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R E P L A C E M E N T    R E V E N U E S --

a Position Paper in Support of an

A L A S K A N    L O T T E R Y

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## SUMMARY

As the state of Alaska faces the very real prospect of long-term declining revenues from its number one revenue source while the demand for state government services continues to increase, exploration of new revenue generation sources is necessary. The notion of lotteries, specifically state operated lotteries, is far from a new idea, and although over one-half of the U.S. population lives in states operating lotteries, misinformation abounds regarding them. Lotteries offer state governments a proven method for enhancing their total level of revenue receipts. Lotteries are not designed to solve all the financial woes of any state but can help diversify a total package of revenue generation programs.

Government sponsored lotteries have been around from the birth of this nation and have become an integral part of 22 state government's financial support system. Lotteries provide state governments with an acceptable, predictable, voluntary form of revenue generation. Projections for revenue generation in Alaska conservatively range from \$15 million to \$20 million per year.

Lotteries do not prevail on the "poor" or the "less educated" ... every study conducted to date concludes that the above average income and higher than average educated segments of the populations, in states operating lotteries, buy the lions share of lottery products. Lotteries do not increase the incidence of compulsive gambling and do not disrupt the lives of large prize winners. An Alaska lottery would not negatively affect the economies of the states 262 rural communities.

While a politically conservative approach to drafting legislation for authorization of an Alaska lottery is recommended, the experience of states with successful lottery histories and advice of directors of those lotteries should be utilized to maximize the profit potential for this state. The broadest possible latitude must be given the state agency, and board or commission, for operation of the lottery to allow for the flexibility to operate within and adjust to everchanging market conditions.

Recent surveys conclude that the broad cross-section of Alaskan residents would favor the implementation of a state sponsored lottery by two to one margin.

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## INTRODUCTION

This report is intended to provide the reader with general information regarding state operated lotteries. Types of customary lottery games are described and the most common questions about lotteries are answered based on validated research completed by numerous state governments and lottery industry organizations over the past twenty years.

Revenue generation in states currently operating lotteries is examined and comparisons are presented to assist the reader analyze those factors affecting projection of revenue that could be expected from an Alaskan lottery. Among those factors examined are the economic and physical, characteristics of the population of our state, marketing area configurations, and tourist impact on Alaska. A projection of probable profits from a lottery is presented based upon most current population figures, tourist influences and conservative expectations of per capita expenditures on lottery products.

State responsibility for the social affects of government sponsored activities must be of paramount concern to all involved in effecting legislation establishing authority for these activities. The social impact from the operation of a state lottery is discussed and the most current research available is presented.

A brief discussion on implementation and operation of a state lottery is presented from recommendations by several recognized authorities with many years of experience in directing state lotteries.

The conclusions of a November 1985 state-wide opinion poll conducted in Alaska are presented for the readers examination.

## Part I: LOTTERY BASICS

### Nutshell History of Lotteries

Lottery, according to Webster, is "a drawing of lots in which prizes are distributed to the winners among persons buying a chance." The lottery is not an invention of conventional America. Lotteries have been used by kings, emperors and representative governments throughout history to finance building projects or to increase revenues. The first reported government lottery was instituted by Ceasar Augustus to rebuild Rome. In 1612, King James authorized a lottery to help finance the "colonial settlement" which paid the cost of settling Virginia. In 1751 and 1754 Benjamin Franklin helped sponsor a series of "Academic Lotteries" and helped fund the University of Pennsylvania. The Congress of 1776 provided a National Lottery strongly supported by Thomas Jefferson and others of the nation's founding fathers. Some 70 acts were passed by Congress before 1820 authorizing lotteries for the building of schools and roads and other public projects. Lotteries helped erect Harvard, Yale, Brown, Dartmouth, Columbia, Princeton, William and Mary and many of the nations other prestigious academic institutions. Today over 112 countries around the world sponsor government lotteries, including most of Western Europe, Canada, Mexico, and many Central and South American nations. The modern U.S. lottery started in 1964 in New Hampshire.

Thomas Jefferson once said that "Lotteries are a wonderful thing; they tax only the willing." Indeed many states have turned to state-operated lotteries as a means of raising revenue "painlessly." Lotteries are currently legal in the District of Columbia and 22 states - Arizona, California, Colorado, Connecticut, Delaware, Illinois, Maine, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Vermont, Virginia, Washington, and West Virginia; (Puerto Rico and Guam also have lotteries). Well over 50% of the population of the U.S. lives in lottery states.

### Types of Lottery Games

Lottery games can be divided into two category - "active" and "passive." Active games are those in which the player participates in the bet by choosing a number or set of numbers. The winning numbers are drawn completely at random, so the player's choice has no bearing on the outcome of the game. However, many players enjoy active games because they can choose numbers that have some significance to them which gives an added dimension of entertainment and interest. Active games currently offered by the U.S. lottery states include three and four digit numbers games and lotto.

Passive games are those in which the player takes no action to determine whether he has won or lost; a ticket is purchased and the outcome is then revealed. Passive games offered in the U.S. include instant

games, traditional "draw" type lottery games and some subscription games.

The games mentioned above are all easy to play, and none involve any skill. Features of the various games can be described as follows.

#### 1. Draw Lotteries

Though rare in the U.S., this was the original lottery game, and remains the main game in overseas lotteries. Players purchase pre-numbered tickets and wait for a weekly drawing, similar to a raffle. Payouts vary among games, but generally start at around \$5 and cap off at either \$50,000 or in some cases into the hundreds of thousands of dollars and more.

#### 2. The Instant Game

Instant lottery games involve a fixed price for a ticket, usually \$1. The ticket normally has a scratch-off spot to reveal whether or not it is a winner. The advantage of this game is no waiting: the player knows immediately whether or not he has won.

Prizes range anywhere from a free ticket up to hundreds of thousands of dollars. Most lotteries hold some type of grand prize drawing for winners of some lower-tier prizes, the winner of that drawing receiving a prize sometimes as high as \$1 million or \$1,000 a week for life. Most lotteries offer several instant games per year, and grand prize drawings are generally held when a specific game is sold out or otherwise ended.

#### 3. Lotto

A traditional European lottery game in which the player selects four, five or six numbers from a field ranging from 30 to 49, depending on the size of the population of the state.

Payout is parimutuel; i.e. the jackpot is created from money wagered, and the more that people bet, the larger the prize becomes. If no one selects the winning six numbers in any order, the jackpot "rolls over" to the next drawing. If there no winners for a number of weeks the jackpot can become enormous. Prizes can be divided when more than one bet is placed on the same numbers, and many states offer smaller prizes if one chooses most of the correct numbers.

#### 4. Subscription Games

Many lotteries offer subscriptions to their lotto games, allowing the player to select certain numbers, pay a bulk rate, and automatically be issued a ticket for each drawing. The same concept is applied to many draw-type games, and many lotteries offer a stand-alone subscription game that doubles as a weekly draw lottery.

#### 5. Numbers Games

Numbers games have been one of the traditional games of state lotteries since the 1970's. The player selects a three- or four-digit number and places a bet on it, normally starting at \$.50.

The winning number is drawn at a preset time, and the drawing is usually broadcast on television and/or radio. Drawings are held daily for three-digit games, and anywhere from once a week to daily for four-digit games. All but one numbers game in the U.S. offer a

fixed payout for winning numbers, i.e. the payout ratio does not change when more people bet money. Several options for betting combinations are available to play at a variety of predetermined odds and pay-off formulas. Payouts are determined by the amounts bet.

### Questions and Answers about a State Lottery

Are lotteries a good method of raising state revenues?

Not as effective as taxes ... taxation is the most effective way of raising revenues. No responsible person in the industry has ever claimed that lotteries replace broad based taxes. Lotteries are best described as a supplemental revenue source only. Lotteries were never designed to solve tax revenue collection problems - only to assist.

How much revenue will a state lottery produce?

Fiscal year 1985 statistics indicate that total gross lottery sales in the U.S. exceeded \$8.8 billion. This means the average annual state lottery gross revenue was about \$90.00 per capita. A simplified means of predicting a state's likely gross lottery sales is to multiply this number by a state's total population. On the average, about 35 - 40% of gross lottery sales goes to the state as profits from the lottery. (see Pt. II for complete discussion of revenue projections for Alaska)

Is a state-run lottery the answer to the economic problems currently facing Alaska?

Certainly a state-run lottery is not the answer to all the financial needs of the state. At the same time, in many states the lottery has stabilized some of their problems. Connecticut raised \$148,000,000 from its lottery; Pennsylvania, \$572,600,000; Michigan, \$320,000,000; and little old Rhode Island \$18,600,000 in FY 85. All of this revenue is raised voluntarily. Needless to say, there are people who oppose lotteries or gambling in any form. These people are free not to buy tickets.

Are lotteries popular?

Yes. More people participate in state-run lotteries than in any other form of legalized gaming. In present lottery states, 75% of the residents of those states favor the lottery programs. At one time or another 60% of the residents of a lottery state will buy lottery tickets. Recent ballots in four states (California, Oregon, West Virginia, and Missouri) showed an overwhelming acceptance vote (over 60%). Alaskans support the concept of a state operated lottery by a margin of two to one according to a poll completed in November, 1985 by the Dittman Research Corporation of Anchorage (see Pt. V for

complete Dittman Research Corporation report). A survey of voters in AK House District 1 A-B by Rep. Robin Taylor, also completed in November '85, concluded the same level of support for a lottery; 66% of the respondents (from a total of 328) would support a "tightly regulated state operated Lottery Program" in Alaska. Polls taken in other non-lottery states such as Nebraska, Missouri, Florida indicate overwhelming support (two or three to one) for state-run lotteries.

Has any lottery in modern times ever failed ... or failed to show a profit? How are sales doing?

No lottery has ever failed ... or failed to show a profit. Sales are soaring! In 1982 lottery ticket sales exceeded \$4.2 billion .. with lottery profits exceeding \$1.5 billion. In calendar year 1983, sales exceeded \$6.0 billion with profits exceeding \$2.4 billion. In 1984, sales hit \$6.9 billion, generating \$2.8 billion in profits; and in FY 85 gross sales were \$8.8 billion providing an estimated \$3.8 billion in profits for those states with lotteries.

What do states do with their lottery profits?

Most states put their lottery profits into their general funds. However, some states earmark lottery profits for specific purposes. California, Michigan, New Hampshire, New York and New Jersey use their profits to aid education ... Pennsylvania donates its profits for senior citizen programs ... Massachusetts shares its profits with all the towns and cities in the state ... Colorado earmarks some of its profits for parks and recreation.

What happens to the lottery dollar and how does a lottery affect the economy of the state?

Generally, 45¢ to 50¢ of every dollar is returned to ticket buyers in the form of prizes ... 5¢ to 7¢ of every dollar is paid to local merchants as commissions for selling tickets ... about 5¢ to 10¢ of every dollar is used to pay state lottery employees, rent and utility bills for office and warehouse space, to purchase lottery products from established and experienced vendors, to establish a computer system, and promote the lottery ... and the balance, about 35¢, ends up as the profit for the state. Almost all lottery dollars stay in the state.

Are lotteries difficult to administer?

Absolutely not! Modern-day lotteries have been in existence for 20 years (since 1964) and there certainly isn't any "mystery" concerning their operations. Present lottery states are only too happy to share their experiences and their techniques with new entrants into the lottery field. Most states have lottery commissions overseeing their operation. All lotteries have full-time Directors or Executive

Secretaries ... people with extensive backgrounds in lottery operations. Few problems have arisen in the lottery industry during the past twenty years. When problems have arisen the industry has been quick to react. Recent studies indicate that a majority of ticket buyers believe that lotteries are well run and honest. Lottery staff can run from 50 to 150 depending on the size of the state. (see Pt. IV for additional discussion regarding lottery operations)

Where are lottery tickets sold?

Most states license retail establishments that are easily accessible to the public such as drug stores, supermarkets, convenience stores, newsstands and package stores. As a rule of thumb one license is granted for each 1,000 of population. As stated previously, these agents usually receive 5% to 7% of their sales as commissions for selling lottery tickets. In granting licenses lottery agencies will investigate each prospective licensee as to past criminal records ... their financial condition ... their ability to serve the public ... and their general fitness to serve as agents.

Aren't lotteries, for the most part, supported by poor people?

Definitely not! Extensive studies of the state-run lotteries indicate that an overwhelming majority of ticket purchasers are in the middle income ranges. Whereas citizens in the low income ranges buy lottery tickets, they buy fewer tickets proportionately than their percentage of the population. (see Pt. III for complete discussion of social impacts of a lottery on Alaska)

Don't lotteries appeal to the under-educated?

Current demographic information obtained from actual prize claim forms filed with the Washington State Lottery (a perfect sampling of lottery ticket purchasers) show that 65.6% of players are high school graduates or better and that those with less than eight years of schooling play the lottery in far less proportion than they represent in the population. This study's conclusion repeats that of every study of lottery participation conducted in the U.S. over the last twenty years. (see Pt III for complete discussion of social impacts of a lottery on Alaska)

How much money does the average citizen spend on lottery tickets per year?

The "per capita" spending on lottery tickets in 1984 was about \$72.02. Since only about 60% of a state's population is expected to buy tickets, actual expenditures for tickets is about \$120, or about \$2 per week.

How about "organized crime" and lotteries?

There is absolutely no evidence of any state lottery being infiltrated by "organized crime." As a matter of fact some lottery Directors believe that state-run lotteries have taken customers away from illegally-run numbers games. A Connecticut study came to the conclusion that the state's legal games had, in fact, impacted illegal wagering in that state. A 1976 report of the National Gambling Commission stated that 11% of all Americans wager illegally. In lottery states that percentage drops to 6% ... almost a 50% decrease in illegal wagering. Modern day lotteries are run by state governments and there are no avenues available for illegal operators to ply their trade. There is no similarity between state-run lotteries and casino gambling or horse racing. The latter two are usually operated by private individuals or corporations that are licensed by the state. (see Pt. II for additional discussion)

What about the social implications of advocating a form of legalized gambling as a method of raising revenue?

People have been known to gamble for thousands of years and will continue to gamble. Most sociological studies (and there are many) have concluded that state-run lotteries are a "harmless" form of legalized gambling. A comprehensive, independent, state-commissioned study completed in 1981 concerning Connecticut's legalized gambling programs gave the state "a clean bill of health" ... "no increase in welfare cases, no increase in bankruptcies, no increase in compulsive gambling, and no increase in unemployment." Newsweek concluded an article on gambling in its March 3, 1980 issue by stating: "The only games that apparently pose no real threat of addiction are state lotteries. That is because they don't have enough action." (again, see Pt. II for further comment on social implications of lotteries)

## PART II: ALASKA LOTTERY INCOME

### Alaska Compared to Current Lottery States

Consideration of an Alaska state operated lottery always prompts the question of how much profit could the state generate on an annual basis. A responsible answer to this question is dependent on many factors and requires careful consideration. Because lotteries are businesses operated for a profit, they are dependent upon the same factors that affect other businesses. These basic marketing factors must be studied to determine if Alaska has those characteristics indicative of lottery success. To date there has been no in-depth analysis of the characteristics which are generally present in states currently operating successful lotteries and the degree to which these characteristics exist in Alaska. The following discussion provides, for the first time, this analysis.

Since every state lottery has always produced a profit, it could be said that all are successful. However, as Table 1 indicates, some states are more successful than others; that is some states produce both a higher net profit and a higher per capita profit from their lotteries. A review of the marketing conditions of the lottery states quickly reveals why some are more successful than others. These factors are:

1. The economic characteristics of the population of the state,
2. The physical characteristics of the population of the state (age, sex, education level, etc.),
3. The population concentration/dispersion patterns for the state.
4. Unique conditions usually affecting a particular state or region (neighboring state's lotteries, high volume of non-resident traffic, etc.)

Table 1-II lists the 18 states which have operated lotteries for over one year and the income generated for the years 1981-1985. Gross, net and per capita income has been presented from available sources. Because of the tremendous variation in the size of the population of the states listed a comparison of gross or net lottery income does little to help determine which states are successful and which are not. The key measure of just how successful a state has been in operation of its lottery is the per capita profit to the state. A sound per capita measure will also be of most help to project the possibilities for Alaska. As can be seen, Maryland is the most successful and Vermont is the least successful in per capita income of all 18 states.

Those top five states experiencing the most success with lotteries in 1983 thru 1985 were Maryland, New Jersey, Pennsylvania, Connecticut, Colorado ('83), Wash. D.C. ('84 & '85), and Massachusetts ('85). Those states with the least successful record with regard to per capita income were Vermont, Maine, New Hampshire, Arizona, Ohio ('83), Colorado ('84) and Rhode Island ('85). Colorado ranked in the top five for 1983 and in the bottom five states in 1984 and 1985.

Table 1-II

## STATES LOTTERY INCOME

State	1981 <sup>a</sup>		1982 <sup>b</sup>		1983 <sup>a</sup>				1984 <sup>a</sup>				1985 <sup>c</sup>		
	\$Mil Gross	\$Mil Gross	\$Mil Net	\$Mil Gross	\$Mil Net	\$ Per Capita	Rnk*	\$Mil Gross	\$Mil Net	\$ Per Capita	Rnk*	\$Mil Net	\$ Per Capita	Rnk*	
AZ				75.0	30.0	11.04	15	60.0	18.0	6.62	15	22.0	8.09	14	
CO				108.0	72.8	25.19	4	120.0	40.7	14.08	14	32.0	11.77	13	
CT	515.1	169.8	71.0	188.0	75.2	24.20	5	254.4	105.4	33.92	5	148.8	47.88	6	
DW	20.1	25.6	9.5	29.8	11.0	18.51	10	33.0	14.0	23.56	9	15.0	25.24	11	
DC				54.1	14.2	22.25	7	68.2	21.7	34.00	4	29.7	49.97	3	
IL	206.1	334.8	142.9	467.0	214.4	18.76	9	911.9	377.1	33.00	6	517.8	45.31	7	
MN	6.4	9.7	2.4	13.7	3.3	2.93	17	16.0	4.5	4.00	17	4.4	3.91	17	
MD	385.6	457.4	199.0	462.8	198.5	47.07	1	435.5	209.2	49.61	1	263.7	62.53	1	
MA	224.0	279.8	92.5	352.0	97.3	16.33	11	506.1	169.1	29.48	7	284.0	49.50	4	
MI	502.3	527.3	205.6	557.6	221.2	23.88	6	620.0	250.0	26.99	8	320.0	34.55	9	
NH	11.0	12.4	3.6	13.6	3.7	4.02	16	18.7	5.7	6.19	16	4.3	4.67	15	
NJ	417.0	517.8	220.3	690.1	295.0	40.06	2	847.8	359.7	48.84	2	388.0	52.68	2	
NY	236.2	424.9	179.8	646.9	262.4	14.94	13	888.7	389.8	22.20	11	615.0	35.03	8	
OH	295.9	363.9	144.0	397.7	144.8	13.41	14	603.0	250.0	23.15	10	338.0	31.30	10	
PN	427.0	562.2	227.1	885.4	335.4	29.96	3	1,236.0	516.3	43.52	3	572.6	48.26	5	
RI	36.2	38.0	13.7	44.0	15.0	15.84	12	52.9	18.4	19.43	12	18.6	4.42	16	
VT	2.5	3.8	.9	4.6	1.1	2.15	18	5.1	1.3	2.54	18	1.2	2.35	18	
WA				225.0	90.0	21.78	8	164.6	71.0	17.18	13	58.8	14.23	12	
Mean	234.7	266.2	108.0	295.3	115.9	19.57		382.9	156.8	24.35		201.9	29.53		
Median	258.8	265.5	114.	445.0	168.3	24.61		620.6	258.8	26.08		286.9	27.52		

\* Lottery states ranked by highest per capita income first (#1).

<sup>a</sup> Lottery Journal; Vol. 1, No. 1.

<sup>b</sup> Games and Wagering Business; May 1985.

<sup>c</sup> "USA Today"; 9/12/85.

Table 2-II provides a comparison of Alaska to all states which have lotteries or are in the process of starting lotteries, with regard to income levels and physical characteristics of the populations within these states. These comparisons have been illustrated for those factors generally considered to be indicators of positive characteristics for the operation of a profitable lottery. States are ranked in descend order for each category of economic and physical characteristics of their population. Rankings for Table 2-II have been made from information contained in Tables 3-II and 4-II, for which specific values for rankings can be ascertained.

Columns A-G contain economic comparisons for the 21 states involved in this analysis. The ranking is straight-forward, the state with the highest income figure for each category is ranked first, for each of these columns except for columns D and E. Columns D and E are reversed, with the state with the lowest income figure for this category ranked first. For example, Alaska has the lowest percentage of its population in the \$0 to \$10,000 household income category. Since lottery participation by the lower income groups is less than their proportion to the population in general the state with the lowest percentage of its population in this group should be ranked first. The same reasoning has been applied to column E.

For all categories of income measures indicating ability to operate a profitable lottery, Alaska ranks first. In addition, those states with a record for operating the most successful lotteries (see Table 1-II) rank with Alaska in the top one-third of states compared in Table 2-II, (Pennsylvania an exception). Those least successful lottery states (see Table 1-II) fall at the opposite end of the spectrum from Alaska.

An analysis of personal, family and household income, comparing Alaska to other lottery states indicates that Alaska should expect to be able to operate a profitable lottery.

Column H compares Alaska and the current lottery states as to how urban their population is. History has shown that state operated lotteries generally are more successful in urban versus rural states. States rank from first, Washington D.C., with a 100% urban population, to last, Vermont, with a 33.8% urban population. The percentage of Alaska population living in urban areas is 64.3%; this is 35.7 percentage points below D.C. and 30.5 percentage points above Vermont.

The rank order in column H is less conclusive than the percentage point differences between the states. This is confirmed by the fact that each of the top five most successful lotteries are represented in the highest, middle and lowest one-third of the order. The closest state (with an income history) to Alaska in its percentage of urban population is the third most successful lottery state Pennsylvania, with 69.3%. Those least successful lottery states, Vermont, Maine and New Hampshire, have the most rural populations by far. Contrary to the belief of many, that we in Alaska live in remote areas, the large majority of our population lives in urban areas, and, according to the Alaska Department of Labor we are becoming more urban each year.

Alaska's population grew by 30% in the 2.25 years between 5/1/80 and 7/1/84 and 90% of that growth was in the Anchorage, Kenai Penn., Mat-Su, Fairbanks, and Juneau Boroughs.

Again, Alaska appears to be in a favorable situation for probable lottery success when considering its percentage of urban population.

Column I of Table 2-II illustrates the ranking of lottery states and Alaska for their population mix of males to females. Numerous studies of lottery players indicate that more males than females play lottery games. (see Pt. III) Alaska leads all states in the number of males to 100 females, with a total of 112 (Table 4-II). A significant point here is that all lottery states, except Washington D.C., have between 90 and 99 males for every 100 females. This large difference between Alaska and other lottery states is a factor in support of being able to implement a successful lottery.

Column J presents a ranking of the percentage of populations over eighteen years of age. Alaska's population is youngest compared to those in lottery states. However, information from Table 4 indicates that the percentage of population eighteen and older for lottery states (excluding DC at 77.5%) ranges from a high of 74.0% (RI) to a low of 70.3% (MI). Alaska's eighteen and older population makes up 67.5% of its total population. Two points need to be made here; first the difference between Alaska's percentage and that of the more normal lottery states is not significantly large; and Alaska, like Washington D.C., is subject to peculiar circumstances. Alaska has the lowest percentage of elderly population in the nation (2.8% compared to a U.S. average of 11.8%<sup>1</sup>), this reduces our percentage of eighteen and older population. This second point is actually a positive characteristic for lottery success in Alaska since the elderly play lotteries in numbers less than their proportion to the total population. Although the total percentage of eighteen and older population is lower than other lottery states, the percentage of age levels that play lotteries the most, is higher than this 67.5% figure. This conclusion Washington D.C. has the highest percentage of female population in the nation due to occupational opportunities there.

Columns K and L of Table 2-II provide a comparison of Alaska and the lottery states regarding the education levels for their populations. Studies of lottery players indicate that the typical player has more education than the average for the total population. (see Part III) Again Alaska ranks first with the highest percentage of its population having more than 12 years of school, and third highest for the percentage of its population with 16 or more years of education.

Alaska's ranking in all of the categories examined in Table 2-II are high and indicate, that from the basis of this information, Alaska would be successful if it implemented a lottery. That is, Alaska could expect to generate for its general fund, a level of revenue per capita on a par with the most successful lotteries now in operation.

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<sup>1</sup> Alaska Department of Labor, Research and Analysis, (Draft) Alaska Population Overview, 1985; Chapt. II.

TABLE 2-II

LOTTERY STATES DEMOGRAPHIC COMPARISONS REGARDING POSITIVE CHARACTERISTICS  
FOR OPERATION OF PROFITABLE LOTTERY

Rank	A Personal Income/ Capita	B Median Family Income	C Median Hsehd Income	D % of Hsehd \$0-10K	E % of Hsehd \$10-20K	F % of Hsehd \$30-40K	G % of Hsehd \$40K +	H % Pop Urban Areas	I Male/ 100 Female	J % Pop over 18 Yrs Old	K % Pop w/ 12+ Yrs Sch	L % Pop w/ 16+ Yrs Sch
1	AK	AK	AK	AK	AK	AK	AK	DC	AK	DC	AK	DC
2	DC	CT	MD	MI	MD	MD	MD	CA	WA	RI	CO	CO
3	CT	MD	CT	CT	NJ	NJ	CT	NJ	CO	MA	WA	AK
4	NJ	NJ	NJ	NJ	IL	MI	NJ	RI	CA	PN	OR	CT
5	CA	IL	IL	IL	MO	CT	DC	NY	OR	CT	CA	MD
6	IL	MI	MI	CO	CT	IL	CA	AZ	AZ	NY	AZ	MA
7	NY	WA	WA	MI	CA	WA	IL	MA	MI	CA	NH	CA
8	MD	CA	CA	WA	WA	CA	MI	IL	NH	NJ	MA	WA
9	WA	CO	CO	CA	NY	CO	CO	CO	VT	OR	VT	VT
10	CO	MA	DW	NH	MA	OH	DW	MD	MN	WA	CT	NJ
11	MA	OH	OH	DW	DW	MA	NY	CT	IL	MD	MN	NH
12	DW	VA	MA	OH	DC	DW	RI	WA	MD	CO	DW	NY
13	MI	NY	NH	MA	OH	NY	WA	OH	OH	DW	MI	OR
14	PN	OR	PN	PN	CO	OR	MA	MI	CT	NH	MD	DW
15	OH	PN	OR	OR	OR	PN	OR	DW	DW	IL	NJ	AZ
16	RI	NH	NY	AZ	PN	AZ	OH	PN	NJ	VT	DC	IL
17	NH	RI	AZ	NY	RI	NH	AZ	OR	PN	MN	OH	RI
18	OR	DC	RI	DC	AZ	DC	PN	AK	RI	OH	IL	MN
19	AZ	AZ	VT	RI	NH	RI	NH	NH	MA	AZ	NY	MI
20	VT	VT	MN	VT	MN	VT	VT	MN	NY	MI	PN	OH
21	MN	MN	*	MN	VT	MN	MN	VT	DC	AK	RI	PN

\* District of Columbia omitted from this column by source; not a state.

Source: TABLE 3-II, & TABLE 4-II.

Column Explanations:

A, B, & C. First ranked (#1) state has highest income for category; last ranked (#21) has lowest income for category of lottery states.

