTATIVE CRAWFORD suggested the need to talk to ministers and those who have to pick up the pieces. Even with public-service messages telling people to play responsibly, he expressed concern about picking up the pieces after the damage already has been done. He cautioned members to be certain whether this is the road they want to go down to get revenues for the state, and said there are other means without gambling, which has been a scourge forever.

REPRESENTATIVE CRAWFORD reported that Louisiana, which has 64 parishes [equivalent to counties in other states], went to a local option about a year and a half ago whereby a parish could ban electronic gaming. All but five took the option. He remarked:

They see the damage that it's doing. They see how insidious it is. ... This is not a panacea. This is not all wonderful. If we feel like a certain percentage of the people are expendable, then go ahead. But ... I'm very much opposed to video poker or electronic gaming, that sort of thing. ... It's insidious.

CHAIR HEINZE asked Representative Crawford whether he'd feel more comfortable if the committee looked at the bill [further, rather than moving it forward].

**TAPE 03-9, SIDE A**

Number 0001

REPRESENTATIVE CRAWFORD emphasized the need to hear testimony about the other side of the story.

Number 0047

REPRESENTATIVE ANDERSON referred to Representative Crawford's use of "insidious" and suggested it is a matter of perspective; he opined that people in Rhode Island and Oregon wouldn't think that. He said there was an EGM task force set up in Alaska, and offered assurance that there would be "a conflagration of letters from charities within the next week supporting this legislation." He expressed hope that Representative Crawford would keep an open mind. He also suggested that the newly created House Special Committee on Ways and Means is a better committee for analyzing this aspect, since the current committee had talked about the economic aspects. He acknowledged that he isn't a member of the House Special Committee on Economic Development, International Trade and Tourism.

Number 0179

REPRESENTATIVE ANDERSON, in response to a remark by Representative Kott, cited page 17, Section 22, of the bill, saying any municipality or village can opt out.

REPRESENTATIVE KOTT pointed out that there was notice about the hearing on the previous Monday, as well as when the bill was held over until the current meeting at a time certain. He surmised that interest [by testifiers] would be generated if the legislation moved forward.

REPRESENTATIVE KOTT offered to work with Mr. Jackson to perhaps look at the Idaho legislation [for a model], especially with regard to some key issues mentioned, such as security and the ability to [electronically sweep the state's share], as well as maybe to more clearly define the responsibilities of the lottery and how the commission interacts. For example, this legislation has five members appointed by the governor and confirmed by the legislature, but they only meet quarterly or as needed, and aren't paid except for per diem for travel and related expenses.

Noting that Version H has a director that would be paid, he said he or she could hire as many assistants as needed to facilitate the success of the program.

REPRESENTATIVE KOTT, acknowledging that some issues need to be fleshed out, announced that his staff would work full-time with [Representative Anderson's] staff to ensure that the legislation is right, if and when it passes the House. He expressed hope that it would be gone over thoroughly before it is heard in the House Special Committee on Ways and Means, and suggested that if there is anyone whom members wish to invite to testify before that committee, they should do so. He expressed appreciation to Mr. Jackson and Mr. Persily for their comments, suggesting this may lead to some success.

Number 0398

MR. PERSILY reminded members that the department's fiscal note for the original bill was low because it applied to running two raffles a year. As the lottery becomes more productive, though, the program will be much more expensive to run. Hence the fiscal note for the amended version will be much higher.

REPRESENTATIVE KOTT commented that it takes money to make money.

Number 0441

REPRESENTATIVE KOTT moved to report CSHB 240 [Version 23-LS0914\H, Luckhaupt, 4/7/03] out of committee with individual recommendations and the accompanying fiscal note.

REPRESENTATIVE KOTT offered his understanding that an updated fiscal note will be provided [by the Department of Revenue] before the bill is heard in the next committee of referral.

Number 0463

CHAIR HEINZE asked whether there was any objection. There being no objection, CSHB 240(EDT) was reported from the House Special Committee on Economic Development, International Trade and Tourism.

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Economic Development, International Trade and Tourism meeting was adjourned at 7:02 p.m.