D & E. First ranked (#1) states have lowest percent of households in income category; last ranked (#21) states have highest percent of households in income category.

F & G. First ranked (#1) states have highest percent of households in income category; last ranked (#21) states have lowest percent of households in income category.

H. First ranked state has highest percent of population living in urban areas.

I. First ranked state has the highest number of males per 100 females.

J, K, & L. First ranked states have the highest percent of population in each category.

Table 3-II

## INCOME CHARACTERISTICS OF POPULATIONS IN LOTTERY STATES AND ALASKA

	Personal Income 1981				Money Income 1979									
	Total (Mil \$)	Per Capita (\$)	Trnsfr. Pymnts. (Mil \$)	Median Family Income (\$)	Household Income						Median (\$)	Rrk.	Per Capita (\$)	Pov. Level Fam. (%)
					Percent Within									
				Less than \$10K	\$10K to \$20K	\$20K to \$30K	\$30K to \$40K	\$40K to \$50K	\$50K and Over					
New England														
Maine	9,662.7	8,530	1,748.2	16,167	34.9	35.7	19.3	6.4	1.9	1.8	13,816	46	5,768	9.8
New Hampshire	9,367.3	10,013	1,208.3	19,723	26.3	33.2	23.6	10.0	3.6	3.4	17,013	21	6,966	6.1
Vermont	4,498.7	8,727	699.3	17,205	31.8	35.7	19.6	7.6	2.7	2.6	14,790	37	6,178	8.9
Massachusetts	64,243.9	11,128	9,423.4	21,166	27.7	28.8	22.5	11.3	4.9	4.7	17,575	19	7,458	7.6
Rhode Island	9,678.0	10,155	1,657.6	19,448	30.7	31.0	21.9	9.4	3.6	3.3	16,097	29	6,897	7.7
Connecticut	40,131.1	12,805	4,410.6	23,149	22.2	27.6	24.1	13.1	6.0	7.0	20,077	4	8,511	6.2
Middle Atlantic														
New York	201,707.2	11,460	30,386.4	20,180	30.4	28.4	20.8	10.6	4.7	5.2	16,647	26	7,498	10.8
New Jersey	90,001.3	12,156	11,460.8	22,906	23.8	26.7	23.0	13.4	6.3	6.7	19,800	6	8,127	7.6
Pennsylvania	123,056.8	10,366	20,583.8	19,995	28.6	30.6	22.9	10.2	4.0	3.7	16,880	22	7,077	7.8
East North Central														
Ohio	111,186.4	10,313	15,978.2	20,909	26.9	29.5	24.0	11.4	4.4	3.8	17,754	15	7,285	8.0
Illinois	132,638.0	11,572	17,003.6	22,746	25.0	26.7	23.5	13.1	5.8	5.9	19,321	7	8,066	8.4
Michigan	99,016.6	10,758	14,244.3	22,107	25.6	26.4	23.5	13.3	5.9	5.3	19,223	8	7,688	8.2
South Atlantic														
Deleware	6,643.5	11,102	836.1	20,817	26.5	29.3	22.7	11.2	5.1	5.1	17,846	13	7,449	8.9
Maryland	48,821.9	11,452	6,332.6	23,112	22.1	27.1	23.1	14.0	6.8	6.9	20,281	3	8,293	7.5
Wash. D.C.	8,522.8	13,509	1,916.2	19,099	30.5	29.4	17.6	9.6	5.2	7.7	16,211	X	8,960	15.1
Mountain														
Colorado	33,257.4	11,216	3,680.6	21,279	25.4	29.9	23.0	11.6	5.1	5.1	18,056	12	7,998	7.4
Arizona	27,285.8	9,765	4,008.1	19,017	28.8	31.3	21.8	10.1	4.1	4.0	16,448	27	7,041	9.5
Pacific														
Washington	47,546.4	11,274	6,521.9	21,696	26.0	28.4	23.6	12.2	5.0	4.7	18,367	9	8,073	7.2
Oregon	26,528.8	10,009	4,042.0	20,027	28.7	30.5	22.3	10.5	4.0	3.9	16,780	24	7,557	7.7
California	289,583.8	11,968	38,308.8	21,537	26.3	28.1	21.5	12.1	5.7	6.4	18,243	10	8,295	8.7
Alaska	5,660.7	13,749	500.2	28,395	18.3	21.2	18.4	15.1	11.3	15.7	25,414	1	10,193	8.6

Source: U.S. Bureau of Census, County &amp; City Data Book, 1983

Table 4-II

## PHYSICAL CHARACTERISTICS OF POPULATIONS IN LOTTERY STATES AND ALASKA

	Land Area (Sq Mi)	Total Persons	Urban (%)	Males Per 100 Females	18 Yrs and Older	Median Age	Total House- holds	College Enroll- ment	1980		
									25 Years and Older		
									Total	Yrs of Sch	
		12+	16+								
			(%)	(%)							
New England											
Maine	30,995	1,124,660	47.5	94.4	803,273	30.4	395,814	45,764	661,840	68.7	14.4
New Hampshire	8,993	920,610	52.2	95.0	662,528	30.1	323,493	50,344	541,953	72.3	18.2
Vermont	9,273	511,465	33.8	94.9	366,138	29.4	178,325	29,703	295,051	71.0	19.0
Massachusetts	7,824	5,737,037	83.8	90.8	4,246,648	31.2	2,032,717	415,897	3,463,256	72.2	20.0
Rhode Island	1,055	947,154	87.0	91.0	704,303	31.8	338,590	64,128	575,243	61.1	15.4
Connecticut	4,872	3,107,576	78.8	93.1	2,284,657	32.0	1,093,678	177,255	1,900,164	70.3	20.7
Middle Atlantic											
New York	47,377	17,558,072	84.6	90.5	12,870,209	31.9	6,340,429	1,076,133	10,721,012	66.3	17.9
New Jersey	7,468	7,364,823	89.0	92.2	5,373,962	32.2	2,548,594	384,885	4,504,247	67.4	18.3
Pennsylvania	44,888	11,863,895	69.3	91.2	8,740,599	32.1	4,219,606	550,786	7,240,244	64.7	13.6
East North Cent.											
Ohio	41,004	10,797,630	73.3	93.5	7,703,310	29.9	3,833,828	514,101	6,291,667	67.0	13.7
Illinois	55,645	11,426,518	83.3	94.0	8,183,481	29.9	4,045,374	617,759	6,678,759	66.5	16.2
Michigan	56,954	9,262,078	70.7	95.2	6,510,092	28.8	3,195,213	531,671	5,254,040	68.0	14.3
South Atlantic											
Delaware	1,932	594,338	70.6	93.1	427,743	29.8	207,081	34,286	344,657	68.6	17.5
Maryland	9,837	4,216,975	80.3	94.0	3,049,445	30.3	1,460,865	256,872	2,499,096	67.4	20.4
Wash. D.C.	63	633,333	100.0	86.1	494,842	31.1	253,143	59,302	398,653	67.1	27.5
Mountain											
Colorado	103,595	2,889,964	80.6	98.5	2,081,151	28.6	1,061,249	179,073	1,663,891	78.6	23.0
Arizona	113,505	2,718,215	83.8	96.9	1,926,728	29.2	957,032	179,503	1,558,891	72.4	17.4
Pacific											
Washington	66,511	4,132,156	73.5	98.7	2,992,796	29.8	1,540,510	243,004	2,439,417	77.6	19.0
Oregon	96,184	2,633,105	67.9	97.0	1,910,048	30.2	991,593	149,400	1,579,841	75.6	17.9
California	156,299	23,667,902	91.3	97.2	17,278,944	29.9	8,629,866	1,720,087	14,043,986	73.5	19.6
Alaska	570,833	401,851	64.3	112.8	271,106	26.1	131,463	18,778	211,397	82.5	21.1

Source: U.S. Bureau of Census; County &amp; City Data Book, 1983

So far we have only looked at the first two marketing conditions listed above; the economic and physical characteristics of the population of Alaska in relation to other lottery states. The third marketing condition needing examination is how the population of Alaska is concentrated and/or dispersed.

Alaska is unique in its vastness with over one-half million square miles of land, 3.7 times the area of the next largest lottery state, California, and 541 times the size of Rhode Island, the smallest lottery state (excluding DC). However, as we saw in Table 2-II, Alaska is quite urban; twice as urban as Vermont, and only 36% less urban than Wash. D.C. with 100% of its population living in urban areas. When we examine the degree to which the population in Alaska is concentrated we find that there exists similarities with some of the other lottery states. These states are the relatively large western states of Arizona, Colorado, Oregon and Washington. Table 5-II and maps of these states following Table 5-II illustrate this similarity in population concentration in marketing terms.

As Table 5-II illustrates, each of these states has one marketing area which contains approximately one-half of the states total population. This area has been identified as the primary marketing area for that state. In addition, each of these states has from one to three other major marketing areas within the state which, when combined with the primary marketing area, contain approximately 80% of the state's total population. The conclusion made from this comparison is that these states would be reasonable candidates to use as a comparative model to help predict possible revenue levels for the Alaskan lottery.

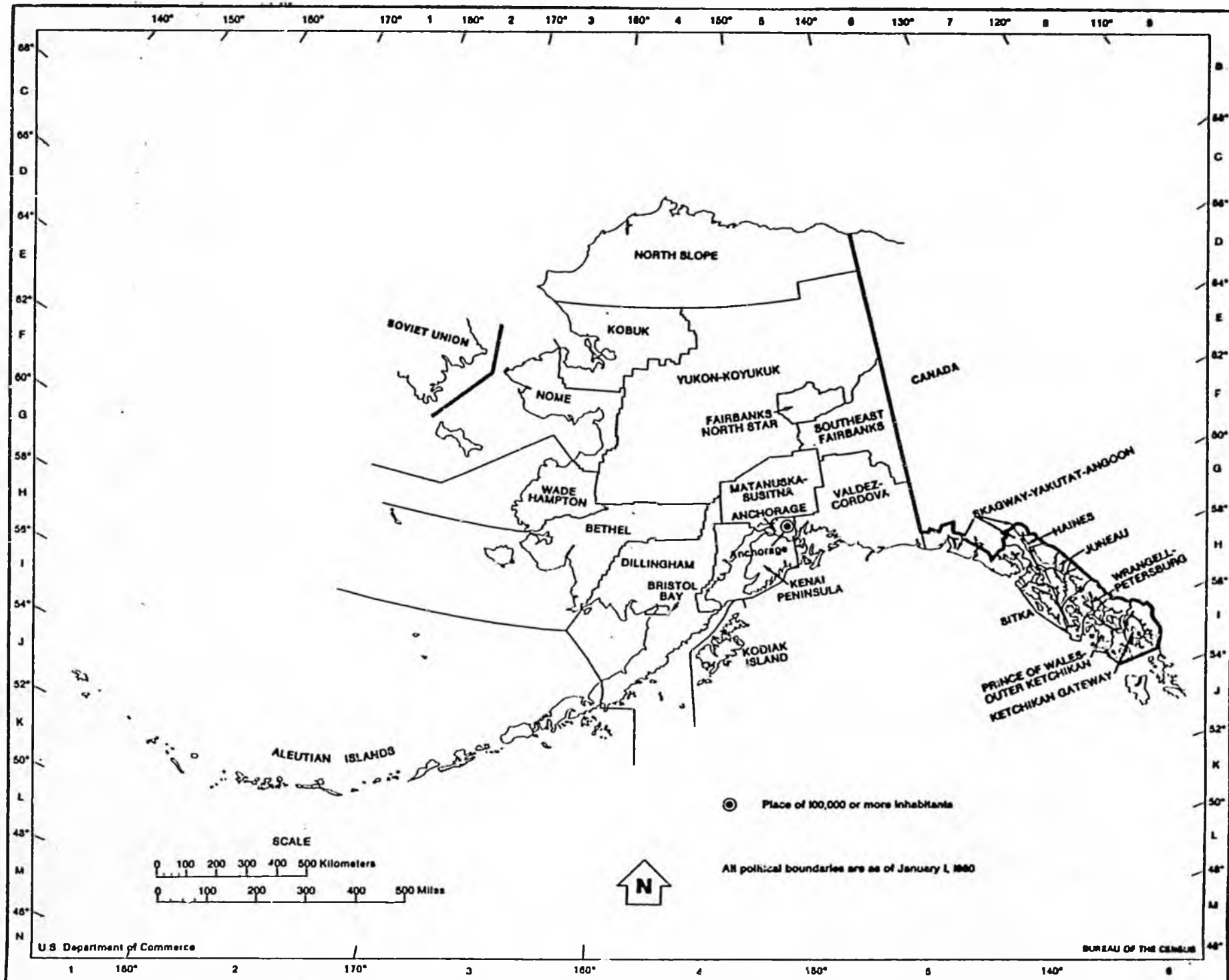
The three western states with lottery history at this time are Arizona, Colorado and Washington. Of these states the most similar to Alaska is Colorado, with the same pattern of population concentration (one primary marketing area and two additional major marketing areas). Colorado is also a very close match with its percentages of total population in these marketing areas very similar to Alaska's.

Also included is a map of Vermont, a state often used as an example to compare with Alaska for projections of lottery revenue because its total population size is similar to Alaska's. Three factors should be considered to illustrate why Vermont is not a reliable example for this comparison. Note that although Vermont's population is about the same as Alaska's, there is only one city, Burlington, with over 25,000 people. Also note that 66.2% of Vermont's total population lives in rural settings (Table 4-II); only 35.7% of Alaska's population lives in rural settings (Table 4-II). Vermont lacks the population concentration/s necessary for effective marketing of lottery products. Last, note that Vermont is surrounded by larger lotteries of New Hampshire, Massachusetts, New York and Quebec; Vermont residents have until recently been able to easily access all of these high prize lotteries.

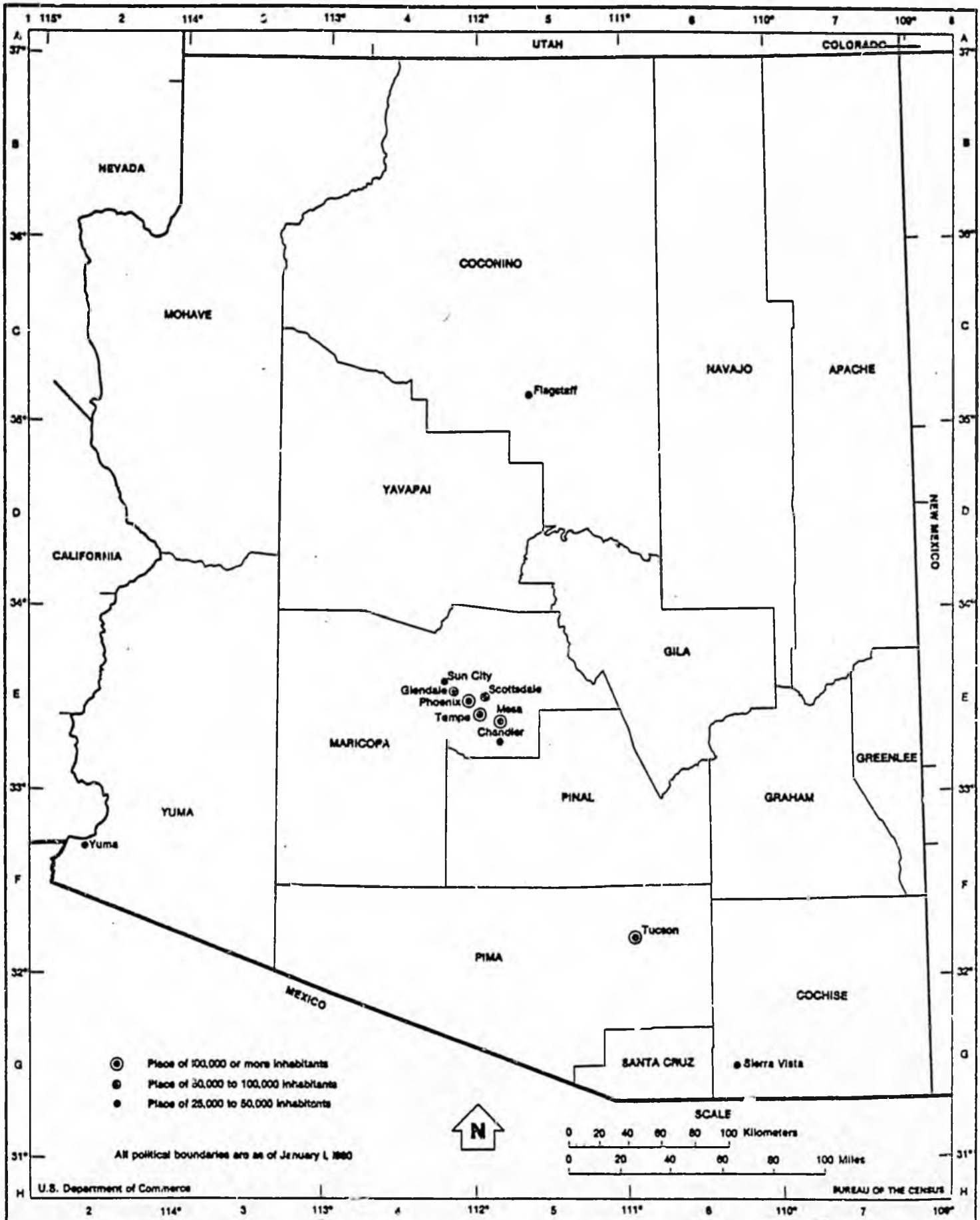
Table 5-II  
WESTERN LOTTERY STATES MARKETING AREAS COMPARISON  
(1980 U.S. Census Data)

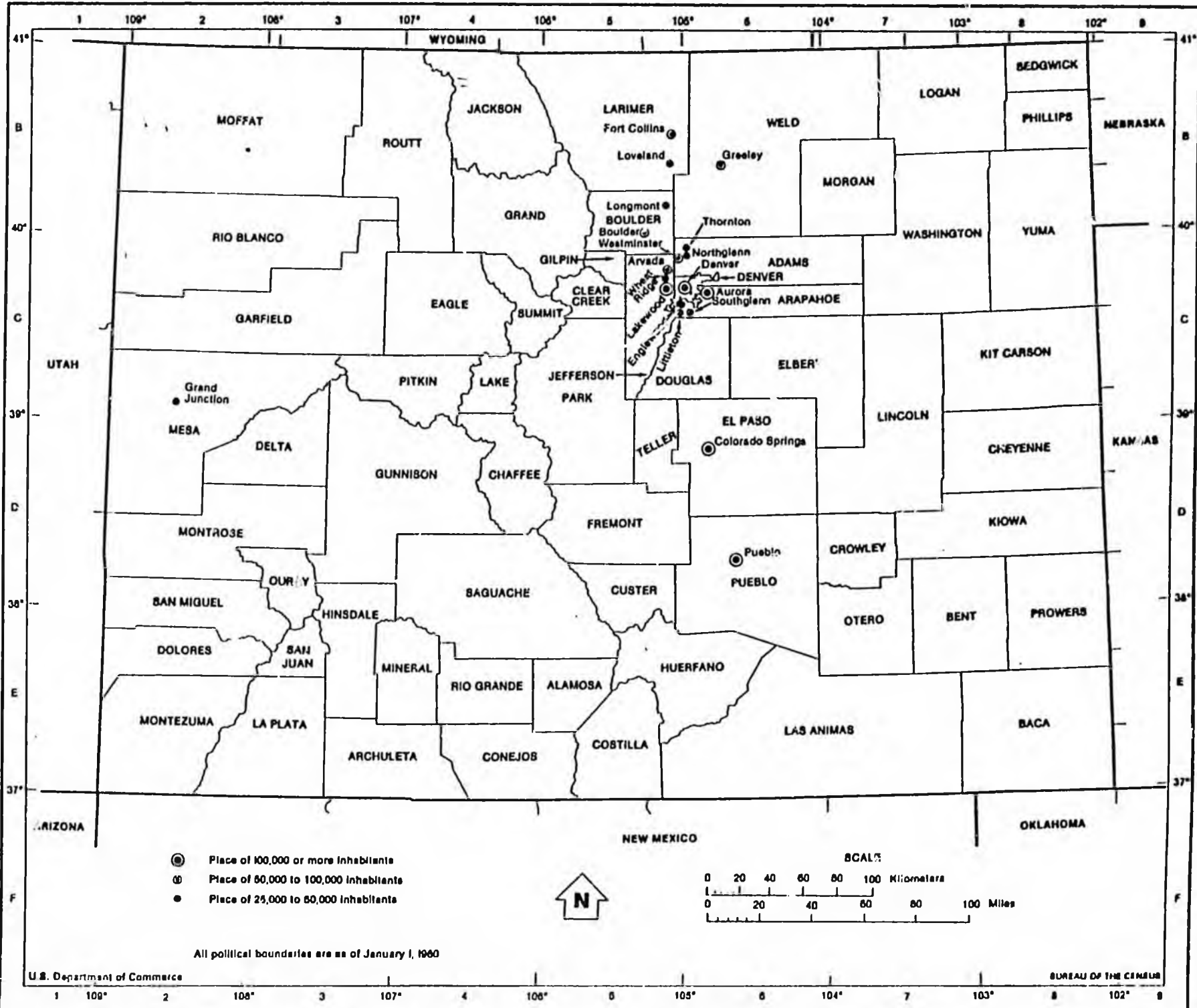
State	County	Total Pop	Prim Mkt Area Pop	PMA % of St	Maj Mkt Area Pop	MMA % of St
AK	Anchorage	174,431				
	Mat-Su	17,816				
	Kenai Pen.	25,282	217,529	<u>54.1</u>		
	Fbnks-NS	53,983				
	Juneau	19,528				
	Ketchikan	11,316				
	Sitka	7,803				
Wrang-Pet	6,167				316,326	<u>78.7</u>
AZ	Maricopa	1,509,052				
	Pinal	90,918	1,599,970	<u>58.9</u>		
	Pima	531,443			2,131,413	<u>78.4</u>
CO	Denver	492,365				
	Adams	245,944				
	Arapahoe	293,621				
	Douglas	25,153				
	Boulder	189,625				
	Jefferson	371,753	1,622,461	<u>56.1</u>		
	El Paso	309,424				
	Pueblo	125,972				
Larimar	149,184					
Weld	123,438				2,330,479	<u>80.6</u>
WA	King	1,269,749				
	Kitsap	147,152				
	Pierce	485,643				
	Snohomish	337,320				
	Thurston	124,264	2,364,128	<u>57.2</u>		
	Clark	192,227				
	Spokane	341,835				
	Yakima	172,508				3,070,698
OR	Clackamas	241,919				
	Multnomah	562,640				
	Washington	245,808				
	Marion	204,692	1,255,059	<u>47.7</u>		
	Lane	275,226				
	Linn	89,495				
	Benton	68,211				
	Jackson	132,456				1,820,447

Source: U.S. Census Bureau; County & City Data Book, 1983

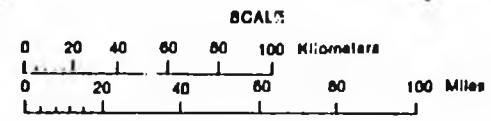


# Arizona



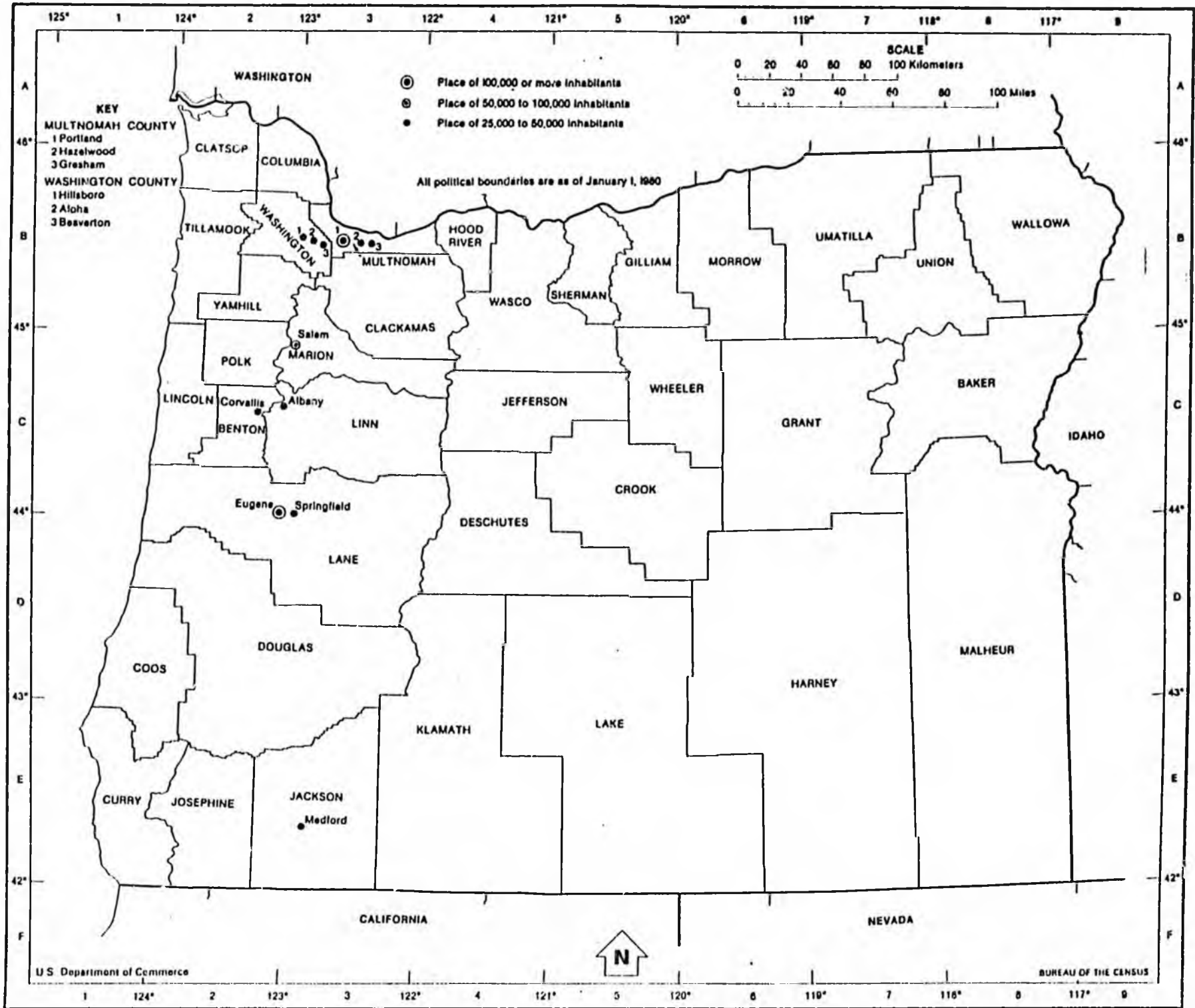


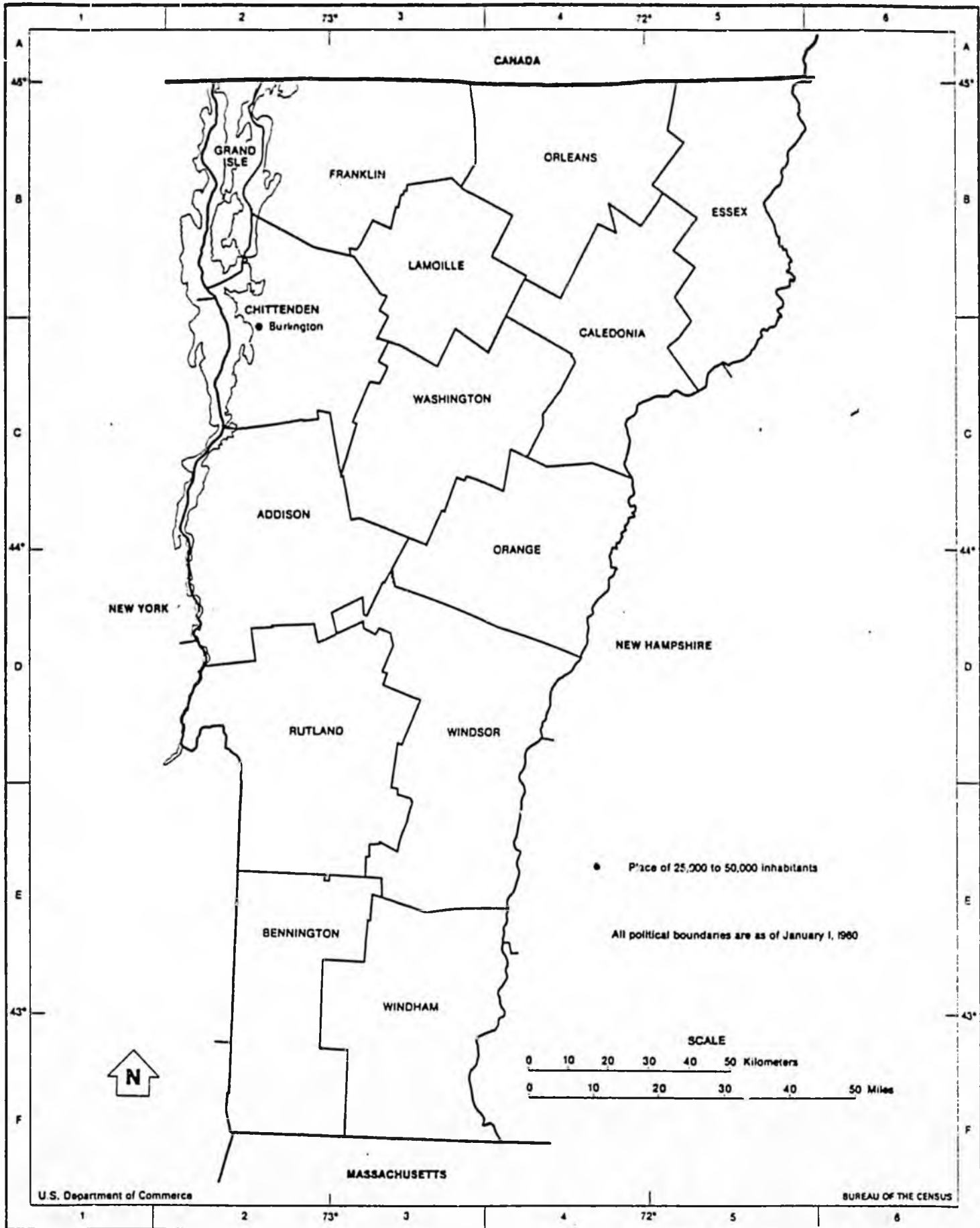
- Place of 100,000 or more inhabitants
- ⊙ Place of 50,000 to 100,000 inhabitants
- Place of 25,000 to 50,000 inhabitants



All political boundaries are as of January 1, 1960







The fourth, and last, marketing factor listed above was that of unique conditions affecting a particular market. There are several obvious and some not-so-obvious conditions present in some of the currently operating lottery states which impact their sales.

Small states with large populations in the East have an advantage over large less populated states with regard to the physical marketing of their lottery product.

People in the northeastern states have experienced a long history of exposure to illegal lottery type games and are therefore familiar with the concept. They do not have to be educated about how lotteries are played.

Those least successful lottery states of Vermont, Maine, New Hampshire and Rhode Island are surrounded by the neighboring giant lottery states of Pennsylvania, Massachusetts, Connecticut, New York and New Jersey. The convenience of buying lottery tickets from the large lotteries, with large prize structures, is such that many resident players from these smaller states choose to buy out of state. Why spend \$1 on a chance to win \$500,000, when the same \$1 will buy a chance to win several million dollars? This will likely change in the near future with the implementation of the Tri-State Lottery partnership of Maine, Vermont and New Hampshire, and the recent (May '85) reversal in federal law interpretation by the U.S. Postal Service resulting in a ban on subscription lottery sales across state lines.

Alaska is unique in the fact that it experiences a tremendous annual influx of tourists, in comparison to its resident population estimated to reach 533,000 in 1985<sup>2</sup>. This tourist influx is large in the sense of its total volume, 776,600 projected for CY 86<sup>3</sup>, and as percentage of the resident population, 147.5%. In addition to the number of tourists, a significant number of airline and cruise ship crews, a total of 6,000<sup>4</sup>, are effectively part-time residents of the state. This situation is unique to Alaska, and of the lottery states only Colorado experiences a similar condition, although to a much lesser degree. These additional people would affect lottery sales Alaska in a positive direction.

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<sup>2</sup> Alaska Department of Labor, Research and Analysis, (Draft) Alaska Population Overview, 1985: "If the in balance of migration to Alaska during 1984-85 were to be zero, which seems unlikely, the 1985 population of the state should reach 533,000 due to natural increase alone."

<sup>3</sup> Alaska Department of Commerce and Economic Development, Division of Tourism.

<sup>4</sup> The McDowell Group (cruise ship crews), and telephone survey of major Anchorage hotels (airline crews).

### Alaska Compared to Colorado

Information contained so far in this discussion provides a basis for reasonable conclusions regarding a method to estimate probable net revenue for an Alaskan lottery. Although Alaska shares similarities with the most successful lottery states (economic and physical composition of its population), our population size does not reasonably allow for a direct comparison with these states. Likewise, although our population size compares with some of the least successful lottery states, other marketing factors; our degree of urban versus rural population, our degree of population concentration, the lack of accessible neighboring lotteries, and the economic and physical composition of our population; does not allow for a direct comparison with these states.

One lottery state, with a three year lottery income history, does have a number of similar characteristics to Alaska and qualifies as a reasonable model for generating revenue projections. Colorado is similar to Alaska in more aspects than any of the other lottery states.

A review of Table 2-II and the discussion pertaining to it illustrates that Colorado provides a basis for conservative comparisons from a per capita, family and household economic perspective. It provides for a very close comparison from the perspective of educational level of the populations. And when including the information from Table 5-II with columns H, I and J from Table 2-II, Colorado is a good match with Alaska regarding comparisons of the urban nature and population concentration patterns of the two states, as well as the male to female ratio and population over eighteen years of age factors.

### Alaska Lottery Income Projections

Using an average of Colorado's last three years per capita net income, \$17.01 (Table 1-II), as a probable per capita income for Alaska will give a reasonable, conservative estimate for annual profit from an Alaskan lottery.

A second projection, using an average median per capita income from all lottery states for the last three years, \$26.07 (Table 1-II), will provide a second, possibly less conservative and more simplified projection for Alaska.

A population factor of 730,000 for Alaska has been determined to be most useful for computing a probable FY 87 net profit, should Alaska implement a state operated lottery by July, 1986. This population factor is based on the assumption that tourists to the state would play a lottery with much more frequency than the average for the state. Tourists are here to be entertained and they have the money to spend (82% of the visitors to Alaska in 1983 had household incomes over \$20,000, 25% over \$60,000<sup>4</sup>). However, since tourists are in the state for an average of only 16.8 nights (this represents more than

10.8 million person-nights per year spent in the state)<sup>5</sup> a factor must be based on their short duration here. Therefore, an assigned factor of .25 is used as an approximation of their lottery play, compared to residents with a factor of 1.0. Likewise a factor of .50 is used to approximate the frequency of lottery play by crews from the airlines and cruise ships, who spend about one-fourth of the year in Alaska.

We now have enough information to compute a projection for an annual profit from operation of an Alaskan lottery.

<u>Population Base</u>	<u>Number</u>	<u>Factor</u>	<u>Total</u>
Alaska Total Population (Est. 1985):	533,000	x 1.00	= 533,000
Alaska Tourist Volume (Est. 1986):	776,600	x .25	= 194,150
Cruise Ship and Airline Crews (1985):	6,000	x .50	= <u>3,000</u>
Total Effective Population			730,150

Using this "effective population" figure and the two per capita profit amounts, one from Colorado (\$17.01) and the other from a national average (\$26.07), an expected range of total net revenue for Alaska can be determined.

1. Alaska Total Effective Population	730,150
Colorado '83-'85 Average Per Capita Profit	<u>x \$17.01</u>
Estimated Alaska Net Revenue (low)	<u>\$12,419,851</u>
2. Alaska Total Effective Population	730,150
National '83-'85 Average Per Capita Profit	<u>x \$26.07</u>
Estimated Alaska Net Revenue (high)	<u>\$19,035,011</u>

An Alaska lottery could expect to generate between \$12.4 and \$19.0 million in FY 87.

This low end estimate, \$12.4 million, is a very conservative figure when we consider that it is based on the Colorado lottery which is restricted to only operating instant games. A parallel comparison to this restriction would be to restrict a jewelry store to only selling gold jewelry. There is a large market for gold jewelry, but it's only a percentage of the total market.

The high estimate, \$19.0 million, is a fairly realistic estimate, and is only dependent on how freely the enabling legislation for an Alaska lottery allows it to respond to the market.

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<sup>5</sup> Overview, Alaska Traveler Survey and Visitor Industry Analysis 1983; Dept. of Commerce and Economic Development, Div. of Tourism PART

### III: SOCIAL IMPACTS OF LOTTERIES

The five questions most often asked regarding lotteries social impact are:

1. What affect do state lotteries have on the "poor?"
2. What affect do state lotteries have on the "less educated?"
3. How do lotteries affect the incidence of compulsive gambling?
4. Does winning disrupt the lives of winners of large cash prizes?
5. Do lotteries cause a negative economic drain on rural communities?

Questions 1 and 2:

The most often raised objection to state operated lotteries is that people from lower income households and/or the less educated buy a disproportionate amount of lottery tickets. The implicit suggestion is that a lottery should be prohibited in order to protect the "poor" and "less educated." As a matter of empirical fact, it is simply untrue that the poor and/or less educated buy lottery products disproportionately to their percentage of the population.

Resear. has been conducted in every state with a lottery operating for over one year regarding these questions (#1 & #2), and the conclusion is always the same; the poor and less educated play the lottery to a lesser degree than their proporti<sub>o</sub>n of the population.

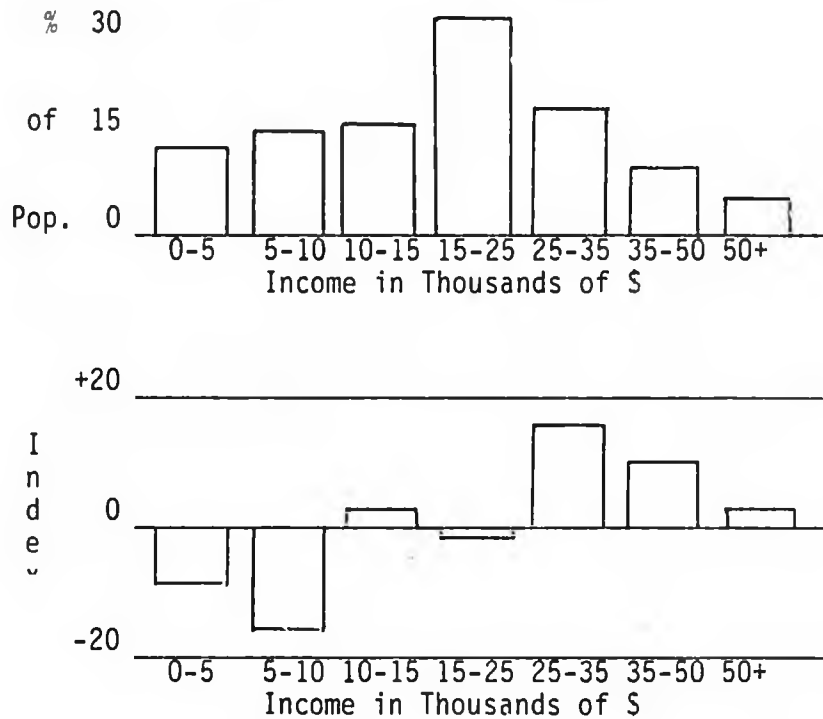
Some comments from a sampling of the numerous studies conducted follow. Please bear in mind that every statement to follow is based upon statistical evidence, not opinion.

Colorado: Chart 1-III, below, is comprised of two bar graphs. The top graph represents the income group's percentage of the Colorado population. The bottom graph represents an index of lottery participation by the income group. Where the bar is above zero, that group plays the lottery more than their relative proportion in the population, and vice versa.<sup>1</sup>

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<sup>1</sup> Chart reproduced from "Colorado Lottery Facts", Oct. 1983, included in the Report to the Colorado legislature by the Lottery, dated Dec. 6, 1983.

Chart 1-III  
 COLORADO LOTTERY PLAYER



As the chart dramatically shows, the lower income groups play the Colorado Lottery substantially less than their proportion in the population. The Colorado Lottery explained the methodology of their analysis and also commented generally on this issue.

"Analysis of the winners in lottery games is a statistically perfect sampling of the players. During each year, several state lotteries do research on the profile of their players through analysis of winners' age, income, occupation, sex, residence, and lifestyle. Every study conducted in the legal lottery business in North America has shown that the bulk of the lottery tickets are purchased by middle income consumers. Typically, most tickets are bought by persons between the ages of 35 and 54 although the play of the lotteries ranges in age from 18 to over 65. In addition, although the range of players runs from low income to high income, the majority of the tickets are purchased by persons whose household incomes are between \$12,000 and \$36,000. Research in Colorado indicates that the average education and income of the players are higher than the national average. Even low income players play the lottery from their discretionary income,

low income players play the lottery from their discretionary income, that is to say, even low income persons purchase lottery tickets on a competitive basis with their purchase of candy, movies and softdrinks. An average of 90¢ a week played on the lottery, while being a higher percentage of the discretionary income of a low income person than it is in a middle income person, is still a minor decision..."<sup>2</sup>

The results of the Colorado studies are confirmed by numerous other studies about the income levels of lottery players in other states. For example:

Arizona: An independent study concluded that "the poor are dramatically underrepresented among lottery players."<sup>3</sup>

Deleware; 89% of the buyers of "Daily Numbers" lottery tickets had an annual family income in excess of \$10,000. The median family income of players was \$19,200 a year, while the median income of non-players was \$18,200 a year.<sup>4</sup>

Illinois; People with incomes below \$11,000 only participated in lotteries about 75-78% of their percentage of the population.<sup>5</sup>

Maine; Studies "conclusively demonstrate that it is the middle income segment of the population that is the primary market for lotteries... [T]he poor (under \$5,000 in income) are extremely underrepresented among lottery players."<sup>6</sup>

Illinois, Michigan, New Jersey, New York, Pennsylvania; An analysis of the household income profiles of over 6.5 million winners established that "the poor participate in the state lottery games at levels disproportionately less than their percentage of the population."<sup>7</sup>

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<sup>2</sup> "Colorado Lottery Fact Sheet", Oct. 1983, p.8, included in Report, op. cit. fn. 1.

<sup>3</sup> "Using Demographics to Increase Lottery Sales", G.E. Shippee, D.J. Schwartzman, K. Reynolds, Public Gaming Magazine, Aug.1983. See also, "Analysis of Sales Data of Lotteries", July 1983, Scientific Games, Inc., cited in Public Gaming Magazine, Dec. 1983, p.29 (hereafter "Analysis"), and Time, May 28, 1984, p.42.

<sup>4</sup> Report by Dr. Keiser, University of Delaware, College of Business and Economics, 1979.

<sup>5</sup> Public Gaming Magazine, Jan. 1982, p.33, Table II.

<sup>6</sup> "Analysis," op.cit., fn. 3.

<sup>7</sup> "The Myth of the Poor Buying Lottery Tickets", by Dr. J.R. Koza, Public Gaming Magazine, Jan 1982, at p.40.

Washington; An analysis of all players in the lottery during the 1983 reporting period indicated the group which played the lottery the least was the under-\$10,000 income range.<sup>8</sup>

These are only a sampling of the numerous studies on this issue.

The Louisiana legislature, after conducting an extensive investigation on this issue and an analysis of the numerous available studies, concluded: "The overwhelming majority of studies conducted in this country illustrate that the poor patronize the lottery in numbers proportionately less than their numerical presence in any community."<sup>9</sup>

Similar conclusions have even been admitted by lottery critics. The Berean League of Minnesota, a self-described coalition of concerned Christians, admitted in an extensive paper submitted to the Minnesota legislature, in opposition to pending lottery legislation, that "Poor people do not play the lottery out of proportion to their percentage of the population (the evidence shows that they play less than their percentage of the population)...[N]othing has surfaced to question the accuracy of the studies that the poor play the lottery... less than other segments of the population."<sup>10</sup>

The Illinois, Michigan, New Jersey, New York, & Pennsylvania study took an additional step in the analysis of data collected from its over 6.5 million winners of large prizes. Relative level of sales were studied to determine if there were any correlations between heavy lottery players and household incomes. New York was chosen for this study because its household income profile for lottery game players was most representative of the average of the five states involved. Data for this analysis was collected from seventeen \$1 instant games in New York. Areas were designated as having "below-average" sales if the sales index for that zip code averaged 25% or more below the statewide level. An area was designated as having "above-average" sales if the sales index averaged 25% or more above the statewide level. The remaining areas were considered "average." This approach placed about 24 percent of the New York population into above-average sales areas, about 43 percent into average sales areas, and about 33 percent into below-average sales areas.

Having thus divided the state into three distinct categories based on the actual occurrence of recorded lottery winners (and hence players), the household income distribution for the three categories was examined. See Table 1-III for a presentation of this data in the form of indexed numbers.

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<sup>8</sup> Washington State Lottery 1983 Annual Report.

<sup>9</sup> Final Joint Lottery Subcommittee Report, Louisiana Legislature, April 5, 1983, p. 27.

<sup>10</sup> "The Proposed Minnesota Lottery," Report by the Berean League of Minnesota, 1984, pp. 22, 23.

Table 1-III

INDEXED HOUSEHOLD INCOME DISTRIBUTION  
 (Above-Average, Average & Below-Average Sales Areas of  
 17 \$1 Instant Lottery Games, New York State)

ANNUAL HOUSEHOLD INCOME  
 (In 1980 Dollars)

	Over \$56,000	\$34,000- \$56,000	\$23,000- \$33,999	\$18,000- \$22,999	\$11,000- \$17,999	\$6,700- \$10,999	Under \$6,700
+ Ave.	105	128	120	99	83	75	75
Average	158	139	109	90	83	75	79
- Ave.	140	94	81	89	111	116	113

The income profile for the areas of the state having above-average sales have a relatively higher representation of high-income households. The same is true for of the areas of the state having average sales. For example; households with an income above the \$56,000 (1980 dollars) range have an index value of 158 in the "average sales" level areas. This means that this level income household occurs at a rate 58% higher than in the state as an average.

However, for the areas of the state having below-average sales, the income distribution is bi-modal. It contains the "poor" and it also contains a significant representation of very high income people. The main point, however, is that the lower-income categories are relatively underrepresented in both the average and the above-average sales areas and that the lower-income households are overrepresented only in the below average sales areas.

Thus, using this slightly different perspective, the conclusion is again the same. Namely, that the poor participate in the lottery games at a disproportionate rate as compared to their percentage of the population.

Most analysis and comment from the studies conducted by states operating lotteries include educational levels as well as household income issues. These studies indicate similar conclusions with regard to education levels of those playing lotteries; the less educated play lotteries proportionately less than they are represented in the total population.

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<sup>11</sup> "Myths", Public Gaming Magazine, Dec. 1983, pp. 28-33; and "Roses and Thorns of State Lotteries", by Bill Curry, State Legislatures Magazine, March 1984, p. 31-36.

The Washington State Lottery found that residents with 1 - 3 years of college were overrepresented in lottery play to a degree significantly exceeding that of any other educational group. Based on an index of 100, those in this category reached index levels as high as 141. Conversely, those with eight years of education or less were severely underrepresented, with indices ranging from 68 down to 43.

Final figures for FY 83 in Washington showed residents with 13 - 15 years of education totaling out at an index of 120, with those with eight years of education<sup>12</sup> or less playing at an index rate of 56, the lowest of any category.

A study of six western counties of Washington state by KIRO Broadcasting, Inc. found that 78 percent of the lottery players had 12 or more years of education.

The Arizona Lottery also tested for educational level of its players. In every case, the median educational level of players exceeded that of Arizona residents overall.

Pennsylvania contracted with Research Corporation to use the "low, average and heavy play" procedure described above for New York. They found that in the "heavy play" group - the group showing the most interest in the lottery - only 9.8 percent had less than a high school diploma.<sup>14</sup>

Again, these are only a sampling of survey results all stating the same conclusion - the less educated segments of the population in lottery states play lottery games less than they are represented in the total population of their state.

These conclusions are no surprise to those who view lotteries as a business operated for profit. The tremendous growth in both lottery participation and profit to those states operating them could never be generated by a dependency on the poor and under-educated. This segment of our population simply does not constitute a large enough percentage base to target marketing efforts. The majority of the population in most states lives in middle income households and has a higher than median education level. This is the natural market.

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<sup>12</sup> Washington State Lottery, 1983 Annual Report

<sup>13</sup> "Using Demographics to Increase Lottery Sales", G.E. Shippee, D.J. Schwartzman, K. Renolds, Public Gaming Magazine, Feb. 1983.

<sup>14</sup> Pennsylvania Study for the Bureau of State Lotteries, Opinion Research Corporation, Princeton, NJ, 1981.

Question number 3:

How do lotteries affect the incidence of compulsive gambling?

Studies done thus far have shown the compulsive gambler to be someone who by nature seeks avenues other than state lotteries to satisfy his or her need for gambling; state lotteries do not provide what a compulsive gambler needs for gratification.

Dr. Robert Custer, acting director of mental health for the Veterans Administration in Washington D.C. and medical advisor to the National Council on Compulsive Gambling, has done extensive research into the incidence and treatment of compulsive gambling, and is widely recognized as an expert on the subject. Custer contends that state lotteries do not provide a sufficient outlet for a compulsive gambler to either alleviate withdrawal symptoms or to experience any sustained euphoria generated by most other types of gambling. Custer said that of the compulsive gamblers he has treated at the V.A., 20% have fallen into each of four different categories: addiction to horse race betting, casino games(not casinos in particular, but games associated with them such as craps and card games), illegal sports betting, and stock options and commodities. The remaining 20% is divided among all other forms of gambling, lotteries only amounting to perhaps 2%. Of compulsive gamblers, Custer said lotteries are "not their style," because play is too slow. "The shorter the interval between the time you place your bet and when you collect, the more addictive," adding that, "any game involving a waiting period for the outcome and/or collection of winnings, such as lotteries, does not sustain a compulsive gambler, ..." Two key elements that compulsive gamblers need for satisfaction are some feeling that s/he has an "edge" or privileged information regarding the bet, and that some element of skill plays a part in the outcome. Neither of these exist with state lotteries.

"I think winning is a lot more stimulating than we realize," said Custer. "Particularly winning amounts ranging from a fourth to a half of one's income. That's one of the things about the lottery that I've never been very concerned about, because people don't win big that often. There are a lot of \$1 and \$2 winners, but very few million dollar winners."

Custer states that no data exists supporting the contention that lotteries increase compulsive gambling.<sup>15</sup>

A study for the New Jersey Lottery, supervised by Dr. Peter Carlton of the New Jersey College of Medicine and Dentistry, reached basically the same conclusions as did Custer's research; no cause-and-effect relationship was established showing lotteries to cause compulsive gambling, the same physiological changes were noted in gamblers as with the V.A. research. These results show that lotteries simply don't offer enough "action" to satisfy the needs of a compulsive gambler. A totally different environment of lottery-playing, as

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<sup>15</sup> "Do Lotteries Increase Compulsive Gambling?", The Lottery Journal, Vol. 1, No. 2, p. 22 & 58.

opposed to other types of gaming, exists for state lottery participation. Lottery playing does not require a contained environment with a high degree of social interaction, as is found with other gaming activities. The decision to participate in a lottery game usually is an afterthought from some other activity.

John D. Quinn, Director of the New York State Lottery, and past president of the National Association of State Lotteries says that during his tenure as director of the N.Y. Lottery over 2 billion tickets have been sold and he has not received one phone call or letter saying a wife or husband "had spent the bread or milk money on the lottery."<sup>16</sup>

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<sup>16</sup> "Myths", op.cit., fn. 11, pp 39-41.

Question number 4:

Does winning disrupt the lives of winners of large cash prizes?

The results of a survey by the Ontario Lottery Corporation, updated through November of 1983, indicate that the lifestyles of the overwhelming majority of the lottery's jackpot winners changed little after their windfalls.

This survey of 870 people who won between \$7,000 and \$1 million in the lottery indicated that the overwhelming majority of the big-money winners kept their jobs and stayed in the same house. Few were bothered by adverse publicity or bothersome requests for donations.

Of the winners responding to the survey, 91.4% of those employed kept their job. Eight of the 25 winners of \$500,000 or more continued to work. Most of the winners bank their money, and few indulge in spending sprees. Only 2.2% spent the bulk of their winnings on luxuries. Twenty-five percent bought a new car, and only 22.6% took vacations. More than two-fifths of those winning large prizes, 40.8%, shared their good fortunes with family, friends and charities.

Ninety percent of the winners were not subjected to calls and letters begging for money, and 70% of those who were contacted did not consider the solicitations a problem.

Most of the big winners have not been bothered by media attention. Of those responding to the survey 90.1%<sup>17</sup> said media treatment of their good luck had been fair and courteous.

Surley examples exist which illustrate that lives have been changed by the winning of large amounts of money, some of these changes would be considered positive and some negative. However, the statistics available, when considering broad cross-sections of winners, indicate that the majority of winners are not negatively affected. Ms. Mary Faulk, Director of the Washington State Lottery, puts it very well in her statement, "The lottery by design is open to maximum scrutiny by the public at all times. Our credibility is the first product we sell to the public. Identification of winners is an important responsibility to all our players. We feel that the media has shown responsible constraint in their handling of winners. Our winners have accepted this exposure with grace, because they recognize the public's right to know."

The administration of most lotteries use a prize award structure that makes payments to large winners over an extended time period; i.e., \$1,000 per month for life. This is financially advantageous to the state and to the winner, and helps prevent the possible disruption of a winners life with a \$1 million dollar check.

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<sup>17</sup> "Lottery Winner Research Indicates Life As Usual", Wendy Horne, Ontario Lottery Corporation.

Question No. 5:

Do lotteries cause an economic drain on rural communities?

This question is asking if it appears likely that a state run lottery will result in the residents of small remote communities spending an amount of their available cash to a degree exceeding the benefits these same communities would receive from the expenditures of lottery profits. Three additional questions must be examined to provide an answer to this concern of economic impact on rural communities:

1. How many communities and what population base is of concern?
2. What spending level for lottery products is likely to occur?
3. What level of benefits will these communities likely receive from the operation of a state lottery?

A conservative analysis, considering "worst case" possibilities for lottery expenditures by rural community residents and reasonable assumptions regarding benefits received from probable state lottery profits, indicates that a state operated lottery would not cause an economic drain on rural communities. In fact, the opposite is true.

For purposes of this discussion the term "rural community" is defined as a community of 2000 or less people. Alaska has a total of 262 communities of this size with a total population of 70,286, or 13.44% of the state's total population (see Table 2-III).

Individual spending on lottery products will be directly proportional to the degree to which residents of these communities would have access to lottery products. This access would only exist through state licensed lottery product retailers. Only qualified "viable businesses" would be issued lottery sales licenses upon application. A "viable business" is defined as one which would likely meet the qualifications established by a state lottery as necessary to be licensed as a lottery product retailer.

The Alaska WIC Program (Special Supplemental Food Program for Women, Infants, and Children) has been selected as a means to identify the number of probable "viable businesses" in rural communities. The WIC program is a state subsidized health and nutrition program for pregnant women, breastfeeding mothers, infants, and young children. The state provides subsidies for foods and other health needs purchases by its participants to the retailers participating in the program. This program has been selected for analysis on the assumption that its retail participants are considered by the state as "viable businesses" meeting WIC's vendor qualifications.

A review of the total number and locations of WIC vendors (see Table 3-III), provides the following items of information. It appears that a community population of more than 100 is necessary to support the operation of a retail store, the most common form of rural business (only 4.55% of communities of less than 100 have WIC qualified vendors). Eighty eight rural communities, comprising .98% of the state's total population or 5100, do not have the population base to support retail enterprises. At least some of the businesses in communities over 100 will not desire to be qualified as lottery

Table 2-III

## 1984 ALASKA POPULATION ESTIMATES BY COMMUNITY SIZE

A COMMUNITY SIZE	B #	C TOT. POP.	D % of AK	E # WIC	F % SVD.
0 - 50	37	1,266	0.24	0	
51 - 100	51	3,834	0.73	4	7.8
101 - 150	23	2,881	0.55	3	12.5
151 - 200	24	4,087	0.78	7	29.2
201 - 250	23	5,194	0.99	10	43.5
251 - 300	19	5,252	1.00	4	19.1
301 - 400	23	7,883	1.51	10	43.5
401 - 500	23	10,370	1.98	21	91.3
501 - 600	18	9,821	1.88	10	55.6
601 - 700	8	5,242	1.00	7	87.5
701 - 800	2	1,509	0.30	2	100.0
801 - 900	4	3,448	0.66	5	100.0
1,001 - 1,500	4	4,690	0.90	4	100.0
1,501 - 2,000	3	4,809	0.92	1	33.3
2,001 - 2,500	4	9,424	1.80	6	100.0
2,501 - 3,000	2	5,892	1.13	4	100.0
3,001 - 3,500	4	13,066	2.50	6	100.0
3,501 - 4,000	2	7,462	1.43	4	100.0
4,001 - 5,000	1	4,850	0.93	3	100.0
5,001 - 8,000	1	7,611	1.46	3	100.0
9,001 - 15,000	2	21,446	4.10	8	100.0
15,001 - 25,000	2	47,100	9.01	11	100.0
25,001 - 50,000	1	25,791	4.93	4	100.0
50,001 - 75,000	1	62,175	11.89	9	100.0
75,000 - 250,000	1	243,829	46.62	36	100.0
BCSA's (Table 3-III)		4,116	0.78	0	
Total	282	523,048	100.00	180	

Source: Alaska Department of Labor, Research and Analysis; (Draft)  
Alaska Population Overview, 1985; Table IV.2.

Alaska Department of Health & Social Services; Special  
Supplementary Food Program for Women, Infants and Children,  
Vendor List, Sept. 1985.

Column Explanations

- A. Self explanatory.  
 B. Number of communities within the size indicated in column A.  
 C. Total population of all the communities within that size group.  
 D. Percent of the total population of Alaska within that size group.  
 E. Number of WIC vendors serving communities within that size group.  
 F. Percent of population within that size group served by WIC vendors.

Table 3-III

## 1984 ALASKA POPULATION ESTIMATES FOR COMMUNITIES OVER 2000

PLACE/S	POPULATION	% of AK.	
Anchorage Borough	243,829		
Subtotal		243,829	46.62
Fairbanks Area (Frbnks., Eielson, College, No. Pole, & Fox)	62,175*		
Subtotal		306,004	58.50
Palmer-Wasilla	25,791*		
Juneau Bourough	23,729*		
Kenai-Soldotna	23,371*		
Subtotal		378,895	72.45
Kodiak Area (Kodiak & Kodiak C.G.B.)	11,024*		
Ketchikan Area (Ketch., No. Tongas Hwy. & Saxman)	10,422*		
Subtotal		400,341	76.54
Sitka Borough	7,611		
Subtotal		407,952	78.00
Delta Jct. Area (Delta Jct., Big Delta & Ft. Greely)	4,850*		
Subtotal		412,802	78.92
Bethel	3,743*		
Valdez	3,719*		
Homer	3,373		
Petersburg	3,340*		
Nome	3,184*		
Adak	3,169		
Subtotal		433,330	82.85
Barrow	2,969		
Seward	2,923*		
Subtotal		439,222	83.97
Wrangell	2,499*		
Kotzebue	2,485*		
Cordova	2,356*		
Dillingham	2,084*		
Subtotal		448,646	85.78
Remainder (262 places of less than 2000)	70,286		
Balance of Census Subareas (BCSA's)**	4,116	523,048	100.00

Source: Alaska Department of Labor, Research and Analysis, (Draft)  
Alaska Population Overview, 1985; Table IV.1.

\* Population in BCSA included.

\*\* Balance of Census Subareas (BCSA) contain those people living outside of defined communities designated as census areas; i.e., those living in the Kodiak area but outside of the Kodiak city limits.

retailers or would not qualify upon application. Therefore, it is safe to conclude that less than 100% of the people living in communities of 2000 and fewer will have access to lottery products on a day-to-day basis. However, a total of 84 WIC vendors ("viable businesses") in 83 rural communities with populations of 101 to 2000 would provide a probable minimum level of access to lottery products for 64.8% of the rural residents.

A maximum level of access to lottery products would exist if each rural community of 100 or more persons contained at least one lottery retailer. This is a possibility that cannot be discounted because the WIC program has not been able to consider service to all rural communities, therefore its vendor list may not contain all "viable businesses" in these areas.

The access to lottery products in rural communities, and thus the probable level of spending on these products, can then be anticipated as likely to be within parameters established by this maximum and minimum. The maximum case represents a situation in which 100% of the population in communities 101 to 2000 residents, or 65,186 people in 174 communities, would have access to a lottery retailer. The minimum case represents a situation in which 64.8% of the rural population, or 42,261 people, those living in 83 communities over 100 and served by the WIC program, would have access to a lottery retailer.

A probable low (maximum access) and high (minimum access) economic impact on rural communities can now be projected from lottery sales using an '83-'85 national per capita profit in lottery states of \$26.07 and an assumed state total net revenue of \$19,035,011 (from Pt. II, page 28). This impact will be a result of lottery expenditures by residents of these communities compared to the benefits received through expenditures by the state from lottery net profits. For this analysis it will be assumed that state expenditures are made on an equal per capita basis in all communities of the state. That is, a community with 5% of the population receives the benefits of 5% of state government spending.

#### Conclusion:

Both the "maximum access" and the "minimum access" case would result in a positive economic impact in all of the rural communities in Alaska. This positive impact would range from a low of 5.38% to a high of 62.54% in the 174 communities with populations of from 101 to 2000. That is, for every \$1 spent on lottery products which leaves a rural community, between \$1.05 and \$1.63 would return in the form of state government services and grants from lottery profits. This return does not include the 50% of lottery expenditures remaining in communities from retail sales commissions and prizes. Eighty eight rural communities with populations of less than 100, comprising a total population of 5,100 (0.98% of the state's population), would experience even higher economic benefits, a total of \$186,543 or \$36.58 per capita, because they would receive the same benefits as others from lottery profits but would not be likely to make expenditures in a customary form of lottery.

The following computations corroborate these conclusions.

	AK Total	Max. Case	Min. Case
Population	730,150	65,186	42,221
Nat. '83-'84 Ave.	<u>x 26.07</u>	<u>x 26.07</u>	<u>x 26.07</u>
Per Capita Profit			
Net Profit (35% of Gross)	\$19,035,011	\$1,699,399	\$1,101,744
Gross Profit (100%)	\$54,385,745	\$4,855,425	\$3,147,841
Less Prize Payments (45%)	<u>- 24,473,585</u>	<u>- 2,184,941</u>	<u>- 1,416,528</u>
	\$29,912,160	\$2,670,484	\$1,573,920
Less Commissions (5%)	<u>- 2,719,287</u>	<u>- 242,771</u>	<u>- 157,392</u>
\$ Leaving Communities	\$27,192,873	\$2,427,713	\$1,573,930
Less Admin. Costs (15%)	<u>- 8,157,862</u>	<u>- 728,314</u>	<u>- 472,176</u>
Net Profit to Gen. Fund	\$19,035,011	\$1,699,399	\$1,101,744

Rural communities would realize benefits from a return of lottery profits equal to their percentage of the state population times the state net profit, or;

$$13.44\% \times \$19,035,011 = \$2,558,305$$

The probable maximum and minimum amount of dollars leaving rural communities is \$2,427,713 and \$1,573,920, respectively. The differences between the negative and positive cashflow are:

$$\$2,558,305 - \$2,427,713 \text{ (max.)} = \$130,592 \text{ (low); or a 5.38\% gain;}$$

$$\$2,558,305 - \$1,573,920 \text{ (min.)} = \$984,385 \text{ (high); or a 62.54\% gain.}$$

Two assumptions which have been made that led to the above conclusions merit additional comment. First is, the assumption that rural and urban residents would purchase lottery products on an equal per capita ratio. As has been illustrated above, a higher ratio of urban versus rural lottery purchases results in a high return to rural communities in terms of benefits received compared to expenditures made. Marketing strategies based on economy of scale will, in all likelihood, focus on the urban areas of the state, not rural communities. This will result in lottery products and consumer incentives designed to appeal to urban residents and tourists. This will increase the ratio of lottery purchases outside of rural areas compared to purchases in rural communities to a higher degree than the above illustration assumes. The second assumption is that rural communities and urban communities receive benefits from state government spending on an equal bases. This assumption, again, results in very conservative projections with regard to the probable benefits received by rural communities.

## PART IV: IMPLEMENTING AND OPERATING A STATE LOTTERY

### Enabling Legislation

The experience of the past twenty years of lottery operation in the U.S., and the experiences of other governments' lottery operations, should be reviewed when considering legislation for an Alaska lottery. Most state lottery laws were drafted when the idea of a state lottery was a novel concept and little or no practical experience was available. The resulting legislation contained burdensome language addressing anxiety which stemmed from illusions based on fear rather than actual causes for concern. While this approach may have been justified ten or more years ago, it should have long since been abandoned and enabling statutes should now be drafted in light of the available record of lottery experience.

The operation of a lottery should be insulated, as far as is possible, from the operation of the political process. The following points have been recommended by Edward J. Powers, past executive director of the New Hampshire Sweepstakes Commission, which started the first lottery in the U.S. in 1964, and a founder and past president of the National Association of State Lotteries.

1. A state lottery should be established in the form of an independent authority (public corporation) rather than as a regular state agency. The authority should have its own identity and be responsible for its decisions. This is best from a public relations as well as from an efficiency viewpoint. It should have the authority to issue and present prize checks. It should be able to employ personnel and to enter into contracts, within established state procedures, and issue its own bid specifications. State purchasing statutes were not written with lotteries in mind, and so are not suited to the peculiar requirements of lottery management.

If an authority form of entity is not achievable, then, a separate commission consisting of members from both the public and private sector overseeing a separate department is preferable to a division within an existing department.

However, it should be noted that a number of state lotteries are currently functioning within another state agency.

2. The lottery agency should be treated like a business as much as possible. This is the only way to maximize revenues. It must have the flexibility to launch new programs and change marketing strategy. It should not be in a budget straightjacket that prevents it from making personnel or policy changes.

3. Full public accountability must be required. Periodic reports of revenue and expenses must be presented to the governor and the legislature. An annual report should be published for the public and the press to review. Some lotteries require that an outside accounting agency conduct periodic audits.

4. Security is paramount in every aspect of the lottery. The draft legislation should provide the framework for the internal controls

that are necessary to deter and prevent subversion both from within and without. Computer technology permits controls today that were unavailable in the past. Most security problems have arisen from employees and this emphasizes the need for close pre-employment screening. There must be cross-checks and frequent unannounced inspections to eliminate temptation.

5. It must be remembered that a state lottery will return close to 40 percent of total gross revenues to the state, after paying all the prizes and expenses. The lottery agency is completely self-supporting. Its initial start-up costs will be paid back to the state within a matter of months. Details as to lottery operation should not be specified in statutes. Legislation should not specify a percentage of prizes to be paid, the amount to be spent on advertising, the percentage allowed for expenses or the minimum amount to be returned in net revenue. State lotteries have proven they are capable of raising substantial net revenue. There is no need to set minimum acceptable levels of net revenue. Similarly, it is counterproductive to mandate the types of lottery games to be operated. These restrictions can seriously impede decision-making. It is best to charge the administrators of the lottery with the responsibility of raising maximum revenue from the program.

Experiences of operating lotteries have identified some areas that should be addressed in enabling legislation that were not, or if addressed were not adequately detailed. For instance, disputed claims should be clearly appealable only through state administrative procedures and should not be treated as civil disputes where contract law applies. Authority to own, operate and maintain separate data processing systems should be given lest a lottery be required to share time thereby compromising the lottery's security. Criminal offender record information should be available for use in licensing decisions. Failure of sales agents to promptly pay proceeds of lottery sales after reasonable demand should be a criminal offense.

In summary, legislation should be drafted using the store of lottery experience developed in the past and not simply be modeled on existing lottery laws adopted when this store of experience was not available. Maximum flexibility should be obtained in the original enactment as once carved in stone laws are hard, if not impossible, to change. The particular areas where governmental restraints are counterproductive should be identified and specifically modified or waived as to lottery operations.

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<sup>1</sup> "Editorial Viewpoint", Public Gaming Magazine, Jan. 1982 and Jan. 1983.

### Interim Funding of a Lottery Agency

Any agency formed to implement a state lottery, no matter what the organizational structure is, must be afforded interim funding. An accepted "rule of thumb" in gauging the amount to be appropriated is \$1 for each state resident. A minimum recommendation needed in any state, regardless of its population is \$1,500,000. The following paragraphs describe the time frames involved in the establishment of the lottery's first game and where the money will be needed.

If a lottery bill became effective on July 1 in any year, as an example, the appointments to the board or commission and the hiring of a full time director might take place within the next 30 to 45 days. If a bid was prepared within the next 30 to 45 days to purchase tickets for the state's first lottery game and then an award was made to a vendor to provide those tickets by mid-October those tickets could be delivered in the state by early or mid-December. While all of the aforementioned is going on, the board or commission will have time to promulgate lottery rules and regulations and the director will be forming the lottery administration ... who in turn will help license the ticket sales agents throughout the state. By the end of December, or six months after the effective date of the legislation, lottery ticket sales should commence. This is a conservative timeline as has been illustrated by Oregon taking only 135 days to become operative after its law was signed.

Based on the scenario described in the previous paragraph, lottery ticket sales will commence around the first of the year with the tickets for the first game "sold out" by the end of February ... or eight months after the effective date of the legislation. At this point in time a "cash flow" (money and profit coming into the agency from the sale of tickets) will have started and the agency will be in a position to return all of the "borrowed money" back to the state. Also, from that point on the agency will be self-sufficient, requiring no additional funding.

The interim funds provided the agency initially will be used to pay rent and utility bills for office and warehouse space ... for payroll costs for the the lottery employees for at least eight months ... to purchase a small computer or lease time on an existing system for the lottery agency's "accountability" programs ... to purchase vehicles for the agency's field staff ... to advertise and promote the first game ... to print all the necessary forms and pamphlets ... and to purchase millions of instant lottery tickets for the first game. Most of the above items must be paid for before the "cash flow" begins.

If a state with a population of 1,000,000 provided its new lottery agency with \$1,500,000 in interim funding, for example, chances are that the state will order at least 10,000,000 instant lottery tickets for its first game and based on prior experiences will sell those tickets out in six to eight weeks. Washington State Lottery sold out its first games 50,000,000 tickets in five weeks to a population of 4.1 million. Therefore by the end of February (assuming tickets were placed on sale at the beginning of January) the state will have sold

\$10,000,000 worth of tickets and will have realized a profit of \$4,000,000. At this point, the \$1,500,000 can be returned to the state along with another \$1,000,000 to \$2,000,000 in profits, with the agency holding on to the balance to carry out its activities with continuing games.

There are two points to remember. First, the longer it takes the state to implement the lottery and its first game, the more dollars would be needed in interim funding. Secondly, if it is the state's desire to have the money "borrowed" by the lottery agency repaid within the same fiscal year, the above scenario sees<sup>3</sup> that occurrence happening with great ease and a good deal of leadway.

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<sup>3</sup> Paul Silvergleid, Consultant and Past Chairman of the Connecticut Gaming Commission, Feb. 1983

## Operation of a State Lottery

Most state lotteries are operated in a generally similar way. The majority of the state lotteries are overseen by a Commission (Delaware, Michigan and New York are exceptions). The Commission is responsible for broad policy making decisions, promulgation of appropriate rules and regulations to govern the lottery, and review of proposed contracts between the lottery and outside vendors. The actual day-to-day administration of the lottery is the responsibility of the lottery Director, who is a full time employee and generally has experience in the operation of state lotteries. In turn, the Director will have department heads in such areas as security, administration, marketing, and data processing. There will be a lottery staff of full time employees in each of these areas. Depending on the size of the state, the total number of staff will vary but one can expect between 50 and 150.

Although the lottery is operated by the Director and his staff, lottery tickets are actually sold by licensed agents. These licensed agents are generally retailers such as convenience stores, newsstands, package stores, supermarkets, etc. The Director will accept applications from all those eligible to be licensed agents and, after a background check, the retailers will be licensed and will sell lottery tickets subject to rules and regulations of the Commission. The agents will be compensated for sales of lottery tickets by receiving a commission on such sales. The most common retailers' commission in lottery states is 5%.

After setting up its staff and licensing its agents, the lottery must determine what type of game it will run. There are variety of lottery games available, but the two most common are what are called "instant games" and "on-line games." An instant game is played by the use of tickets which have hidden symbols concealed by a removable covering. The player purchases the ticket, removes the covering, and determines instantly whether he has won a prize and, if so, the amount of the prize. He then redeems his winning ticket in a manner established by the lottery. For small prizes, many states establish a system for the payment of the winning ticket by the licensed agents themselves. Larger prizes are redeemed through claim centers staffed by employees of the lottery. The instant tickets are constructed in such a way so that winning tickets can be validated to prevent any tampering, counterfeiting or fraud.

The on-line numbers games take a variety of forms. A typical game is a 3-digit daily numbers game. In order to run this game, the lottery distributes small computer terminals to its licensed agents which are comparable in size to cash registers. The terminals are connected "on-line" to a large central computer at lottery headquarters. A player selects a 3-digit number ranging from 000 to 999. He then tells the sales agent his selection along with the amount of money he wants to play on that number. The agent enters the number on his terminal (which simultaneously transmits the entry to the central computer) and the terminal issues the player a ticket. That ticket, as with an instant ticket, has various security and validation fea-

tures which protect against any tampering, counterfeiting or fraud. At the end of the day, the lottery randomly draws a three-digit number and the player who has a ticket with that number wins.

Although all aspects of the operation of a lottery are in-state, the lottery will have to purchase its instant tickets or on-line system from one to the established and experienced vendors in the United States. At this time, there are 3 primary instant ticket vendors and three primary "on-line" vendors. The lottery will generally pay such vendors approximately 2 - 3% of the total lottery gross revenues for the purchase of lottery products. That money is the only money which will be spent outside of the state.

Of course, there will be a "lag time" between the date the lottery law becomes effective and the date lottery tickets are first sold. It is during this period that lottery personnel are hired, the lottery administration is established, and the lottery vendor is chosen. Usually, there will be interim funding of the lottery during this "lag time" and that money is invariably<sup>4</sup> repaid within 6 - 8 months of the effective date of the lottery law.

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<sup>4</sup> Robert L. Mote, Esq., Scientific Games, Inc., May, 1983.

## Part V: ALASKA LOTTERY SURVEY

The following pages contain excerpts from results of a state-wide survey concerning an Alaskan lottery completed by the Dittman Research Corporation of Alaska. This survey clearly indicates that Alaskans would favor the operation of a state lottery by a two to one margin.

### Survey Methodology

During the period of November 1 through November 12, 1985, 502 residents of 51 Alaskan communities were personally contacted by telephone by professional interviewing employees of the Dittman Research Corporation. The views and opinions of the Alaskan residents were recorded on a strictly confidential basis.

**Research Design:** A random sample was featured which provided that all residents of the communities included had essentially the same chance of being interviewed.

**Sample Selection:** The Anchorage sample was selected through a computer-generated random digit dialing program. This is particularly important in Anchorage due to a 40% rate of unpublished and unlisted numbers.

The sample in other communities state-wide was randomly selected from current telephone subscribers listed in the most recent directory for each community. In these communities, the percentage of non-listed numbers does not exceed 10%.

### Findings

Overall, Alaskans on a state-wide basis support the idea of a lottery by well over a 2:1 margin...

"Some people have suggested it would be a good idea for Alaska to have a state lottery, while others have said it would be a bad idea. What are your views -- do you basically favor or oppose Alaska having a state-wide lottery?"

Favor..... 65%  
Oppose..... 29%  
Unsure..... 6%

...and the support is basically consistent throughout all geographic regions...

Region	Favor	Oppose
Rural.....	57%.....	37%
Central.....	65%.....	28%
Southcentral.....	65%.....	29%
Anchorage.....	69%.....	24%
Southeast.....	62%.....	36%

...demographically, upper income residents are slightly more supportive...

Income	Favor	Oppose
Up to \$20,000.....	64%.....	32%
\$20,000 - \$40,000.....	64%.....	30%
\$40,000 - \$60,000.....	65%.....	30%
\$60,000 plus.....	73%.....	22%

...and young people are more supportive than older people...

Age	Favor	Oppose
18 - 24 years.....	84%.....	13%
25 - 40 years.....	67%.....	28%
41 - 55 years.....	62%.....	31%
56 years and older.....	44%.....	46%

...there is little difference based on gender...

Sex	Favor	Oppose
Male.....	66%.....	30%
Female.....	65%.....	27%

...and significantly important, the idea of a state-wide lottery has broad appeal across all political boundaries...

Party	Favor	Oppose
Democrat.....	67%.....	24%
Republican.....	61%.....	31%
Non-partisan.....	67%.....	30%

Summary:

The support for a state-wide lottery is strong and broad throughout Alaska. Only among residents 56 and over does opposition exceed support, while among other age groups, support exceeds opposition by margins of up to 6:1

Overall, in terms of political and geographic constituencies, support exceeds opposition by approximately 2:1 in each geographic area, and Democrats, Republicans and Non-partisan voters all support the idea of a state-wide lottery by 30% margins or more.

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<sup>5</sup> "State-wide Survey Concerning Lottery"; Report to Rep. D. Thompson; Dittman Research Corp., Anchorage, AK; Nov. 1985.

INTRODUCTION OF BILLS (House) (cont'd)

Vehicle  
Registration  
(six-month)

HOUSE BILL NO. 337, by Rep. Shultz. Would allow passenger vehicles or motor homes not used for hire, or pick-up trucks or vans not exceeding 6,000 pounds unladen weight and not used for hire to be registered for a six-month period, instead of the yearly registration normally required. Passenger vehicle or motor homes would pay \$15 for six months, and pick-ups or vans not exceeding 6,000 pounds would pay \$17.50 for six months. Does not provide for effective date (takes effect 90 days after Governor signs bill).

Introduced March 29 and referred to State Affairs, Transportation, Finance.

State Lottery  
(establishing)

HOUSE BILL NO. 338, by Rep. Thompson. Would set up a state lottery commission within the Dept. of Revenue. The commission would be made up of five members appointed by the Governor. No more than three members could be from the same political party. The commission would, after full and thorough study, establish and operate a state lottery. They would also monitor the operation of the lottery and study and investigate laws pertaining to it.

The commission would be allowed to determine the type of lottery to be conducted, except that they could not use an instant game. They could determine by regulation the price of tickets or shares in the lottery, the number and sizes of prizes, and the manner of selecting winning tickets and payment of prizes. They would also determine the apportionment of the total revenues. The commission would be required to report monthly to the Governor and Legislature on total revenues, prize disbursement and expenses.

Would set up a Division of State Lottery. Outlines duties of the Director, and ticket sale agents. Prohibits assignment of prizes. If a person under the age of 18 wins a prize, only \$5,000 in cash may be given to an adult member of the minor's family. The remainder must go in a bank account to the credit of an adult member of the minor's family. Does not provide an effective date (takes effect 90 days after Governor signs bill).

Introduced March 29 and referred to Labor & Commerce, Judiciary, Finance.

Oil & Gas  
Property Tax  
Credit Limits

HOUSE BILL NO. 339, by Rep. Marrou. Amends AS 43.56.010 (Oil and Gas Exploration, Production & Pipeline Transportation Property Taxes) by adding a new subsection to read: "(e) If a municipality levies in a tax year more than \$175,000,000 under AS 29.53.045 [Municipal Government. Tax on Oil & Gas Production & Pipeline Property] to pay or secure the principal and interest on bonds, the taxpayer's credit or refund under (d) of this section is limited to the percentage of the total taxes levied and collected by the municipality in the tax year for the same purpose that were paid by the taxpayer in the tax year under AS 29.53.045 to pay or secure the principal and interest on bonds, times \$175,000,000." Provides Act takes effect July 1, 1985.

# Alaska State Legislature



## House of Representatives

### DISTRICT 27:

AKHIOK  
CHIGNIK  
CHIGNIK LAGOON  
CHIGNIK LAKE  
CHINIAK  
IVANOF BAY  
KARLUK  
KODIAK  
LARSEN BAY  
OLD HARBOR  
OUZINKIE  
PERRYVILLE  
PORT LIONS  
WOMENS BAY

REPRESENTATIVE  
DAVE THOMPSON

POUCH V  
JUNEAU, ALASKA 99811  
(907) 465-2487  
(907) 465-2498

P.O. BOX 75  
KODIAK, ALASKA 99615  
(H)(907) 486-4899  
(LIO)(907) 486-8116

DT: 4/9/85

TO: House Labor and Commerce Committee

FR: Rep. Dave Thompson *DWT*

RE: AK State Lottery; HB 338

HB 338 would provide for establishment of state operated lottery intended to generate revenue, augmenting other revenue sources, for the general fund. The bill calls for creation of a division of lottery within the Department of Revenue, and a lottery commission to be appointed by the Governor. The lottery commission would determine the type(s) of lottery to be conducted, develop regulations for the lottery, plan for apportionment of total lottery generated funds, and monitor lottery activities.

The lottery division would be supervised by a lottery director appointed by the commissioner of revenue. The lottery division will license agents, control marketing functions, and maintain records for the state lottery.

The intent of this bill is to establish the framework for the state to pursue the lottery concept as one additional means of revenue generation. Determining the specific form of lottery is not addressed by this legislation, and is not the intent of the sponsor.

HB 338 FILE CONTENTS

April 11, 1985 Thursday

- 1) Bill Summary -- Legislative Reporting Service
- 2) Overview -- Roger Poppe, Committee Staff
- 3) Fiscal Note and Fiscal Analysis -- Dept. of Revenue
- 4) Memo: Rep. Thompson to Committee, April 9, 85
- 5) Memo: Theresa Bannister, Legislative Counsel, to Rep. Thompson  
March 8, 1985
- 6) "Setting up the California Lottery," California Journal, March,  
1985, pp. 96-99
- 7) Position Statement -- Dept. of Revenue; read by Commissioner  
Nordale

M E M O R A N D U M

To: All Members, House Labor and Commerce Committee  
From: Roger Poppe, Committee Staff  
Date: April 11, 1985  
Subject: Overview, HB 338

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On April 11, 1985, the House Labor and Commerce Committee met in Room 102 Capitol Building to discuss HB 338, establishing a state lottery.

Various bills have been up before the legislature over the years dealing with games of skill and chance, but this is the first legislation introduced dealing with a statewide lottery; hence, a whole new section is being added to the statute. There is no companion legislation in the Senate.

The sponsor conceives of this legislation as an additional means of raising revenue for the state of Alaska, and has been modeled after the lottery statutes in New Jersey. However, there are a lot of issues that need to be looked at in this bill, and if it is to be successful, it may need substantial re-working.

The Legislative Counsel on this bill, Theresa Barnister, has raised a potential policy problem which deals with 05.18.240(e), which excludes people involved in the lottery administration from participating; and whether it should be extended to other persons as well (in California, the legislature is excluded, for example).

The Department of Revenue has a considerable number of objections to the bill in its present form, and Commissioner Nordale will be expressing those in a position statement to the committee.

Conceptually, a state lottery is worthy of consideration, but there are many problems with this bill that need to be resolved. Among the issues the Committee may wish to consider are:

- 1) Accountability. This is a very large program for it to be totally run by just 5 Commissioners with no checks and balances set up on their authority--a vote of 3 Commissioners could have a tremendous impact.
- 2) There is no provision in the bill for the Commissioner or Director to be one of the Commission members, which could get into administrative conflicts, with a Director caught in the middle between the Commission and the Departmental Commissioner.

3) the only requirements for Commission membership deal with political party affiliation; but for a new Commission of this complexity and size, other qualifications need to be considered. (In California, the 5 Commission members have to include an accountant and a person with at least 5 years of law enforcement experience).

4) We can't just model this legislation after what is done in another state. For example, the Fiscal Note is so huge because the only way we can create equitable access to tickets is to have a computer terminal (with on-going upkeep) in every village and city in Alaska; otherwise we are asking for a huge problem with bootleg tickets just as we have had with booze;

5) We need to consider the problems of enforcement: currently the Dept. does not even enforce gaming laws in this state, so with the amount of money involved, they would have to create enforcement positions--otherwise, for example, there are no provisions to enforce vendors even turning in their receipts;

6) administrative guidelines in this bill are minimal; the bill needs a lot more work before it is acceptable;

7) with games of chance, non-profit organizations are the beneficiary; with this bill, the state is; but no direction is supplied as to what the revenues may be used for once they are generated;

8) there is no clear reason as to why instant game lottery's are excluded from this bill (page 2, line 26).

9) In California, the administrative costs to run this program run up to 16% of the total program; however, in Alaska, with a huge computerized network required as the only solution to equal access, this may run much higher, raising the question of whether it is even worth it; and judging from the California experience (see the article in your file) it will generate a whole separate bureaucracy just to run the program.

10) this bill lumps together planning and implementation, which in normal procedures where something new is being established, is done in phases, so we don't end up buying a pig in a poke;

11) the Department had very little time to generate a realistic fiscal note on this issue; the creation of a whole new division is a complex and costly process that should not be gone about quickly or rapidly. On the other hand, the fiscal note may not give an accurate estimation of the revenues generated; but if it does, then this program is clearly not cost effective as presented in the present bill. It also appears that the one-time capitol costs to install the equipment and data lines of \$7,400,000 as presented in the fiscal note appear to be added in for every fiscal year after FY86, which doesn't appear to be logical.

HOUSE  
COMMITTEE REPORT

JUDICIARY

(7)  
Date referred: 1/24/86

FURTHER REFERRALS: FINANCE 2/5

DATE: 2/3/86

The LABOR & COMMERCE Committee has considered SSHB 338

"An Act establishing a state lottery; and providing for an effective date."

and recommends:

- do pass
- do not pass
- do pass with attached amendment(s)
- no recommendation
- replace with \_\_\_\_\_  same title
- \_\_\_\_\_  new title

and recommends \_\_\_\_\_

further referral to the \_\_\_\_\_ Committee

- and attaches:  letter of intent
- first fiscal note
- new fiscal note
- zero fiscal note

SIGNING DO PASS:

SIGNING OTHER RECOMMENDATIONS:

*Mike Hawane*

*Steve Nadeau*

*Steve Keane*

*Erinna Malin*

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

*Mike Hawane*  
Chairman

STATE OF ALASKA 1985 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date

**REQUEST**

Bill/Resolution No: HB 338  
 Title: An Act establishing a state lottery  
 Sponsor: Thompson  
 Requestor: House Labor & Commerce Cmte.  
 Date of Request: April 1, 1985

**FISCAL DETAIL**

Agency Affected: Revenue  
 Program Category Affected: General Government  
 BRU, Program or Subprogram(s) Affected: State Lottery Operating and Data and Word Processing

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
<b>OPERATING</b>						
100 PERSONAL SERVICES	-	816.2	873.4	934.6	1,000.1	1,070.2
200 TRAVEL	-	142.8	152.8	163.5	175.0	187.3
300 CONTRACTUAL	-	10,658.9	11,405.1	12,203.5	13,057.8	13,971.9
400 SUPPLIES	-	26.0	7.6	8.2	8.8	9.5
500 EQUIPMENT	-	140.0	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	11,784.0	12,439.0	13,309.9	14,241.7	15,238.9
<b>CAPITAL</b>	-	2,500.0	-	-	-	-
<b>REVENUE</b>	-	1,468.0	1,570.8	1,680.8	1,798.5	1,924.5

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	-	12,816.0	10,868.2	11,629.1	12,443.2	13,314.4
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-	-

**POSITIONS:**

FULL TIME	-	19	19	19	19	19
PART TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

**SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:**

**ANALYSIS:** Attach a separate page for analysis.

Prepared By: Sally Smith  
 Division: Public Services

Phone: 465-2392  
 Date: April 10, 1985

Approved by Commissioner: [Signature]  
 Agency: Department of Revenue

Date: 4/10/85

Fiscal Note HB 338  
April 10, 1985  
Page 2

Distribution (by Agency preparing fiscal note):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

LOTTERY DIVISION BRU  
Fiscal Note Analysis

Assumptions:

1. This will be an on-line lottery only.
2. Tickets will be on sale state-wide.
3. Gaming computer equipment will be leased for a percentage of the gross sales.
4. The lottery division will consist of four sections: 1) the director's office (includes commission costs); 2) a marketing section; 3) an enforcement section; and 4) an operations section.

The lottery commission would have overall authority over the state lottery. The director of the lottery division would handle administrative implementation of regulations of this chapter and administration of the division. The marketing section would keep pace with ever-changing trends in lottery games and sales, develop new games, estimate activity and revenue for these games, and promote the lottery state-wide. The enforcement section would conduct field work ensuring internal and external control of the lottery. The operations section would handle the receipt of tickets and maintain fiscal accountability for the tickets, prizes and monthly vendor reports.

STATE LOTTERY OPERATING BRU

100 PERSONAL SERVICES

The lottery division would be headed by a director. A Secretary I would be employed in this office to provide administrative and secretarial support to the division.

1	Director	6,817 @ 12 mos.	\$	81,809
1	Secretary I	2,547 @ 12 mos.		30,562

The marketing section would be operating under an Economist III. This section would also employ a publications specialist, a research analyst and a clerk typist III.

1	Economist III	5,187 @ 12 mos.		62,246
1	Publications Specialist III	4,456 @ 12 mos.		53,472
1	Research Analyst II	3,662 @ 12 mos.		43,944
1	Clerk Typist III	2,284 @ 12 mos.		27,408

The enforcement section would operate under an Investigator IV. Three investigators and a clerk typist III would also be employed in this section.

1	Investigator IV	4,866 @ 12 mos.		58,393
2	Investigator III	4,170 @ 24 mos.		100,298
1	Investigator II	3,662 @ 12 mos.		43,944
1	Clerk Typist III	2,284 @ 12 mos.		27,408

The operations section would operate under an Accounting Supervisor III. In addition, this section would employ three accounting technicians, two accounting clerks, a clerk typist III and a clerk III.

1 Accounting Supervisor III	4,283 @ 12 mos.	51,395
1 Accounting Technician III	3,662 @ 12 mos.	43,944
2 Accounting Technician II	3,207 @ 24 mos.	76,978
1 Accounting Clerk III	2,547 @ 12 mos.	30,563
1 Accounting Clerk II	2,415 @ 12 mos.	28,975
1 Clerk Typist III	2,284 @ 12 mos.	27,408
1 Clerk III	2,284 @ 12 mos.	<u>27,402</u>

Total Annual Wages and Benefits \$ 816,131

#### 200 TRAVEL

In the first year, travel is estimated at \$139,020. This travel covers commission travel and monthly meetings, director's travel to other lottery states, conferences and monthly meetings. The accounting supervisor, the marketing supervisor and the investigators would each be using out-of-state travel to attend training seminars and would bring the expertise back to their sections. The marketing supervisor would travel within Alaska to promote the lottery and the enforcement section investigators would travel within Alaska to conduct field investigations and to ensure the integrity of the lottery.

Commission trips	\$ 60,400
Director trips	16,000
Marketing trips	5,000
Accounting training trip	1,400
Investigator training/Investigative trips	<u>60,000</u>

Total Travel \$ 142,800

#### 300 CONTRACTUAL

Contractual costs are listed in two separate categories: expenses related to the gaming equipment and expenses related to the setup of the new division.

##### Gaming Equipment

Computer data lines from the central office to the computer terminals at each vendor's location would be leased from a gaming equipment company. Costs for installation of those lines would be a one-time capital cost.

Computer Data Lines	\$ 7,400,000
One-time capital costs	2,500,000

Division Setup

During the first year of operation, advertising costs would total about \$500,000. This amount would be reduced in subsequent years of operation.

Office communications	21,000
Copiers	12,000
Printing	35,000
Subscriptions	1,000
Postage	30,000
Messenger Service	2,000
Freight	3,000
Office Space	69,264
Miscellaneous	5,000
Advertisement	<u>500,000</u>

Total Contractual \$10,578,264

400 SUPPLIES

Office supplies costs are estimated at \$1.0 per employee for FY86. These costs will decrease in FY87.

Stationery and office supplies	\$ <u>19,000</u>
Total Supplies	\$ 19,000

500 EQUIPMENT

Office equipment and furniture includes desks, chairs, calculators, file cabinets, partitions, bookcases, credenzas, phones, one conference table and one typewriter with a stand. Expenditures for these items will impact FY86 only.

Office equipment and furniture	\$ <u>48,907</u>
Total Equipment	\$ 48,907

Sub-total State Lottery Operating \$11,605,102

DATA AND WORD PROCESSING BRU

The following funding would be allocated to data and word processing within the Department of Revenue for the operation of the lottery division.

300 CONTRACTUAL

Funds are requested for Wang archiving workstations and a printer. The vendor reports, marketing information and other information and statistics would be data-captured for analysis and reporting to the commission.

Equipment Lease and Maintenance	\$	48,512
Programs		25,000
Program Maintenance		<u>7,000</u>
Total Contractual	\$	80,572

400 SUPPLIES

The funds listed here would be used to purchase miscellaneous software and printer paper.

Miscellaneous Supplies	\$	<u>7,000</u>
Total Supplies	\$	7,000

500 EQUIPMENT

These funds would be used to purchase central processing unit equipment, including one disk drive, a tape drive, a 5574 band printer and air and power conditioners.

Disk and tape drives	\$	70,000
5574 printer		12,500
Air and power conditioners		<u>8,500</u>
Total Equipment	\$	91,000

Subtotal Data and Word Processing \$178,572

TOTAL OPERATING AND DATA AND WORD PROCESSING \$11,783,674

1.	POSITION TITLE Director				RANGE/STEP 26B	BARG. UNIT X	PAGE/LINE	COY.	APPROV.	DISP.
2.	TYPE OF POSITION	STAFF MONTHS	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION	ELECTION DISTRICT	LEG.		

3.	CONTINUATION LEVEL		ADDITION	
4.	TYPE OF EXPENDITURE			AMOUNT
	1	2		3
	PERSONAL SERVICES			
5.	Salary	\$64,620		
6.	Benefits	10,598		
7.	Supplemental Benefits	3,961		
8.	Fixed Benefits	530		
9.	TOTAL PERSONAL SERVICES			81,809
10.	Travel	02		16,000
11.	Contractual	03		
12.	Commodities	04		
13.	Equipment	05		
14.	Other			
15.	TOTAL COST			98,809

**JUSTIFICATION**

The director will administer the activities of the lottery division and supervise its daily operation, attend monthly commission meetings and act as their secretary. The director will act on advice and recommendations from the commission and will, in turn, advise the commission of division activities and provide statistical reports, information on the progress of the lottery as a revenue-generating enterprise and information on activities in other states. The director will hold press conferences to keep the public informed.

	RECEIPT CODE	FUNDING SOURCE	
16.		Federal Receipts 1002	
17.		G.F. Match 1003	
18.		General Funds 1004	98,809
19.		I-A Receipts 1005	
20.		Program Receipts 1028	
21.		Other	

FOR BSM USE ONLY  
KEY NUMBER \_\_\_\_\_

AGENCY Revenue  
PROGRAM Revenue Management & Collection  
BRU State Lottery  
COMPONENT Operating

REQUEST FOR  
NEW POSITION

Page 1 of 1  
Revised Date \_\_\_\_\_

**FY 86**

1.	POSITION TITLE <b>Secretary 1</b>	RANGE/STEP 10B	BARG. UNIT G	PAGE/LINE	COV.	APPROV.	DIS/ST.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT
3.	CONTINUATION LEVEL	ADDITION			JUSTIFICATION:		
4.	TYPE OF EXPENDITURE		AMOUNT				
	1	2	3				
	PERSONAL SERVICES						
5.	Salary	\$22,716					
6.	Benefits	3,725					
7.	Supplemental Benefits	1,392					
8.	Fixed Benefits	2,729					
9.	TOTAL PERSONAL SERVICES	01	30,562				
10.	Travel	02					
11.	Contractual	03					
12.	Commodities	04					
13.	Equipment	05					
14.	Other						
15.	TOTAL COST		30,562				
	RECEIPT CODE	FUNDING SOURCE					
16.		Federal Receipts 1002					
17.		G.F. Match 1003					
18.		General Funds 1004		30,562			
19.		I-A Receipts 1005					
20.		Program Receipts 1028					
21.		Other					
FOR BSM USE ONLY							
KEY NUMBER _____							

The secretary will provide clerical and administrative support to the division. Duties will include typing, filing, making travel arrangements, processing personnel documents, acting as receptionist, and responding to general public inquiries.

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**FY 86**

1.	POSITION TITLE Investigator IV				RANGE/STEP 20B	DARG. UNIT S	PAGE/LINE	COV.	APPROV.	DISAST.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	R. NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL				JUSTIFICATION					
4.	TYPE OF EXPENDITURE				AMOUNT					
	1		2		3					
	PERSONAL SERVICES									
5.	Salary		\$45,312							
6.	Benefits		7,431							
7.	Supplemental Benefits		2,778							
8.	Fixed Benefits		2,872							
9.	TOTAL PERSONAL SERVICES		01		58,393					
10.	Travel		02		10,160					
11.	Contractual		03							
12.	Commodities		04							
13.	Equipment		05							
14.	Other									
15.	TOTAL COST				68,553					
	RECEIPT CODE	FUNDING SOURCE								
16.		Federal Receipts 1002								
17.		C.F. Match 1003								
18.		General Funds 1004		68,533						
19.		I-A Receipts 1005								
20.		Program Receipts 1028								
21.		Other								
FOR BSM USE ONLY KEY NUMBER _____										

The investigator IV will manage the enforcement section and supervise its daily operation to ensure problems are resolved in a timely fashion and the enforcement effort is on-going. This person will set priorities for investigations and will analyze the effectiveness of the effort to provide recommendations for change to the director.

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1.	POSITION TITLE Investigator III				RANGE/STEP 18B	ORG. UNIT G	PAGE/LINE	COY.	APPROV.	DISAST.
2.	TYPE OF POSITION PFT	STAFF MONTHS 24	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT	LEG.		

3.	CONTINUATION LEVEL	ADDITION	
4.	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
	PERSONAL SERVICES		
5.	Salary	577,400	
6.	Benefits	12,634	
7.	Supplemental Benefits	4,746	
8.	Fixed Benefits	5,458	
9.	TOTAL PERSONAL SERVICES	01	100,298
10.	Travel	02	24,400
11.	Contractual	03	
12.	Commodities	04	
13.	Equipment	05	
14.	Other		
15.	TOTAL COST		124,698

JUSTIFICATION

The investigator III's will concentrate their effort on field investigations of lottery vendors and the internal security of the lottery. This will entail background, criminal and business investigations to ensure the integrity of the lottery and the confidence of the public.

	RECEIPT CODE	FUNDING SOURCE	
16.		Federal Receipts 1002	
17.		G.F. Match 1003	
18.		General Funds 1004	124,698
19.		I-A Receipts 1005	
20.		Program Receipts 1028	
21.		Other	

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1.	POSITION TITLE Investigator II				RANGE/STEP 16B	BARG. UNIT G	PAGE/LINE	COY.	APPROV.	DISAFF.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT	LEC.		

3.	CONTINUATION LEVEL	ADDITION	
4.	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
	PERSONAL SERVICES		
5.	Salary	\$33,636	
6.	Benefits	5,517	
7.	Supplemental Benefits	2,062	
8.	Fixed Benefits	2,729	
9.	TOTAL PERSONAL SERVICES	01	43,944
10.	Travel	02	12,200
11.	Contractual	03	
12.	Commodities	04	
13.	Equipment	05	
14.	Other		
15.	TOTAL COST		56,144

JUSTIFICATION

The investigator II will concentrate their effort on field investigations of lottery vendors and the internal security of the lottery. This will entail background, criminal and business investigations to ensure the integrity of the lottery and the confidence of the public.

	RECEIPT CODE	FUNDING SOURCE	
16.		Federal Receipts 1002	
17.		C.F. Match 1003	
18.		General Funds 1004	56,144
19.		I-A Receipts 1005	
20.		Program Receipts 1028	
21.		Other	

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1.	POSITION TITLE Clerk Typist III				RANGE/STEP 8B	ORG. UNIT G	PAGE/LINE	COV.	APPROV.	DISAST
2.	TYPE OF POSITION PFT	STAFF MONTHS 36	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL				JUSTIFICATION					
4.	TYPE OF EXPENDITURE			AMOUNT	<p>These positions will provide clerical support for the enforcement, marketing and operations sections. Duties will include typing, filing and other clerical-related functions.</p>					
	1	2	3							
	PERSONAL SERVICES									
5.	Salary	\$60,408								
6.	Benefits	9,908								
7.	Supplemental Benefits	3,703								
8.	Fixed Benefits	8,187								
9.	TOTAL PERSONAL SERVICES	01	206							
10.	Travel	02								
11.	Contractual	03								
12.	Commodities	04								
13.	Equipment	05								
14.	Other									
15.	TOTAL COST		82,206							
	RECEIPT CODE	FUNDING SOURCE								
16.		Federal Receipts 1002								
17.		C.F. Match 1003								
18.		General Funds 1004		82,206						
19.		I-A Receipts 1005								
20.		Program Receipts 1028								
21.		Other								
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1.	POSITION TITLE Economist III				RANGE/STEP 21B	ORG. UNIT S	PAGE/LINE	COV.	APPROV.	DISAST.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT	LEC.		
3.	CONTINUATION LEVEL				JUSTIFICATION					
4.	TYPE OF EXPENDITURE				AMOUNT					
	PERSONAL SERVICES									
5.	Salary		\$48,456							
6.	Benefits		7,947							
7.	Supplemental Benefits		2,970							
8.	Fixed Benefits		2,873							
9.	TOTAL PERSONAL SERVICES	01		62,246						
10.	Travel	02		5,000						
11.	Contractual	03								
12.	Commodities	04								
13.	Equipment	05								
14.	Other									
15.	TOTAL COST			67,246						
16.	RECEIPT CODE	FUNDING SOURCE								
17.		Federal Receipts 1002								
18.		C.F. Match 1003								
19.		General Funds 1004		67,246						
20.		I-A Receipts 1005								
21.		Program Receipts 1028								
		Other								
FOR BSM USE ONLY										
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The economist III will manage and supervise the marketing section. The economist will act as a liaison with other lottery states to obtain information to enhance the state lottery and will oversee an ongoing analysis of the impact of the lottery on the state and the communities. The economist will advise the division of economic trends and make suggestions for improvements.

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1.	POSITION TITLE Publication Specialist III				RANGE/STEP 19B	BARG. UNIT G	PAGE/LINE	COV.	APPROV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL				JUSTIFICATION					
4.	TYPE OF EXPENDITURE			AMOUNT	<p>The publication specialist III would write brochures and informational booklets, design posters and prepare the media campaign to promote the lottery. Skills in graphic design will be required.</p>					
	1	2	3							
	PERSONAL SERVICES									
5.	Salary	\$41,412								
6.	Benefits	6,792								
7.	Supplemental Benefits	2,539								
8.	Fixed Benefits	2,729								
9.	TOTAL PERSONAL SERVICES	01	53,472							
10.	Travel	02								
11.	Contractual	03								
12.	Commodities	04								
13.	Equipment	05								
14.	Other									
15.	TOTAL COST		53,472							
	RECEIPT CODE	FUNDING SOURCE								
16.		Federal Receipts 1002								
17.		G.F. Match 1003								
18.		General Funds 1004		53,472						
19.		I-A Receipts 1005								
20.		Program Receipts 1028								
21.		Other								
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1.	POSITION TITLE Research Analyst II				RANGE/STEP 16B	BARG. UNIT G	PAGE/LINE	COY.	APPROV.	DISAST.
2.	TYPE OF POSITION PFT	STAFF MONTHS	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT	LEG.		

3.	CONTINUATION LEVEL		ADDITION
4.	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
	PERSONAL SERVICES		
5.	Salary	\$33,636	
6.	Benefits	5,517	
7.	Supplemental Benefits	2,062	
8.	Fixed Benefits	2,729	
9.	TOTAL PERSONAL SERVICES	01	43,944
10.	Travel	02	
11.	Contractual	03	
12.	Commodities	04	
13.	Equipment	05	
14.	Other		
15.	TOTAL COST		43,944

JUSTIFICATION

The research analyst II would conduct surveys and compile statistics for the marketing section. This information would also be used for public information and required reports and publications. These surveys would profile the players and provide the basis for developing new games.

	RECEIPT CODE	FUNDING SOURCE	
16.		Federal Receipts 1002	
17.		C.F. Match 1003	
18.		General Funds 1004	43,944
19.		I-A Receipts 1005	
20.		Program Receipts 1028	
21.		Other	

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1.	POSITION TITLE Accounting Supervisor III			RANGE/STEP 18B	BARG. UNIT S	PAGE/LINE	COY.	APPRDV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT	LEG.	
3.	CONTINUATION LEVEL	ADDITION			JUSTIFICATION				
4.	TYPE OF EXPENDITURE			AMOUNT	<p>The accounting supervisor III will manage the operations section and supervise its daily activities. The accounting supervisor III will be responsible for training the staff and seeing that statistics of sales activities are generated and reported to the marketing section. Recommendations for policy changes, as the circumstances warrant, are made to the director.</p>				
	1	2	3						
	PERSONAL SERVICES								
5.	Salary	\$39,600							
6.	Benefits	6,495							
7.	Supplemental Benefits	2,428							
8.	Fixed Benefits	2,872							
9.	TOTAL PERSONAL SERVICES	01	51,395						
10.	Travel	02	1,400						
11.	Contractual	03							
12.	Commodities	04							
13.	Equipment	05							
14.	Other								
15.	TOTAL COST		51,395						
	16.	FUNDING SOURCE							
		Federal Receipts	1002						
	17.	G.F. Match	1003						
	18.	General Funds	1004	51,395					
	19.	I-A Receipts	1005						
	20.	Program Receipts	1028						
	21.	Other							
FOR BSM USE ONLY KEY NUMBER _____									

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1.	POSITION TITLE Accounting Technician III			RANGE/STEP 16B	BARG. UNIT G	PAGE/LINE	COV.	APPROV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT	LEG.	
3.	CONTINUATION LEVEL			ADDITION			JUSTIFICATION		
4.	TYPE OF EXPENDITURE			AMOUNT					
	1	2		3					
	PERSONAL SERVICES								
5.	Salary	\$33,636							
6.	Benefits	5,517							
7.	Supplemental Benefits	2,062							
8.	Fixed Benefits	2,729							
9.	TOTAL PERSONAL SERVICES	01		43,944					
10.	Travel	02							
11.	Contractual	03							
12.	Commodities	04							
13.	Equipment	05							
14.	Other								
15.	TOTAL COST			43,944					
16.	RECEIPT CODE	FUNDING SOURCE							
17.		Federal Receipts 1002							
18.		G.F. Match 1003							
19.		General Funds 1004		43,944					
20.		I-A Receipts 1005							
21.		Program Receipts 1028							
		Other							
FOR BSM USE ONLY KEY NUMBER _____									

JUSTIFICATION

The accounting technician III will be responsible for the accounting functions involved in running the lottery, i.e., payment of vendors, collection and accounting of sales, reconciling bank receipts to tickets sold, payment of prizes, account maintenance, and other duties as assigned.

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1.	POSITION TITLE Accounting Technician II				RANGE/STEP 14B	ORG. UNIT G	PAGE/LINE	COV.	APPROV.	DISAST
2.	TYPE OF POSITION PFT	STAFF MONTHS 24	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT	LEC.		
3.	CONTINUATION LEVEL				JUSTIFICATION					
4.	TYPE OF EXPENDITURE				AMOUNT					
	1		2		3					
	PERSONAL SERVICES									
5.	Salary		\$58,368							
6.	Benefits		9,574							
7.	Supplemental Benefits		3,578							
8.	Fixed Benefits		5,458							
9.	TOTAL PERSONAL SERVICES		01		76,978					
10.	Travel		02							
11.	Contractual		03							
12.	Commodities		04							
13.	Equipment		05							
14.	Other									
15.	TOTAL COST				76,978					
6.	RECEIPT CODE		FUNDING SOURCE							
7.			Federal Receipts 1002							
8.			C.F. Match 1003							
9.			General Funds 1004		76,978					
10.			I-A Receipts 1005							
11.			Program Receipts 1028							
12.			Other							
FOR BBR USE ONLY										
KEY NUMBER _____										

The accounting technician II's will be responsible for the accounting functions involved in running the lottery, i.e., payment of vendors, collection and accounting of sales, reconciling bank receipts to tickets sold, payment of prizes, account maintenance, and other duties as assigned.

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1.	POSITION TITLE Accounting Clerk III				RANGE/STEP 10B	DARG. UNIT G	PAGE/LINE	COV.	APPROV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT	LEC.		
3.	CONTINUATION LEVEL				JUSTIFICATION					
4.	TYPE OF EXPENDITURE				<p>The accounting clerk III will be responsible for the accounting functions involved in running the lottery, i.e., payment of vendors, collection and accounting of sales, reconciling bank receipts to tickets sold, payment of prizes, account maintenance, and other duties as assigned.</p>					
	1	2	3							
	PERSONAL SERVICES									
5.	Salary	\$22,716								
6.	Benefits	3,726								
7.	Supplemental Benefits	1,392								
8.	Fixed Benefits	2,729								
9.	TOTAL PERSONAL SERVICES	01	30,563							
10.	Travel	02								
11.	Contractual	03								
12.	Commodities	04								
13.	Equipment	05								
14.	Other									
15.	TOTAL COST		30,563							

RECEIPT CODE	FUNDING SOURCE	
16.	Federal Receipts 1002	
17.	G.F. Match 1003	
18.	General Funds 1004	30,563
19.	I-A Receipts 1005	
20.	Program Receipts 1028	
21.	Other	

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1.	POSITION TITLE Accounting clerk II				RANGE/STEP 9B	DARG. UNIT J	PAGE/LINE	COY.	APPROV.	DISAPP.	
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT	LEG.			
3.	CONTINUATION LEVEL				JUSTIFICATION						
4.	TYPE OF EXPENDITURE			AMOUNT							
	1		2		3						
	PERSONAL SERVICES										
5.	Salary		\$21,420								
6.	Benefits		3,513								
7.	Supplemental Benefits		1,313								
8.	Fixed Benefits		2,729								
9.	TOTAL PERSONAL SERVICES		01		28,975						
10.	Travel		02								
11.	Contractual		03								
12.	Commodities		04								
13.	Equipment		05								
14.	Other										
15.	TOTAL COST				28,975						
	RECEIPT CODE				FUNDING SOURCE						
16.					Federal Receipts 1002						
17.					C.F. Match 1003						
18.					General Funds 1004						28,975
19.					I-A Receipts 1005						
20.					Program Receipts 1028						
21.					Other						
FOR BSM USE ONLY											
KEY NUMBER _____											

The accounting Clerk II will be responsible for the accounting functions involved in running the lottery, i.e., payment of vendors, collection and accounting of sales, reconciling bank receipts to tickets sold, payment of prizes, account maintenance, and other duties as assigned.

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1.	POSITION TITLE Clerk III			RANGE/STEP 8B	BARG. UNIT G	PAGE/LINE	COY.	APPROV.	DISAP
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT	LEG.	
3.	CONTINUATION LEVEL			ADDITION	JUSTIFICATION				
4.	TYPE OF EXPENDITURE			AMOUNT					
	1	2		3					
	PERSONAL SERVICES								
5.	Salary	\$20,136							
6.	Benefits	3,303							
7.	Supplemental Benefits	1,234							
8.	Fixed Benefits	2,729							
9.	TOTAL PERSONAL SERVICES	01		27,402					
10.	Travel	02							
11.	Contractual	03							
12.	Commodities	04							
13.	Equipment	05							
14.	Other								
15.	TOTAL COST			27,402					
	RECEIPT CODE	FUNDING SOURCE							
16.		Federal Receipts 1002							
17.		C.F. Match 1003							
18.		General Funds 1004		27,402					
19.		I-A Receipts 1005							
20.		Program Receipts 1028							
21.		Other							
FOR BSM USE ONLY KEY NUMBER _____									

The Clerk III will be responsible for assisting the accounting staff as assigned handling forms, filing and maintenance of file system.

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**FY 86**

Representative Mike Navarre  
Labor & Commerce Committee  
Alaska State Legislature

February 3, 1986

Dear Representative Navarre:

Please include this letter into the record of the Labor & Commerce Committee, of which you are the chairman, in support of HB 338, the State Lottery.

The State of Alaska has the ability at this time to institute revenue generating programs before there is such a reduction in oil money so as to create a crisis. One of those programs should be a state lottery.

As was explained by Rep. Thompson, the states adopting a statewide lottery are growing rapidly. Thirteen states as of right now are considering such a program. Three of those states are in the unfortunate position of having to propose a change to their constitution. We have no such problem and as this proposal has been well researched by Rep. Thompson's office, the time for studying a lottery could be better spent in passing the bill and raising needed revenue.

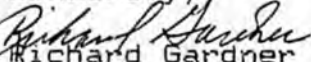
The legislature approved the sale of pull-tabs in this state several years ago. Pull-tabs are an instant lottery game. The sale of pull-tabs has grown into a multi-million dollar industry without any hue and cry from any segment of the population. The Nenana Ice Classic is a lottery and will exceed one million dollars in sales this year and is highly supported by the population. It would appear highly contradictory to approve instant lottery (pull-tabs) and a lotto type (Nenana) on one hand, and turn around and profess that a state run lottery would not work or that it was in some manner not in the public interest. Just last session, the legislature approved the salmon lottery based on pounds of fish caught. Its time that all of the people of Alaska benefit from the sale of lottery tickets.

There is the argument that we are not bordered by other states. Oregon now has a lottery state on two sides and still sold over 6 million instant lottery tickets during November 1985. A steady growth of population in our own state combined with the tourist influx can and will only improve our lottery sales.

As over twenty states now have a state-wide lottery, it is well proven with facts that the lottery is a viable method to raise revenues. Those facts also refute arguments against a lottery based solely on emotions. I strongly recommend that the committee consider those facts in favorably passing HB 338 on as soon as possible.

Thank you for this opportunity and feel free to contact me for any clarification that might be necessary to make a factual determination.

Sincerely,

  
Richard Gardner

P.O. Box 1353  
Juneau, Alaska 99802

1 IN THE HOUSE

BY THOMPSON

2 SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 338  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing a state lottery; and providing  
7 for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 05 is amended by adding a new chapter to read:

10 CHAPTER 18. STATE LOTTERY.

11 ARTICLE 1. ADMINISTRATION.

12 Sec. 05.18.010. CREATION OF CORPORATION. There is created in  
13 the Department of Revenue the Alaska State Lottery Corporation.

14 Sec. 05.18.020. BOARD OF DIRECTORS. (a) The powers of the  
15 corporation are vested in the board of directors. The board consists  
16 of five members who qualify under AS 39.05.100. The governor shall  
17 appoint each member subject to confirmation by the legislature in  
18 joint session under AS 39.05.080. No more than three of the five  
19 members may be members of the same political party. The governor  
20 shall appoint one member to serve as chairperson of the board.

21 (b) Members serve staggered terms of five years. A vacancy on  
22 the board does not impair the authority of the board to exercise all  
23 the powers and perform all the duties of the corporation.

24 (c) A member of the board is entitled to compensation at a rate  
25 of \$150 for each day the member is engaged in the actual performance  
26 of duties as a member of the board. The board may provide by regu-  
27 lation for compensation for partial days during which an appointed  
28 member is engaged in actual performance of duties as a member of the  
29 board.

1 IN THE HOUSE

BY THOMPSON

2 SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 338  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing a state lottery: and providing  
7 for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 05 is amended by adding a new chapter to read:

10 CHAPTER 18. STATE LOTTERY.

11 ARTICLE 1. ADMINISTRATION.

12 Sec. 05.18.010. CREATION OF CORPORATION. There is created in  
13 the Department of Revenue the Alaska State Lottery Corporation.

14 Sec. 05.18.020. BOARD OF DIRECTORS. (a) The powers of the  
15 corporation are vested in the board of directors. The board consists  
16 of five members who qualify under AS 39.05.100. The governor shall  
17 appoint each member subject to confirmation by the legislature in  
18 joint session under AS 39.05.080. No more than three of the five  
19 members may be members of the same political party. The governor  
20 shall appoint one member to serve as chairperson of the board.

21 (b) Members serve staggered terms of five years. A vacancy on  
22 the board does not impair the authority of the board to exercise all  
23 the powers and perform all the duties of the corporation.

24 (c) A member of the board is entitled to compensation at a rate  
25 of \$150 for each day the member is engaged in the actual performance  
26 of duties as a member of the board. The board may provide by regu-  
27 lation for compensation for partial days during which an appointed  
28 member is engaged in actual performance of duties as a member of the  
29 board.

1 (d) In addition to compensation under (c) of this section, a  
2 member of the board is entitled to per diem and travel allowances  
3 authorized for members of boards and commissions under AS 39.20.180.

4 (e) A member of the board may not have a pecuniary interest in  
5 any contract or agreement entered into by the corporation.

6 Sec. 05.18.030. MEETINGS. (a) The board shall meet at least  
7 quarterly at the call of the chairperson, at the request of a majority  
8 of the members, or at a regularly scheduled time set by the board.

9 (b) An action of the board is not binding unless taken at a  
10 meeting where three or more of the members are present and vote in  
11 favor of the action.

12 Sec. 05.18.040. DUTIES AND POWERS OF BOARD. (a) The board is  
13 responsible for the management of the corporation but shall delegate  
14 certain powers and duties to the executive director in accordance with  
15 AS 05.18.060 - 05.18.080. In managing the corporation the board shall

16 (1) be responsible for the management of the financial and  
17 legal obligations of the corporation;

18 (2) generally manage the corporation on a self-sustaining  
19 basis;

20 (3) advise and make recommendations to the director about  
21 the operation and administration of the lottery;

22 (4) report to the governor and the legislature each quarter  
23 on the total lottery revenue, prize disbursement and other expenses  
24 for the preceding quarter;

25 (5) report to the governor and the legislature each year  
26 including a full and complete statement of lottery revenue, prize  
27 disbursement and other expenses, and recommendations for changes in  
28 this chapter;

29 (6) report to the governor and the legislature as

1 frequently as the board determines necessary on conclusions from the  
2 analysis of the reaction of state residents to the lottery, and on  
3 matters that require changes in the law to prevent violations or  
4 evasions of this chapter or to correct undesirable conditions in  
5 connection with the administration or operation of the lottery;

6 (7) monitor the operation of the lottery throughout the  
7 state; and

8 (8) study and investigate the operation and administration  
9 of the lottery laws of other states and of federal laws that affect  
10 the lottery.

11 (b) The board may do all things necessary and appropriate to  
12 exercise the corporation's duties and powers under this chapter.

13 Sec. 05.18.050. REGULATIONS BY THE BOARD. The board shall adopt  
14 regulations under the Administrative Procedure Act (AS 44.62) to  
15 establish

16 (1) the manner of payment of prizes to the holders of the  
17 winning tickets or shares;

18 (2) apportionment of the total revenue accruing from the  
19 sale of lottery tickets or shares and from all other sources among

20 (A) the payment of prizes to the holders of winning  
21 tickets or shares;

22 (B) the payment of costs incurred in the operation and  
23 administration of the lottery, including the expenses of the  
24 corporation and any costs resulting from contracts entered into  
25 for promotional, advertising, or operational services or for the  
26 purchase or lease of lottery equipment and materials;

27 (C) transfer to the general fund; and

28 (3) other matters necessary or desirable to carry out this  
29 chapter, to operate the lottery efficiently and economically, and to

1 make the purchase of tickets or shares and the distribution of prizes  
2 convenient.

3 Sec. 05.18.060. EXECUTIVE DIRECTOR AND EMPLOYEES. (a) The  
4 corporation shall be under the immediate supervision and direction of  
5 an executive director who is qualified by training and experience to  
6 direct the work of the corporation. The governor shall appoint the  
7 director. The director may not engage in another profession or  
8 occupation.

9 (b) Subject to the approval of the board, the director shall  
10 appoint deputies required to carry out the functions and duties of the  
11 corporation. The director shall appoint professional, technical, and  
12 clerical employees necessary to perform the duties of the corporation.

13 (c) The director and other employees of the corporation are in  
14 the exempt service under AS 39.25.110.

15 (d) The corporation may not employ a person who has been  
16 convicted, including conviction based on a guilty plea or plea of nolo  
17 contendere, of a felony or other crime if the felony or other crime is  
18 substantially related to the qualifications, functions, or duties of  
19 the employee.

20 Sec. 05.18.070. DUTIES OF DIRECTOR. The director shall

21 (1) supervise and administer the operation of the lottery;

22 (2) act as secretary to the board;

23 (3) license agents to sell lottery tickets;

24 (4) meet at least quarterly with the board on the operation  
25 and administration of the lottery;

26 (5) make available for inspection by the board, upon  
27 request, all books, records, files, and other information and docu-  
28 ments of the corporation;

29 (6) advise the board and make recommendations to improve

1 the operation and administration of the lottery;

2 (7) suspend or revoke a license issued under this chapter  
3 for a violation of this chapter or the regulations adopted under this  
4 chapter;

5 (8) subject to the approval of the board enter into  
6 contracts for the operation and promotion of the lottery; and

7 (9) provide each month to the board a full and complete  
8 statement of the lottery revenue, prize disbursement; and other ex-  
9 penses for the preceding month.

10 Sec. 05.18.080. REGULATIONS BY DIRECTOR. The director shall  
11 adopt regulations under the Administrative Procedure Act (AS 44.62) to  
12 establish the

13 (1) type of lottery to be conducted;

14 (2) price of tickets or shares in the lottery;

15 (3) numbers and sizes of the prizes for the winning tickets  
16 or shares;

17 (4) manner of selecting the winning tickets or shares;

18 (5) frequency of the drawings or selections of winning  
19 tickets or shares;

20 (6) type and number of locations where tickets or shares  
21 may be sold;

22 (7) method to be used in selling tickets or shares;

23 (8) licensing of agents to sell tickets or shares; and

24 (9) manner and amount of compensation to be paid licensed  
25 sales agents.

26 - Sec. 05.18.090. SUBPOENAS. (a) The director or the board may  
27 subpoena witnesses and documents in a matter over which the  
28 corporation has jurisdiction, control or supervision. The director or  
29 the board may administer oaths and affirmations to persons whose

1 testimony is required.

2 (b) If a person fails to obey a subpoena, or if a person refuses  
3 to answer a relevant question or to exhibit a document when ordered to  
4 do so by the director or the board, the director or the board may  
5 apply to the superior court for an order directing the person to  
6 comply with the subpoena or the order. The court may order the person  
7 to comply.

8 ARTICLE 2. SALES AGENTS.

9 Sec. 05.18.100. LICENSING OF LOTTERY SALES AGENTS. (a) A  
10 person who wishes to be licensed as a lottery sales agent shall apply  
11 on a form provided by the corporation.

12 (b) Before issuing a lottery sales agent license the director  
13 shall consider

14 (1) the financial responsibility and security of the  
15 applicant and the applicant's business or activity;

16 (2) the accessibility of the applicant's place of business  
17 or activity to the public;

18 (3) the ability of the applicant to promote the sale of  
19 lottery tickets or shares;

20 (4) the sufficiency of existing licenses to serve the  
21 public convenience;

22 (5) the volume of expected sales; and

23 (6) other factors the director determines are relevant.

24 (c) The director may not issue a license to a person who

25 (1) would be engaged in business exclusively as a lottery  
26 sales agent; or

27 (2) is under the age of 18.

28 Sec. 05.18.110. LICENSE. A lottery sales agent license is valid  
29 for one year and may be renewed. The director may not charge a fee

1 for licensing or license renewal.

2 Sec. 05.18.120. REVOCATION OF LICENSES. (a) The director shall  
3 suspend or revoke the license of a lottery sales agent who violates  
4 AS 05.18.310.

5 (b) The director may suspend or revoke the license of a lottery  
6 sales agent who violates a provision of this chapter other than  
7 AS 05.18.310 or a regulation adopted under this chapter.

8 (c) The director shall conduct proceedings to suspend or revoke  
9 a lottery sales agent license issued under this chapter under the  
10 Administrative Procedure Act (AS 44.62).

11 Sec. 05.18.130. COMPENSATION OF LOTTERY SALES AGENT. (a) The  
12 director shall establish commissions for selling lottery tickets and  
13 for cashing winning lottery tickets. The director may establish bonus  
14 or incentive awards.

15 (b) When establishing the compensation to be paid lottery sales  
16 agents the director shall consider

17 (1) the time and the cost of overhead necessary to make the  
18 tickets or shares available at convenient times and for sufficient  
19 hours to accommodate the public;

20 (2) the time necessary for a lottery sales agent to keep  
21 adequate records of ticket sales and to prepare the deposits and  
22 reports required under AS 05.18.140;

23 (3) other criteria the director considers relevant.

24 Sec. 05.18.140. DEPOSIT OF RECEIPTS AND REPORTS. (a) Each  
25 lottery sales agent shall deposit to the credit of the state in a bank  
26 designated by the director all money received by the agent from the  
27 sale of lottery tickets or shares, less the amount retained as compen-  
28 sation for the sale of the tickets or shares.

29 (b) Each lottery sales agent shall file with the director on a

1 form provided by the corporation weekly reports of the receipts and  
2 transactions in the sale of lottery tickets.

3 (c) The director may impose a service charge on a sales agent if  
4 the payor bank dishonors

5 (1) a check that is deposited to the credit of the state by  
6 the agent; or

7 (2) an electronic transfer of funds to the state lottery  
8 account from the account of the agent for money received from the sale  
9 of lottery tickets.

10 (d) The director may charge a sales agent with interest on money  
11 that is not paid to the state within 10 days after the due date and  
12 may impose an additional service charge in an amount to cover adminis-  
13 trative costs if the debt is referred for collection.

14 (e) The amount, including any interest or service charge, due to  
15 the corporation from a sales agent is a lien on the property of the  
16 agent at the time that the corporation files a claim of lien in the  
17 recorder's office of the recording district of the principal place of  
18 business of the agent.

19 Sec. 05.18.150. BOND. (a) Each applicant for a lottery sales  
20 agent license shall, at the time of applying for the license, file  
21 with the corporation and maintain while licensed a bond with a corpo-  
22 rate surety qualified to do business in the state in an amount to be  
23 determined by the board running to the state conditioned upon the  
24 applicant's promise to pay

25 (1) all sales receipts due the state under this chapter;

26 (2) all amounts that may be adjudged against the applicant  
27 by reason of the applicant's negligence as a lottery sales agent or  
28 the applicant's violation of this chapter or the regulations adopted  
29 under this chapter.

1 (b) The bond required by this section remains in effect until  
2 cancelled by action of the surety, the principal, or the corporation.

3 (c) The state or another person may not bring an action on the  
4 bond more than three years after its cancellation.

5 ARTICLE 3. PRIZES.

6 Sec. 05.18.200. ASSIGNMENT OF PRIZES. A person may not assign a  
7 right to a prize. However, a prize may be paid to a person other than  
8 the prize winner under a court order or to the estate of a deceased  
9 prize winner. The state is discharged of all further liability when a  
10 prize has been paid under this section.

11 Sec. 05.18.210. PAYMENT OF PRIZES TO PERSONS UNDER 18 YEARS.

12 (a) If a person entitled to a prize is under the age of 18 years, and  
13 if the prize is \$5,000 or less, the director may deliver the prize to  
14 an adult member of the minor's family, or to a guardian of the minor,  
15 in the form of a check or draft payable to the order of the minor. If  
16 the prize is more than \$5,000, the director may deliver the prize by  
17 depositing the amount of the prize in a bank to the credit of an adult  
18 member of the minor's family, or a guardian of the minor, as custodian  
19 for the minor. The person named as custodian shall have the same  
20 duties and powers as a person designated as a custodian under  
21 AS 45.60.

22 (b) The state is discharged of all further liability after  
23 payment of a prize to a minor under this section.

24 (c) In this section, the terms "bank", "guardian" and "member"  
25 of a "minor's family" have the meanings given in AS 45.60.091.

26 Sec. 05.18.220. UNCLAIMED PRIZE MONEY. The director shall  
27 retain unclaimed prize money for the person entitled to it for one  
28 year after the prize is awarded. If the winner does not claim the  
29 prize money within the year, the corporation shall allocate a

1 sufficient portion of the money to award additional prizes or increase  
2 the amount of prizes to be awarded to comply with its policy  
3 concerning the percentage of prize awards to be paid and shall return  
4 the balance to the general fund.

5 ARTICLE 4. MISCELLANEOUS PROVISIONS.

6 Sec. 05.18.300. AUDIT. The board shall have an audit of the  
7 books and accounts of the corporation made at least once in each year  
8 by certified public accountants. The board may have special audits  
9 performed at any time on its own motion or at the request of the  
10 director. The board shall file a copy of each audit with the  
11 commissioner of revenue and the legislature.

12 Sec. 05.18.310. PROHIBITED ACTS. (a) A person may not

13 (1) act as a lottery sales agent or sell a lottery ticket  
14 or share unless licensed under this chapter;

15 (2) sell a lottery ticket or share at a price greater than  
16 that fixed by the corporation;

17 (3) sell or offer to sell a lottery ticket or share to a  
18 person under the age of 18;

19 (4) knowingly' present a counterfeit or altered lottery  
20 ticket or share for payment or transfer a counterfeit or altered  
21 lottery ticket or share to another person to present for payment;

22 (5) with intent to defraud, falsely make, alter, forge,  
23 utter, pass or counterfeit a lottery ticket or share; or

24 (6) impersonate a lottery representative.

25 (b) An officer, employee, or contractor of the corporation, the  
26 governor, or a lottery sales agent may not purchase a ticket or share  
27 or receive a lottery prize.

28 (c) A lottery sales agent may not willfully withhold funds owed  
29 to the lottery.

1 (d) Nothing in this section prohibits a person from giving a  
2 ticket or share to another person of any age.

3 Sec. 05.18.320. ASSIGNMENT OF CONTRACTS. A person who enters  
4 into a contract under this chapter may not assign the contract without  
5 the approval of the board.

6 Sec. 05.18.330. PENALTY. A person that violates AS 05.18.140 -  
7 05.18.200, 05.18.310 or 05.18.320 is guilty of a class C felony.

8 Sec. 05.18.340. APPLICABILITY OF OTHER LAWS. No other law  
9 regarding the sale of lottery tickets or the administration of a  
10 lottery applies to the sale of lottery tickets or shares under this  
11 chapter.

12 ARTICLE 5. GENERAL PROVISIONS.

13 Sec. 05.18.900. DEFINITIONS. In this chapter, unless the con-  
14 text requires otherwise,

15 (1) "agent" means a person licensed as a lottery sales  
16 agent under this chapter;

17 (2) "board" means the board of directors of the corpo-  
18 ration;

19 (3) "corporation" means the Alaska State Lottery Corpo-  
20 ration;

21 (4) "director" means the executive director of the corpo-  
22 ration;

23 (5) "lottery" or "state lottery" means the lottery estab-  
24 lished and operated under this chapter;

25 (6) "person" has the meaning given in AS 01.10.060 and also  
26 includes an estate, receiver, trustee, assignee, referee, or other  
27 person acting in a fiduciary or representative capacity, whether  
28 appointed by a court or otherwise, and a department, commission,  
29 agency or instrumentality of the state, including municipalities and

1 the agencies and instrumentalities of them.

2 \* Sec. 2. AS 39.25.110(11) is amended by adding a new subparagraph to  
3 read:

4 (G) Alaska State Lottery Corporation;

5 \* Sec. 3. AS 39.50.200(b) is amended by adding a new paragraph to read:

6 (48) Alaska State Lottery Corporation (AS 05.18).

7 \* Sec. 4. The terms of the initial members of the State Lottery  
8 Corporation appointed under AS 05.18.020 shall be determined by the  
9 governor under AS 39.05.060(c)(2).

10 \* Sec. 5. This Act takes effect immediately in accordance with AS 01.-  
11 10.070(c).

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

1111 West 8th Street, Room 108  
Juneau, Alaska 99801

PUBLIC SERVICES DIVISION

January 30, 1986

98C 1

JAN 31 1986

The Honorable Mike Navarre  
Alaska State Representative  
P.O. Box V  
Juneau, AK 99811

Dear Representative Navarre:

As I testified before your committee on Wednesday, January 22, the Department of Revenue does not feel there is adequate lottery information specific to the demographics of Alaska to present a bankable opinion on an Alaska lottery.

We believe that the two-tier approach discussed with Representative Thompson last year provides the most responsible entry into the lottery world. In that approach an appointed commission would oversee three full-time staff members in the Department of Revenue. They would evaluate the successes of other states and take a hard look at how their experiences might relate to the unique extremes of Alaska. We also recommend the contractual services of an economist who knows Alaska.

Although I'll not restate my full testimony in this letter, what follows is a list of basic issues needing Alaska specifics. This list is not intended to be all-inclusive.

- the effect of a state lottery on charitable gaming
- the possible transfer of monies from rural areas to urban areas of the state
- the transfer of monies to the state which might otherwise be spent in local areas
- the probability of tourist play
- the cost/benefit of instant games versus on-line
- security of games with wide geographic distribution
- enforcement of games with wide geographic distribution
- retailer "servicing" in rural areas
- maximum use of computer technology (coupling of programs?)
- higher cost of doing business in Alaska
- effect of distance from other states

It is our feeling that these issues need to be addressed before legislation appropriate to Alaska can be written.

To your request that I respond to HB 338, I offer the following comments.

#### General

The Alaska Constitution provides for no dedication of funds. As such, the lottery office would be subject to annual legislative appropriation. This could very possibly jeopardize the credibility of the lottery should its budget be too limited--even for worthy reasons.

We recommend that the board be given more express policy authority and that the executive director clearly be answerable to the board. The executive director would then recommend policy with board approval.

Enforcement provisions are absent from this legislation. It is our belief that enforcement should be a function of the lottery office rather than the State Troopers. The Troopers will have expected priorities above the lottery, but the lottery must, at all times, hold the confidence of the players through proper security and enforcement provisions.

With so many determinations for policy to be made by the director and the board, a fiscal note is nearly impossible to guess. A lottery will need to be capitalized, but the games to be introduced will have bearing on whether the capitalization should be \$2 million or \$12 million.

Most states require that the odds of any given game be advertised. We recommend that such a requirement be included in law.

A provision for lottery security and for verification of winners is advisable.

#### Section Comments

020 Lines of authority and responsibility should be firmly established in the board. For example, even though this section vests the powers of the corporation in the board, section 040(3) provides that the board "advise and make recommendations to the director."

050(2) apportionment of lottery proceeds should be flexible. Annual goals should be set, but individual games will, by virtue of sales volumes, have a varied apportionment of costs and prizes.

(3) insert some parameters for licensing contractors and retailers. Require by law that they have no history of criminal activity, and provide the board with regulatory authority to add additional qualifications.

060 Again, we recommend ultimate policy determination be held by the board. This should include the ability to set salaries apart from the state salary structure. Direction to conduct background checks is also recommended.

070(3) Contracting with qualified retailers is preferable to licensing. Contracts can be written to cover unique circumstances and will provide greater protection to the lottery.

080 There are many types of lotteries. We suggest that all responsibilities of this section be submitted by the director as recommendations for approval by the board.

100 Again, we recommend contracting over licensing. No contract should be entered into with any businesses whose principals have a criminal record.

110 In the absence of licensing, a filing fee should be charged sufficient to cover the costs of the background checks and processing. This would run about \$200.

120 Revocation provisions could be specific to each contract.

130 The board, after recommendation by the director, should establish the policies for retailer commissions, incentive awards, et. al.

140(a) Payment of the retailer's compensation should be a provision in the negotiated contract to provide the greatest protection to the lottery.

(b) Reporting should also be part of the contract negotiations. Parameters for compensation and reporting along with all other provisions of this section should be set by the board allowing for more flexible contract negotiations by the executive director and the retailer.

210 A provision allowing payment by annuity is advised.

220 We recommend that unclaimed prize money be held for six months rather than one year. As this section is written, there is likely a constitutional problem with rolling these monies back into prizes.

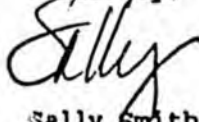
300(b) Although we agree that retailers should be precluded from purchasing tickets and winning resulting prizes, there may be a problem with the wording of this section which also precludes them from winning prizes which may be part of their sales incentives.

The Honorable Mike Navarre  
January 30, 1986  
Page 4

Once again, Mr. Chairman, I strongly recommend that this issue be given full-time, professional attention before we enter the lottery arena. We do not border other, more populous states. We do not have a rural road system. We have fewer people per square mile than any other state in the Union. In short, there are too many comparisons which do not compare. A lottery is a gamble no matter the level of expertise, but by fully understanding our odds, we can better decide if we can afford to play. Appointment of a commission and staff to review Alaska-specific questions will provide a safeguard to adopting legislation which may or may not enhance state revenues.

Should you or members of your committee have questions, I shall be pleased to do my best to respond.

Sincerely,



Sally Smith  
Director

cc: The Honorable Dave Thompson  
Alaska State Representative

SS:cv  
86-29

## ARGUMENTS AGAINST A STATE-OPERATED LOTTERY

Testimony Prepared  
by  
Dr. Larry Braidfoot  
Christian Life Commission  
Southern Baptist Convention  
Nashville, Tennessee  
December 15, 1985

Commended for study and reflection by the following Alaskans:

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## A LOTTERY IS A REGRESSIVE SOURCE OF TAXATION

The entire debate about state-operated lotteries is a result of the pressure for more revenues for the states. Within this present context, lotteries are purely and simply viewed as means of raising revenues from the citizens of the state who are either inclined, or can be enticed, into playing the lotteries. Since the result is to clearly function as a tax, the lotteries must be judged by the manner in which they function, which includes a consideration of those from whom the state raises revenue.

State-operated lotteries follow a pattern in developing the games which are played by the gamblers. Usually they turn to the daily "numbers" game to hike revenues which level off and decline after the start-up period for the lottery.<sup>1</sup>

The "numbers" or player selection lottery games generate the major portion of the revenue derived from state-operated lotteries. From 1976 through 1979, Maryland's lottery netted \$145 million for the state, and \$138 million of it was from the daily numbers game. Since Pennsylvania introduced its daily numbers game in 1977, 70 percent of its income has come from the daily numbers game.<sup>2</sup> In fiscal 1982, 88.8 percent of New Jersey's lottery income was from daily numbers games.<sup>3</sup>

There can be no reasonable doubt that the daily numbers game, the one upon which most of the state-operated lotteries depend for their main source of revenue, appeals primarily to the poor and to the minor members of our society. Its appeal is based on the illusory promise and the desperate hope of a big win.<sup>4</sup>

Most forms of gambling are highly regressive when viewed as forms of taxation. This is not a new conclusion. It was clearly demonstrated by the research done in connection with the Presidential Commission on the Review of the National Policy Toward Gambling. Of the 11 different types of gambling reviewed, all but two, casinos and illegal sports booking bets, were regressive. When Nevada residents were surveyed, even casino gambling was found to be regressive. The only reason that casino gambling was not regressive for the population of the United States as a whole is that poor people outside of Nevada lacked the funds to travel to Nevada, which was the only state with legal casino gambling when that study was made.<sup>5</sup>

Daniel B. Suits, an economics professor at Michigan State University, has pointed out on several occasions that low-income lottery players wager a disproportionately high percentage of their income on the lottery, with the numbers game having the primary appeal.<sup>6</sup>

Perhaps the most conclusive evidence of the manner in which lotteries appeal to poor people is the fact that their outlets

are concentrated in poorer neighborhoods.<sup>7</sup> One highly informative study was done in New Castle County, Delaware, in 1979. The study found no lottery outlets in the upper-income neighborhoods where 17,630 persons lived. There was one lottery outlet for every 17,774 persons in upper-middle income neighborhoods. There was one lottery outlet for every 5,032 persons in the lower-middle to middle-income neighborhoods. There was one lottery outlet for every 1,981 persons in the poorest neighborhoods.<sup>8</sup>

State-operated lotteries are a regressive and inefficient way to raise taxes. A form of taxation is regressive if it draws a larger percentage of its revenue from the poorer citizens than from middle- and upper-class citizens. It is regressive if a poorer person spends a higher percentage of his or her income on the activity than does the person of modest or affluent means. Such is clearly the case with the lottery.

State-operated lotteries are among the most regressive forms of legalized gambling. They are almost twice as regressive as pari-mutuel wagering on horses. The conclusions of the study of the Presidential Commission have been supported by a number of other studies which have reported remarkably similar results. In all of the studies, persons with incomes below \$5,000 spent a much larger percentage of their personal income on the lottery. The most revealing comparison is the amount spent on the lottery out of every thousand dollars of income. In Connecticut, the figure was 14 times greater for those with incomes below \$5,000 than for those with incomes of \$25,000 or more; in Massachusetts, 15.5 times greater; in Maryland, regarded as perhaps the most successful state lottery, the figure was 21.5 times greater.<sup>9</sup> One of the few forms of gambling which was more regressive than state-operated lotteries was the illegal numbers game.<sup>10</sup> But that same game is now being run by state-operated lotteries in a number of "player choice" games, which was not so when most of these studies were conducted. So the state-operated lotteries of today are even more regressive than 4 of the 5 studies demonstrated.

The player selection games, which represent the main source of revenue for state lotteries, have been identified as having a disproportionate drawing from lower socioeconomic groups. One of the earliest studies to detect this heavy appeal was conducted by Dr. Mark Abrahamson, Professor of Sociology, University of Connecticut.

That study offered several recommendations: "Connecticut Daily Numbers primarily attracts poor, long-term unemployed and less educated participation. It generates State revenue in a regressive manner and should be discontinued."<sup>11</sup>

It might also be instructive to note some relevant information which can be derived about lottery regressivity from persons and organizations associated with the lottery industry.

Scientific Games, Inc., a subsidiary of Bally, Inc., is a leading supplier of products for the operation of state-operated lotteries.

Scientific Games, Inc., is such a strong advocate of state-operated lotteries that it serves as a catalyst in states considering the adoption of state-operated lotteries. Published reports have indicated that Scientific Games has spent in excess of \$2.1 in California in getting the lottery issue on the ballot,<sup>12</sup> approximately \$200,000 in Arizona,<sup>13</sup> \$150,000 in Oregon,<sup>14</sup> perhaps another \$150,000 in Colorado and the District of Columbia,<sup>15</sup> hired a lobbyist in Missouri, and spent unidentified amounts in states such as West Virginia, Louisiana, Mississippi, and New Mexico.

These funds were expended in a variety of ways: for petition circulators, for lawyers fees, for promotion campaigns, and other activities connected with the development of a campaign for legalization of a state lottery. Clearly Scientific Games is fully involved with the marketing and development of state-operated lotteries.

In 1982 Daniel Bower, president and cofounder of Scientific Games, Inc., addressed the Fourth Annual Gaming Conference and International Gaming Congress at the Dunes Hotel in Las Vegas, Nevada.<sup>16</sup> On that occasion he identified the principal players of the three different forms of lottery games being played: the weekly draw game, the instant game, and the player selection game. These different games were introduced chronologically in that general sequence and each form of the lottery represented an approximate tripling of the activity being realized by the predecessor.

The weekly draw game attracts players "most likely to be white male, and on the middle to lower side of the occupational scale. A majority of the players are age 55 or older."

The dollar instant game is most likely to be played by those who are white and male, but somewhat younger than those playing the weekly draw game.

The big attraction, however, is the player selection game, which in some states represents almost 90% of the net sales of the lottery. According to Bower, the player "is most likely to be a nonwhite male employed as a laborer or service worker. Most players have less than an eighth grade education and few have more than a high school education."

In expounding on the merits of the development of the "video lottery," considered to be the "state of the art for the future," Bower noted that it will attract a new group of consumers not yet attracted by existing forms of the lottery. This group is "younger, better educated, more affluent and higher in

occupational status." Surveys he quoted in this address indicate an awareness that white-collar, upper-income individuals do not presently play the lottery.

Thus it seems clear that the proponents of the lottery are aware that their product attracts individuals on the lower income strata of society, on the low end of the educational and professional ladder.

Public Gaming Magazine carried a series of articles describing a study conducted by Dr. John Koza, chairman and chief executive officer of Scientific Games. Dr. Koza received a Ph. D. in computer science from the University of Michigan. The study conducted was of participation in the lottery in New Jersey.

The most instructive part of the study was reported in Part IV of the series.<sup>17</sup> In that article, Koza identified the leading neighborhoods in terms of the participation in the lottery. He identified the leading four kinds of neighborhoods in playing the different games sponsored by the New Jersey lottery. It should be noted that the New Jersey lottery does not have a weekly draw game. This has been abandoned as among the least profitable. The New Jersey lottery has the instant game and three forms of the player selection game: Pick 3, Pick 4, and Pick 6.

Since Koza identified the leading four neighborhoods for each form of the lottery, a total of 16 possibilities existed in determining the leaders in playing the lottery. Of the 16 possibilities, only 2 neighborhoods were either middle-class or upper-class level in income, both with the instant game. The other two neighborhoods which showed up among the leaders in playing the instant game were identified as follows:

- o Older Population, Lower-Middle Income, Eastern Europeans, Northeastern U.S., and
- o Older Population, Lower-Middle Income, Low Value, Very Old Housing.

The kind of neighborhood which was the leader in both Pick 3 and Pick 4 was identified as Black Neighborhood, Older Population, Old Rental Housing. This neighborhood was the fourth leading neighborhood in playing Pick 6. The frequency with which this kind of neighborhood played Pick 3 was 2.46 times greater than average, 2.29 greater than average for Pick 4, and 1.23 times greater than average for the Pick 6 game.

A second leading neighborhood in playing the player selection games sponsored by the lottery is identified as Older Population, Lower-Middle Income, Small Towns. This neighborhood was third in Pick 3, fourth in Pick 4, and second in Pick 6 playing.

The neighborhood which was identified as Older Population, Lower-Middle Income, Eastern Europeans, Northeastern U.S., which was the leader in the instant game, was second in both Pick 3 and Pick 4 and third in Pick 6.

The other neighborhood to note is identified as Hispanic Neighborhood, Poor Families, Very Old Housing. This neighborhood was identified as being fourth in Pick 3, third in Pick 4, and second in Pick 6.

Thus of the 16 possibilities, only 2 of the neighborhoods<sup>18</sup> represented income levels classified as middle-class or above.

The public policy question can be posed simply: Should a state sponsor a lottery which is calculated to have a disproportionate appeal to individuals from the lower socioeconomic classes of our society, thereby extracting a disproportionate share of state revenue from them? NO!

#### A LOTTERY WILL KNOWINGLY APPEAL DISPROPORTIONATELY TO ETHNIC MINORITIES

One characteristic of state lotteries has not adequately been noted by the literature which has analyzed their operation. Objective studies which have focused on the regressivity of the lotteries have dealt with ethnic identification less precisely than would have been desired. However, it now is apparent that there is a clear awareness that state lotteries have a dramatic appeal to ethnic minorities which transcends even lottery regressivity.

At the time of the study done for the Presidential Commission on the Review of the National Policy Toward Gambling, the daily numbers or player selection games had not yet become the staple of the lottery industry. While some states had introduced them, other states had not yet done so and information was lacking about their participation. The study indicated that 25% of the white population had bought a lottery ticket in 1974, whereas only 19% of nonwhites had done so. So in 1974, the nonwhite<sup>19</sup> population was less attracted to the lottery than were whites.

At this point it should be noted that the daily numbers games had a long history, going back for decades, in ghettos of the black and Hispanic communities. The game had a profound sociological impact upon the community.<sup>20</sup> There is little question that the introduction of a legal numbers game had a profound result on black and Hispanic participation in the state lottery. Abrahamson's study reports the following conclusion about the Connecticut daily numbers game: "The Connecticut daily lottery attracts predominantly black, low income, daily bettors who continue to play the illegal numbers game at the same time ...."<sup>21</sup> This was true in spite of original restrictions about

the sale of these tickets in lower socio-economic neighborhoods, which restrictions subsequently were eliminated.

This contention is further demonstrated by the quote from Bower mentioned earlier: "The player selection games in the U.S. primarily attract the low-income, minority market. The player is most likely to be a nonwhite male employed as a laborer or service worker."<sup>22</sup>

Koza's study further demonstrates the dramatic appeal that state-operated lotteries have to ethnic minorities. In Part I of his study, he indicated that blacks and Hispanics played the Pick 4 game with 1.99 the frequency of the average population, or almost double. The Pick 3 game attracted blacks and Hispanics with 1.97 times<sup>23</sup> the frequency of the average population, or almost double.

One Michigan legislator, Representative Joe Young, Jr. (D-Detroit) began raising these kinds of questions in 1983. Lottery officials had apparently very little data on who played the lottery. According to officials of Market Opinion Research of Detroit, the proportion of blacks who play is higher than whites, and among those who play, blacks play with greater frequency. "This sort of data is not lost on Young, who is black, and who has concerns that Michigan's lottery, subtly or otherwise, preys on inner-city residents and is, in effect, a tax on poor people and black people." This conclusion seemed to be reinforced by statistics indicating that 47% of the Michigan on-line lottery outlets were in the Detroit city limits.<sup>24</sup>

Further inquiry is needed into this apparently conscious direction and marketing of the player selection games to ethnic minorities. The indication is that state lotteries knowingly derive a significant percent of their income from games directly targeted to blacks and Hispanics. As such, I believe strongly that this is a form of ethnic exploitation that is at least implicitly racist and should not be tolerated in a civilized nation.

I might not have been sensitive to this dimension of the issue of state-operated lotteries except for a phone conversation which I had with the director of one state lottery, whom I am not at liberty to identify. As a native of Texas and a current resident of Tennessee, I was relatively unfamiliar with a lottery. This individual was explaining to me the daily numbers game. When I experienced difficulty in understanding what he was relating to me, he resorted to the use of a racial slur in order to clarify the nature of the game: "Fellow, the numbers game is what is called 'Nigger pool.'" I learned from that comment more than the simple mechanics of the game.

A LOTTERY WILL NOT REDUCE  
ILLEGAL GAMBLING BUT WILL STIMULATE IT

One of the main arguments advanced for the legalization of state lotteries is that legalization will cut into illegal gambling and thereby cut off a major source of funds for organized crime. This contention is not supported by evidence.

It is understandable that a society would be concerned about organized crime. In 1980, Forbes magazine ran a series of articles on organized crime that estimated the income of organized crime at \$150 billion per year.<sup>25</sup> Of that amount, approximately \$22 billion was projected to result from illegal gambling activity. Income from organized crime derived from illegal gambling serves as seed money for drug traffic.

In January of 1984, an interview was conducted with Mr. Sean McWeeney of the FBI. He is chief of the organized crime section of the criminal investigative division. Mr. McWeeney declined to speculate on the amount of income organized crime derives from illegal gambling, but he did express disagreement with the idea that legalization of a form of gambling will reduce the amount of illegal gambling and thereby reduce organized crime's association with gambling.

"The major problem is credit," McWeeney said. "Legal gambling creates new gamblers who switch over to illegal gambling when their money is exhausted. They switch to the illegal games because they can get credit." Although acknowledging that he did not possess statistics, he did estimate that organized crime derives more income from its involvement with illegal lotteries than from its more publicized involvement with casinos.

"Small individual bets by themselves don't seem significant. But millions of these small bets provide an enormous source of income which can then be used in other organized crime activities like the narcotics trade."

"Those who go overboard in their betting are likely to wind up getting involved with loan sharks. Only then, when they are unable to pay the exorbitant fees, do they run into the violent aspect of organized crime," said McWeeney.

Legal lotteries are unable to compete effectively with illegal lotteries for three reasons. First, they have higher overhead because a part of the total wagered goes to the state. Second, they make lower payouts than the illegal lotteries. Third, illegal lotteries do not report winnings to the Internal Revenue Service. This applies to the weekly drawing, instant games, and the daily numbers game. It remains to be seen what effect the Lotto games will have on this picture.

The conclusion from law enforcement sources and studies seems to have disputed for a number of years the idea that legalization of a form of gambling will have the effect of reducing illegal gambling.

In 1974, the Fund for the City of New York and the Twentieth Century Fund sponsored a Task Force On Legalized Gambling. Two relevant conclusions were stated by that Task Force: "Legalized gambling probably cannot simultaneously serve the objectives of both maximum gains in revenues and improved law enforcement. A policy designed solely to maximize public revenue from gambling may conflict with other policies in the public interest. The law enforcement benefits of legalization are more important than the revenue potential. But even though legalization of certain specific games may make a noticeable dent in the volume of illegal gambling, legalization of most forms of gambling--unless accompanied by greatly increased law enforcement efforts--will not eliminate illegal gambling operations."<sup>26</sup>

One of the forms of legalized gambling which the Task Force thought promising was the legal numbers game. This optimism seems unjustified, however. Captain Dennis Deneen, vice control commander for the Chicago police is quoted as saying: "Our biggest problem right now is the illegal booking of the state lottery."<sup>27</sup>

This is a situation which has been noted also in Washington, D.C. "Washington's illegal numbers racket is booming, with profits as large as they've ever been, despite the introduction of the District's first legal gambling last August," according to D.C. police officials. "...Matching the illegal game against the legal lottery 'is like two guys in a boxing ring, one with an arm tied behind his back,'" said Howard Klein, associate publisher of Gaming Business magazine in New York and an expert on legal and illegal lotteries. "We expect the illegal numbers game to continue to flourish in spite of any legal games," Inspector Kris Coligan, chief of the D.C. police morals division, said. "Obviously, a legalized lottery is not going to stop the illegal numbers game that we have now," said police chief Maurice Turner, citing a similar pattern in other cities where legalized gambling has been introduced."<sup>28</sup>

The matter was made worse in Washington, D.C. by the use of preprinted slips to be used in connection with the legal numbers game. But these slips can be used by the operators of the illegal games, making arrest and prosecution for illegal gambling almost impossible. "With the use of official government-sanctioned bet slips, numbers operators would be able to tell police that their slips were meant for use in the legal game even if they were instead planned for use in the illegal game."<sup>29</sup>

In 1978, hearings in Florida by the Senate Permanent Subcommittee on Investigations stated the following conclusion: "Thus, while the level of illegal lottery activity cannot be labeled 'wide open' it is definitely widespread." The report indicated that one operation alone grossed in excess of \$10 million. Lottery operators were discovered to have clear links with organized crime families both in Florida and in the New York/New Jersey areas."<sup>30</sup>

A study financed by the National Institute of Law Enforcement and Criminal Justice, the research arm of the LEAA, contained the following statement: "Police efforts against gambling could not be reduced, even with legalization, because there is no evidence that legalized wagering decreases illegal gambling...." "Major systemwide gambling-related corruption scandals in the recent past have been more likely to occur in cities where organized crime was thought to be directly involved in illegal gambling."<sup>31</sup>

Senator Strom Thurmond's Judiciary Committee took testimony from Lt. Colonel Justin J. Dintino, commander of the Intelligence Division of the New Jersey State Police. Mr. Dintino is a member of the Presidential Commission on Organized Crime. The following excerpt is instructive:

Sen. Thurmond: "In other words, you're saying that when you legalize gambling it has increased other gambling, is that right?"

Dintino: "Yes, in other words, when you introduce gambling to an area where they never had gambling before, you now develop a whole new group of individuals who start to gamble. Now, as a result of that, they may initially start out with legal gambling, but some of those people will turn to the illegal gambling because maybe it offers them higher payments and there are no tax payments that have to be made."<sup>32</sup>

Mr. Austin McGuigan, Chief State's Attorney, State of Connecticut, has successfully prosecuted the operators of the lottery on two separate occasions. He suggested that, upon legalization of gambling, including the lottery, rather than pretending to regulate the activity, the state post a sign which says something like the following: "The state does not guarantee the honesty or integrity of this game."

Mr. McGuigan's comments seem appropriate. A sufficient number of instances of corruption have occurred to indicate that state-operated lotteries indeed are not free of corruption. Ample evidence exists to indicate the proliferation of illegal gambling under the umbrella created by a state-operated lottery.

Establishment of lotteries does not carry with it sufficient funding for the law enforcement necessary to guarantee the honesty of the game and to control the growth of illegal gambling which takes place within the state environment.

One illustration of this is a report prepared by Gregory H. Smith, Attorney General of the State of New Hampshire. The report regarding Bally Manufacturing Corporation was prepared in response to the prospect of the state of New Hampshire entering a contract with Scientific Games, Inc., a wholly-owned subsidiary of Bally, in connection with the New Hampshire lottery. Mr.

Smith recommended against doing business with Scientific Games because of his review of Bally's record. His report was eventually ignored by the Commissioners of the Sweepstakes Commission, who contracted with Scientific Games, over the opposition of the Attorney General of the state.<sup>33</sup>

It has long been recognized that the two goals, maximization of revenue and crime control, are not compatible. There is no doubt that the state-operated lotteries come down strongly on the side of maximization of revenues and that crime control is something which becomes neglected.

Should a state establish a lottery when the inevitable problem of controlling illegal gambling is rendered even more difficult? NO!

#### A LOTTERY WILL CONTRIBUTE TO GROWTH IN THE NUMBER OF PROBLEM GAMBLERS

In 1981, the American Psychiatric Association classified compulsive gambling as a mental disorder. Thus, compulsive gambling is recognized as a disease, an illness, in the same vein as drug addiction or alcoholism. Estimates vary as to the number of compulsive gamblers in the nation, just as estimates vary about the number of drug addicts in the nation. Most estimates suggest the number is about 8 million. This means that there are about 8 million persons in our nation who are unable to control their urge to gamble.

The introduction of a state lottery places the state in a paradoxical role in relation to these individuals. If we are to take seriously the mandate to "promote the general welfare," our nation and our states must provide medical attention for these individuals just as we seek to do for the drug addict. Yet the introduction of a state-operated lottery would put the state in the position of being the huckster that promotes the very activity which is detrimental to the health of the individual. The constant promotions on television, the daily announcement of the winners, the conduct of an activity which is glorified by newspapers and television reporting--all of this carries with it the imprimatur of the state, legitimatizing the activity which for some will grow beyond their ability to control.

A few samples of information may dramatize slightly the seriousness of the problem. Many of us noted with sadness the plight of the 19-year old boy who wagered \$6,000 on a lottery drawing and attempted suicide after losing rather than have a confrontation with his father over the squandering of his savings.<sup>34</sup>

Although this example is extreme, other kinds of personal tragedy are almost as severe, although not as widely publicized.

Perhaps the most dramatic growth in compulsive gambling has been among women. Earlier studies had identified the problem as essentially a man's problem. But Arnie Wexler, vice president of the National Council on Compulsive Gambling, has stated that about 25% of the compulsive gamblers are now women.<sup>35</sup>

In 1977, New York City police chaplain Msgr. Joseph Dunne estimated that perhaps 1,500 of the 25,000 New York City policemen might have a gambling problem that would require professional counseling to help overcome.<sup>36</sup> Gerald T. Fulcher of the Delaware Council on Gambling Problems states that 86% of compulsive gamblers have committed felony crimes while pursuing their addiction. A study seriously needed is one which would seek to identify the amount of money lost through the commission of these crimes by compulsive gamblers. The amount would stagger the imagination and would serve as an antidote for myopic projections about the good that legalized gambling does for a state's economy. Fulcher cites estimates from the American insurance industry which indicate that about 40% of "white collar crime" is committed by compulsive gamblers. In addition, he cites studies that almost 20% of wife abuse cases involve domestic tension resulting from compulsive gambling.<sup>37</sup>

Mr. Thomas J. O'Brien, director of the New Jersey Division of Gaming Enforcement asserts, "We're creating a whole generation of gamblers in this country. The person with access to funds will be increasingly susceptible to committing crimes such as embezzlement."<sup>38</sup>

Perhaps the biggest timebomb is the problem of compulsive gambling among teenagers. An address at a thoroughbred racing meeting contained the following warning: "Someone on the lottery commission also wants to put lottery tickets in slot machines, where you can go right into any place, press a button, put your money in, and get your ticket. It is also going to be available to high school students. Their lunch money is going to go in there like it has gone into all of those video games."<sup>39</sup>

One way to deal substantively with the issue of compulsive gambling is to note several studies and articles dealing with compulsive gambling in New Jersey.

A 1979 study was conducted by Mr. Rickey Greene of the New Jersey Department of Health, Alcohol, Narcotic and Drug Abuse Unit. I simply note some of the highlights of his study:

- o Individuals who are probable compulsive gamblers are five times as likely to have been married three or more times than the population in general.
- o The average compulsive gambler affects four to ten other individuals.
- o One study indicates that there are as many women compulsive gamblers as there are men.

- o Studies indicate that in excess of 90% of compulsive gamblers began gambling prior to age 21.
- o Lottery tickets are highly accessible to children since they are sold in locations which are readily available, such as candy stores, supermarkets, and news stands.<sup>40</sup>

In 1981, committee hearings were held on the subject of compulsive gambling by the Assembly Institutions, Health and Welfare Committee of the New Jersey Legislature. One of those testifying was Mr. Robert Klein, a specialist counselor at the Atlantic City High School, working with problems of addiction such as compulsive gambling. He had conducted a survey among Atlantic City High School students regarding their gambling behavior. He noted the following results:

- o 72% of the students gambled in the casinos in New Jersey.
- o 69% started gambling at the age of 16.
- o 6% started gambling at the ages of 10-12.
- o 9% started gambling before the age of 10.
- o 6% shoplift to get money to gamble.
- o 3% sold drugs to get money to gamble.<sup>41</sup>

If 72% of the students have gambled at one time or another, or with some frequency, in casinos, with all of the attempts at regulation and control, how can we seriously contend that lottery sales can be conducted so as to assure that children do not take advantage of the greater availability of lottery tickets? We can't.

One last statement from New Jersey seems appropriate. Mr. Walter Read, Chairman of the New Jersey Casino Control Commission made the following statements:

"Fifteen years ago there were no women and no teenagers in Gamblers Anonymous. Today there are 20 percent teenagers and 20 percent women. A common profile of a compulsive gambler today would be someone under 30 years of age and \$85,000 in debt."<sup>42</sup>

The lottery industry insists that its product is not a major contributor to the problem of compulsive gambling. It should be noted, however, that neither the casino industry nor the pari-mutuel industry regards its product as the primary cause of growth in compulsive gambling either.

Attempting to separate the lottery industry from the problem of compulsive gambling is inconsistent with the way in which the lottery industry views itself and in turn is viewed by other parts of the gambling industry.

In an editorial explaining why the pari-mutuel industry should not look at the lottery as an opponent, Irving Babson made the following statement: "Over the past five years we have taken the position repeatedly that, rather than take away players,

lotteries create risk takers in the most cost-effective, efficient manner possible."<sup>43</sup> (Emphasis added.)

Such an outlook is perfectly consistent with the attitude expressed by one representative of the casino industry at the recent Conference on Gambling and Risk Taking held in December in Atlantic City. In a discussion of the lottery industry, Mr. Vern Kite, Director of Planning and Economic Research, Harrah's East, made the following statement: "Lotteries are a way to educate people about a way of entertainment. They can learn about it at home. Then they will look to Atlantic City as a destination for our type of entertainment."

These viewpoints recognize that a state-operated lottery more widely distributes points of contact between the gambling industry and potential clients. By going into the business and residential communities, gambling is made more respectable, especially since it carries with it the imprimatur of the state.

The study of gambling in New Jersey conducted by Koza is also informative at this point. By using his figures on the percent of New Jersey adults who are regular players, it was possible to make some estimates on the amount of money wagered by the "regular" players of the different lottery games:

- o Instant game. The per capita expenditure was \$12, and the figure for the 16% who played twice monthly or more often was \$63.15.
- o Weekly game (Pick 4). The per capita expenditure was \$18-19, and the figure for the 14% who played twice monthly or more often was \$126.
- o Lotto game (Pick 6). The per capita expenditure was \$26-27, and the figure for the 22% who played twice monthly or more was \$110.
- o Daily game (Pick 3). The per capita expenditure was \$73-74, and the figure for the 13.1% who played weekly was \$505. The figure for the 4.7% of the adults who played daily was \$991.

These figures clearly demonstrate that the lottery has the kind of attraction that can become addicting. This is especially true for the daily game, which provides both the immediate gratification and a sufficiently large prize to provide the "action" desired.

There is no doubt that the problem of compulsive and problem gambling is increasing dramatically. The Presidential Commission Report is worth remembering in this regard: "The Commission's research has shown that the availability of legal gambling creates new gamblers. A government that wishes merely to legitimize existing illegal wagering must recognize the clear danger that legalization may lead to unexpected and ungovernable increases in the size of the gambling clientele."<sup>44</sup>

Other relevant quotes are also noteworthy: "By directly engaging in the promotion of a gambling business, a State takes on the responsibility of insuring that the enterprise is conducted in the best interests of the people. Indeed, the State as lottery entrepreneur has a special fiduciary responsibility to its citizens; since the presumption exists that the State is acting on behalf of the people, it has an obligation to inform them of its intentions to profit from the participation. Accordingly, the State must take care to inform the public fully as to the odds and character of the games being offered, and to avoid any misleading practices in its advertisements and promotional activities.... The states should conscientiously disseminate information about the probabilities involved in winning a prize, and should scrupulously limit their lottery advertisements to those informing the public of the existence and nature of the games offered, rather than actively encouraging them to participate."<sup>45</sup>

The Report continues: "In this context, the States have the responsibility to police themselves. Should they fail in this responsibility, Congress should consider giving the Federal Trade Commission the explicit authority to set and enforce compulsory guidelines."<sup>46</sup>

At the press conference connected with the jackpot in Illinois, which produced a \$40 million jackpot, one of those attending was Governor Jim Thompson who had publicly purchased tickets for the jackpot. Governor Thompson is quoted as saying: "I think it's terrific. There are no losers in the Illinois Lottery...."<sup>47</sup> How far is this quote from being exactly the kind of state action about which the Presidential Commission Report was warning?

It is clear that no other form of legalized gambling will bring the activity more visibly into the community. Those who choose to utilize the services of a casino or a racetrack have to travel to that facility to engage in gambling. This is not so with the lottery. Because of its greater availability, it has much greater potential for doing exactly what the Presidential Commission warned against: encouraging people to gamble rather than simply allowing those to gamble who might choose to do so. The lottery goes into the community with its outlets. It goes on television and advertises under the banner of the state's name. One has to look long and hard for information about how poor the chances of winning are.

Should a state establish a lottery which will increase the number of compulsive and problem gamblers in our society? NO!

#### CONCLUSION

Several quotes are especially relevant to express opposition, and that of many individuals and organizations,

regarding this legislation. A quote of Harry Reid, then chairman of the Nevada Gaming Control Commission and now U.S. Representative, seems relevant: "I'd be a fool to say gambling has not been good for the state,...but any state trying to follow Nevada's lead will find that social costs far outweigh any economic benefit."<sup>48</sup>

Likewise recent comments from two individuals connected with the Presidential Commission are relevant.

Mr. James Ritchie, formerly Executive Director of the Commission, is quoted at the Fourth Annual Gaming Conference and International Gaming Congress in 1982 as follows: "There is no question that gaming is regressive in terms of raising revenue. It is inefficient compared with a broad-based tax." "The theory that we developed at the U.S. Commission on Gambling is that, from the standpoint of economics, legal gaming not only feeds on itself and is its own economic stimulus, but it also stimulates illegal gaming."<sup>49</sup>

Mr. Charles H. Morin, chairman of the Commission, in 1983, told the Fifth Annual Gaming Conference:

"The conclusion was that where gambling is legal, it did increase the incidence of illegal gaming.

"Does legalized gaming offer a major source of government funding? We concluded that it is not significant in relation to the budget in almost any state. I think we would conclude the same today."

"Is taxation of gaming particularly regressive? We found that it is, primarily because the survey showed that most gaming was done by the lower and lower-middle classes and that the taxation of those proceeds, if any, was regressive in nature."

"Would legalization of gaming lead to a substantial increase in the number of compulsive gamblers? According to the evidence presented in the survey, the answer was a resounding yes."<sup>50</sup>

The foregoing demonstrates the factual information upon which opposition is based. When the facts are clearly viewed, the kind of assessment upon which public policy should be based weighs heavily against the state-operated lotteries, and that reliance upon them constitutes an abdication of the legitimate role of the state in "promoting the general welfare."

## FOOTNOTES

<sup>1</sup>Chicago Tribune, March 2, 1980, Section 1, p. 6.

<sup>2</sup>Chicago Tribune, March 2, 1980, Section 1, p. 6.

<sup>3</sup>Lucky for New Jersey: New Jersey State Lottery 1982 Annual Report, p. 2.

<sup>4</sup>New York Times, Sept. 23, 1980, p. 23; Rochester Democrat and Chronicle, March 27, 1983, p. 3B; Wall Street Journal, Feb. 23, 1983, Section 2, pp. 31-32.)

<sup>5</sup>Gambling in America: Final Report of the Commission on the Review of the National Policy Toward Gambling (Washington: 1976), p. 91.

<sup>6</sup>Daniel B. Suits, "Gambling Taxes: Regressivity and Revenue Potential," National Tax Journal, Vol. 30 #1 (March, 1977), pp. 22-29; Daniel B. Suits, "Economic Background for Gambling Policy," The Journal of Social Issues, Vol. 35 #3 (1979), pp. 52-57; The Christian Science Monitor, May 12, 1982, p. 10; "Gambling as a Source of Income," in Michigan's Fiscal and Economic Structure, Edited by Harvey E. Brazer (Ann Arbor: The University of Michigan Press, 1982), pp. 828-853.

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<sup>10</sup>Suits, "Gambling Taxes: Regressivity and Revenue Potential," pp. 24-29.

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- <sup>16</sup>Daniel W. Bower, "Video Lottery Devices: A New Generation of Players," Fourth Annual Gaming Conference and International Gaming Congress, 1982 (Philadelphia: Laventhol & Horwath, 1982), pp. 23-24.
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- <sup>21</sup>Mark Abrahamson, Director, and John N. Wright, Assistant Director, Gambling in Connecticut, A Research Report Funded by the Connecticut State Commission on Special Revenues, Storrs, Connecticut, Nov. '77, p. 33.
- <sup>22</sup>Bower, pp. 23-24.
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- <sup>24</sup>Detroit Free Press, June 23 '83.
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<sup>35</sup> Arkansas Democrat, Dec. 26 '83.

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STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

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*Not used by Lottery  
Revised*

*4/16/86 SJB*

*from Bob Thomas*

MEMORANDUM

October 2, 1985

SUBJECT: Alaska State Lottery Commission (SSHB 338)  
TO: Representative Dave Thompson  
FROM: Teresa B. Cramer *TBC*  
Legislative Counsel

I have prepared a draft Sponsor Substitute for HB 338. There are several provisions that you may wish to change.

Sec. 05.18.020(a) vests the powers of the corporation in the board. Later, in Sec. 05.18.040, the board is directed to delegate certain powers to the executive director. The director's powers and responsibilities are set out in Sections 05.18.060-05.18.080.

Sec. 05.18.040(a) gives the board responsibility for the management of the corporation's financial and legal obligations and directs the board to manage the corporation on a self-sustaining basis. It might be more appropriate to direct the corporation to generate revenues.

Sec. 05.18.050(2) directs the board to apportion revenues among prizes and costs. Later, in Sec. 05.18.220, concerning unclaimed prize money, the board is directed to retain a portion of unclaimed prizes for future prizes.

These provisions raise constitutional problems. Article IX, section 7, of the state constitution states

The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article (the Permanent Fund) or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska.

The state supreme court has interpreted "proceeds of any tax or license" to include the sources of any public revenues. State v. Alex, 646 P.2d 203 (Alaska 1982) Therefore, the proceeds from the sale of lottery tickets fall within the prohibition. To avoid the problem, the legislature could appropriate a portion of the revenue to be raised by the sale of lottery tickets to the corporation for prize money and either provide a lapse date two years after the appropriation, permitting the corporation to add unclaimed prize money to future prizes, or could lapse the money after one year and be asked to reappropriate that sum for future prizes in the next budget.

Sec. 05.18.060 sets out the employment policies for the corporation.

Sec. 05.18.110 provides that a lottery sales agent license is valid for one year. You may wish to change the prohibition against charging fees for licensing or license renewal. You may also wish to consider whether a person with several retail outlets should be required to license each outlet or whether one license will cover all listed sales locations. The draft does not now require public display of the license. The director could, under 05.18.080(8), adopt regulations addressing these issues.

Sec. 05.18.110 contains new subsections permitting the director to impose a service charge for dishonored checks and electronic transfers, interest and service charges on overdue debts, and imposing a lien on the property of an agent who owes the corporation money. These are drawn from the Model Act.

Sec. 05.18.220 raises the constitutional questions concerning dedication of funds discussed under Sec. 05.18.050.

Sec. 05.18.300, providing for annual and special audits, is new. Authority to require audits is vested in the board rather than the executive director. The board is required to file copies with the legislature and with the commissioner of revenue. You may wish to require filing with the governor instead of the commissioner.

Sec. 05.18.310, prohibiting certain acts, has been expanded based on the Model Act. Subsection (b) prohibits any

Representative Dave Thompson  
October 2, 1985  
Page 3

contractor of the corporation from purchasing a ticket or share or receiving a lottery prize.

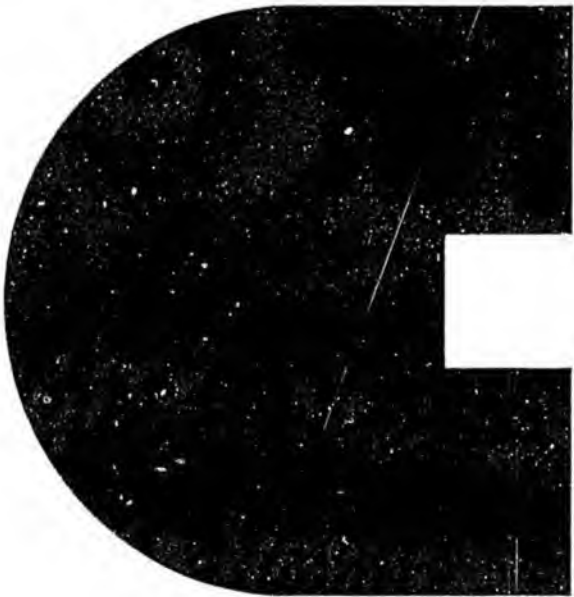
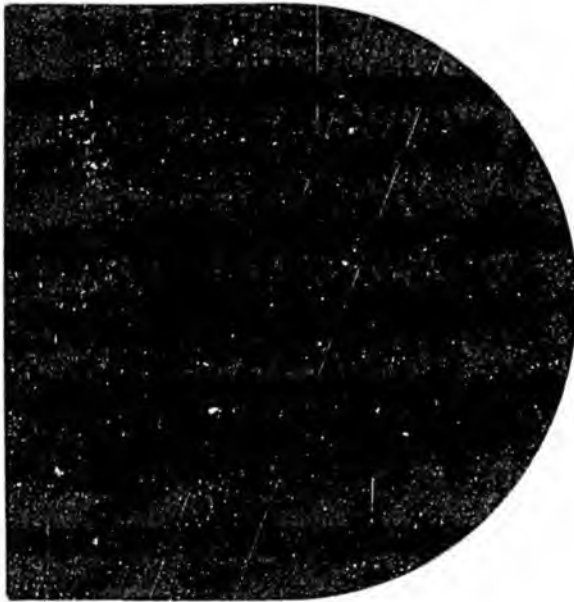
Section 2 amends AS 39.25.110 which lists positions in the exempt service.

If I may be of further assistance, please advise.

TBC:mkr  
M1:022

**DRC**

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OF ALASKA



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OPINION RESEARCH

**STATE-WIDE SURVEY  
CONCERNING LOTTERY**

**PREPARED FOR  
REP. DAVE THOMPSON**

**NOVEMBER 1985**

**DITTMAN RESEARCH CORPORATION OF ALASKA  
1st INTERSTATE BANK OF ALASKA BUILDING  
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METHODOLOGY

During the period of November 1 through November 12, 1985, 502 residents of 51 Alaskan communities were personally contacted by telephone by professional interviewing employees of the Dittman Research Corporation. The views and opinions of the Alaskan residents were recorded on a strictly confidential basis.

Research Design - A random sample was featured which provided that all residents of the communities included had essentially the same chance of being interviewed.

Sample Selection - The Anchorage sample was selected through a computer-generated random digit dialing program. This is particularly important in Anchorage due to a 40% rate of unpublished and unlisted numbers.

The sample in other communities state-wide was randomly selected from current telephone subscribers listed in the most recent directory for each community. In these communities, the percentage of non-listed numbers does not exceed 10%.

STATE-WIDE LOTTERY  
NOVEMBER 1985

PROCESSING THE DATA

Dittman Research employees completed the coding, editing, keypunching and verification, while data processing was completed by the Boeing Computer Services Company through the Statistical Package for the Social Sciences (SPSS) programs. The SPSS package is one of the most sophisticated research-oriented data processing and analytical systems available, and is designed specifically for the processing and analysis of survey research data.

FINDINGS

STATE-WIDE LOTTERY  
NOVEMBER 1985

FINDINGS:

Overall, Alaskans on a state-wide basis support the idea of a lottery by well over a 2:1 margin...

"Some people have suggested it would be a good idea for Alaska to have a state lottery, while others have said it would be a bad idea. What are your views -- do you basically favor or oppose Alaska having a state-wide lottery?"

Favor.....65%  
Oppose.....29%  
Unsure..... 6%

...and the support is basically consistent throughout all geographic regions...

	<u>Favor</u>	<u>Oppose</u>
<b>Region:</b>		
Rural.....	57%	37%
Central.....	65%	28%
Southcentral.....	65%	29%
Anchorage.....	69%	24%
Southeast.....	62%	36%

Demographically, upper income residents are slightly more supportive...

	<u>Favor</u>	<u>Oppose</u>
<b>Income:</b>		
Up to \$20,000.....	64%	32%
\$20,000 - \$40,000.....	64%	30%
\$40,000 - \$60,000.....	65%	30%
\$60,000 plus.....	73%	22%

STATE-WIDE LOTTERY  
NOVEMBER 1985

...and young people are more supportive than older people...

	<u>Favor</u>	<u>Oppose</u>
Age:		
18 - 24 years.....	84%	13%
25 - 40 years.....	67%	28%
41 - 55 years.....	62%	31%
56 years and older.....	44%	46%

...there is little difference based on gender...

	<u>Favor</u>	<u>Oppose</u>
Sex:		
Male.....	66%	30%
Female.....	65%	27%

...and significantly important, the idea of a state-wide lottery has broad appeal across all political boundaries...

	<u>Favor</u>	<u>Oppose</u>
Region:		
Democrat.....	67%	24%
Republican.....	61%	31%
Non-partisan.....	67%	30%

\*\*\*\*\*

STATE-WIDE LOTTERY  
NOVEMBER 1985

**SUMMARY:**

The support for a state-wide lottery is strong and broad throughout Alaska. Only among residents 56 and over does opposition exceed support, while among other age groups, support exceeds opposition by margins of up to 6:1. Overall, in terms of political and geographic constituencies, support exceeds opposition by approximately 2:1 in each geographic area, and Democrats, Republicans and Non-partisan voters all support the idea of a state-wide lottery by 30% margins or more.



FILE CONTENTS HB 338

1. Sponsor Substitute
2. Sectional Analysis
3. Dittman Report
4. Arguments Against State Operated Lottery

DISTRICT 27:  
AKHIOK  
CHIGNIK  
CHIGNIK LAGOON  
CHIGNIK LAKE  
CHINIAK  
IVANOF BAY  
KARLUK  
KODIAK  
LARSEN BAY  
OLD HARBOR  
OUZINKIE  
PERRYVILLE  
PORT LIONS  
WOMENS BAY

# Alaska State Legislature



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(907) 465-2498

P. O. BOX 75  
KODIAK, ALASKA 99615  
(H) (907) 486-4899  
(L/O) (907) 486-8116

Representative  
Dave Thompson

DT: Jan. 22, 1986

TO: Mike Navarre, Chairman  
House Labor & Commerce Committee

FR: Dave Thompson *DW*

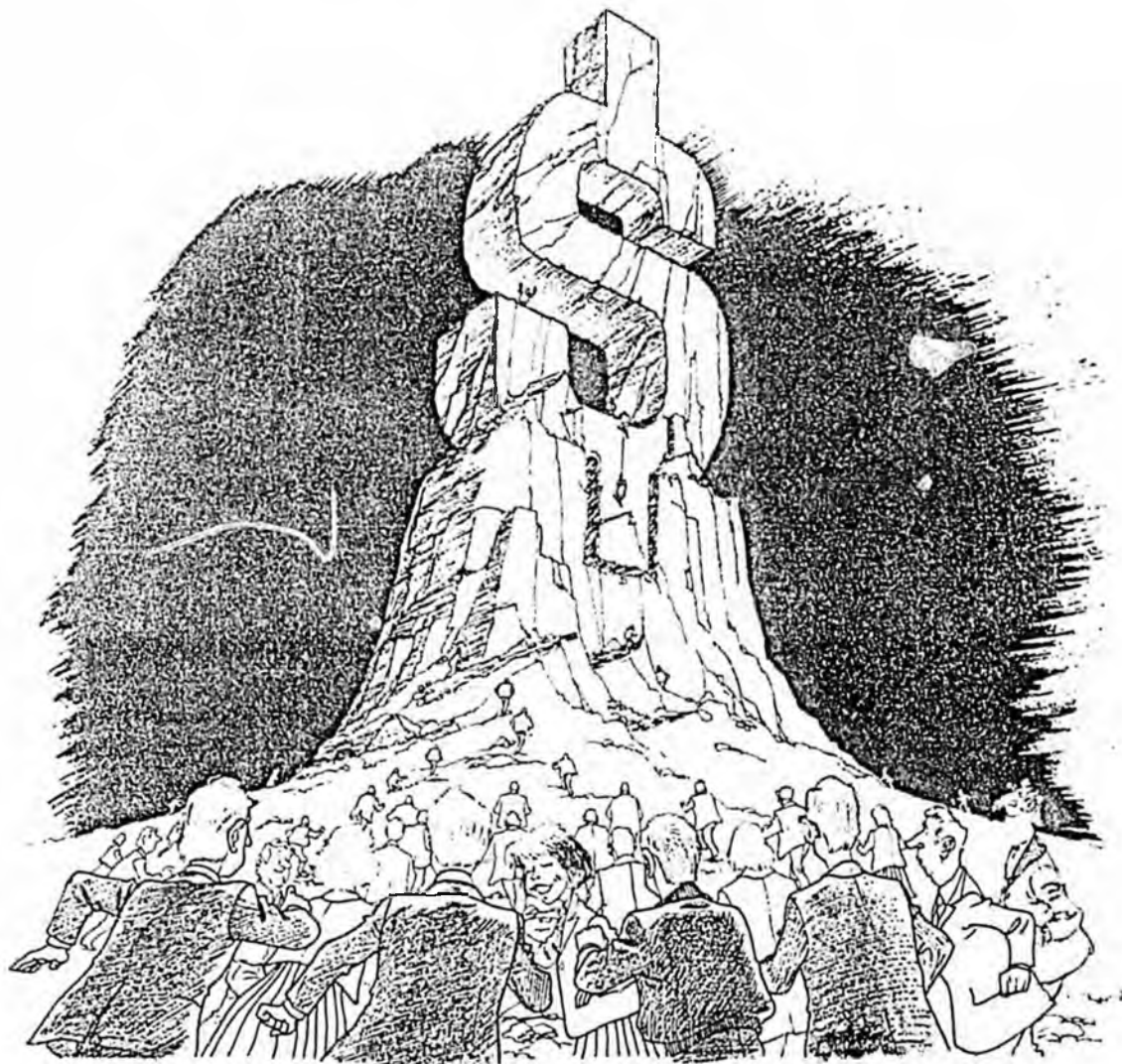
RE: HB 338

I offer the attached substitute for HB 338, an act to establish an Alaskan lottery, for consideration as a committee substitute. This substitute has been developed from considerable research regarding modern lotteries and is patterned after the model suggested by the National Association of State Lotteries.

The major differences between the original bill and this substitute are:

1. The substitute would establish a public for profit corporation as the agency to administer the state lottery. This corporation would be directed by a board of directors appointed by the Governor and confirmed by the legislature. The original bill would establish a division within the Department of Revenue as the administrative agency with a commission to oversee its operations.
2. The substitute allows for the lottery to determine the type of lottery games offered to the public, based upon market conditions and the expertise of staff hired by the corporation. The original bill restricted the types of lottery games to be offered (no instant games), which in turn resulted in a \$13.0 million fiscal note. This change reduces the fiscal note to zero. An appropriation of not more than \$1.5 million, to be repaid within the fiscal year, will be necessary for implementation of the lottery.

## SETTING UP THE CALIFORNIA LOTTERY



# Some will strike it rich before the first ticket is sold

By STEVE WIEGAND

**C**alifornia's lottery has yet to lay its first golden egg, but swarms of people in and out of the state are already whetting their appetites for omelettes. The salivating swarms include educators, vendors of lottery products, advertising agencies and retailers with eyes toward selling lottery tickets. Some are already making money. These include the public-relations firms and lobbyists who have been hired to help assure that their clients receive the most generous shares.

Those who weren't too distracted by the presidential race last fall will recall that California voters approved the

*Steve Wiegand is a Capitol reporter for the San Francisco Chronicle.*

lottery — the state's newest try at taxes-without-pain — by a handy margin. As a result, California is no longer the only state in the 20th Century whose voters rejected a lottery.

That occurred in 1964 following revelations that the ballot measure was drawn so that only its sponsor could bid for the contract to run the lottery. Despite similar allegations this time, voters apparently decided there was enough in a lottery to go around.

That may be a considerable understatement. "I don't think a lot of people out here (in California) appreciate just how big this is going to be," says Daniel Bower, president of Scientific Games, Incorporated, the company that financed the successful lottery initiative drive. "We're talking very big money here."

Estimates of just how big vary according to the estimator's philosophical and economic bent.

Governor George Deukmejian, who opposed the lottery

and who probably wouldn't be broken-hearted if the lottery were less than an overwhelming success, has calculated that first-year sales will reach about \$900 million. Lottery product companies, with more experience at these estimates than Deukmejian and more reason to lean toward cockeyed optimism, say the first year's sales could reach a staggering \$2 billion. And William Hamm, the Legislature's independent analyst who isn't known for leaning too far either way, puts the figure at about \$1.25 billion.

That amounts to about \$50 worth of wagering for every man, woman and child in the state. Since no one under 18 can play the lottery, adults will have to pick up the slack.

#### How big is it?

However you slice it, it comes up big money. How big? Using Hamm's estimate, consider that the lottery will:

- produce more revenue than the combined gross national products of the countries of Chad, Laos and the Solomon Islands;
- be larger than the total budgets of six states;
- amount to more money than the gross revenues received by the top three companies operating in California in 1983; and
- perhaps equal the value of Assembly Speaker Willie Brown's entire wardrobe.

"In terms of net revenues, California's lottery will become one of the nation's top 50 corporations," says Owen Hickey, director of the Colorado lottery, "with all the attending economic ripples."

The most conspicuous ripple, and the one the public is most interested in, is the prize money. Half of the lottery's total revenues will go to prizes, which is a long way from saying that half of the lottery tickets will be winners. Instead, a bunch of lottery players will make contributions, to million-dollar payoffs for a select few (for an alternative, see box).

Another portion — 34 percent — will go to schools, from kindergartens to the University of California. Hamm estimates the schools' share from the first full year of operation at \$500 million. Of that, \$400 million would go to elementary and high schools, an amount equal to 4.2 percent of the total they will receive from state government during the current fiscal year. The rest would be divided

between the state college and university systems, the community colleges and the University of California.

Although not a dime has been gambled so far, educators from state schools chief Bill Honig to local high school department heads are already speculating, squabbling and all but spending. Honig and other officials are debating whether to feed the money into their accounting system in a way that might generate additional state funds. At a local high school, teachers in the music department are at odds over whether to spend the money for new instruments or books.

#### Overhead

The rest of the money? The rest — up to 16 percent, or an estimated \$200 million — is designated for what is euphemistically described as "administrative overhead." A significant slice of that will go to the companies chosen to supply the state with tickets, computer systems and lottery know-how.

Scientific Games, which spent more than \$2 million on California's lottery initiative campaign, spent another \$250,000 to enact a similar measure in Oregon and recently won a ticket-supply contract there, reportedly worth \$5 million. Since California is 10 times bigger than Oregon, it stands to reason that California's contracts will be worth considerably more than pocket change.

Although Scientific Games is considered the front-runner in landing the first California contract, other firms in the still-young-but-already-cutthroat lottery industry have served notice they will be here armed to the teeth with their own proposals. "We expect to be a factor," says Bill Turner of Electro-Sport, an Orange County-based company and one of the few lottery firms with California roots. "There's too much money at stake not to try for part of it."

(Some rivals contend that Scientific Games put language in the initiative — concerning vendor disclosure statements — to favor itself in the bidding. Scientific Games' officials deny the charge and say that this is sour grapes from companies that were not willing to gamble by putting money into the initiative campaign.)

Other firms that have expressed more-than-passing interest in lottery contracts include Illinois-based Response

## LOW JACKPOTS, THOUSANDS OF WINNERS

By ALEX KLINE

With revenues from the pending lottery projected at more than \$1 billion a year, the state of California has the opportunity to devise a unique awards system. By limiting jackpots to \$10,000 each, over 100,000 people could annually win a significant amount of money. As current lotteries go, the odds of striking it rich are 10 or 20 million to one, and for the tiny few lucky enough to win, the silver cloud is often accompanied by broken marriages and friendships and by stable lives suddenly gone haywire.

But if jackpots are kept at around \$10,000, the winners are more likely to put money into something realistic, like a down-payment on a house, seed money for a business or a college fund. But they're not likely to quit their jobs or alienate their friends and family.

*Alex Kline is a freelance writer and an editor with the Center for Innovative Diplomacy in Palo Alto.*

If projected lottery revenues are correct, there could be over 100,000 such winners each year. In ten years over one million people would have won a \$10,000 jackpot. Put another way, the probability of winning the lottery would be closer to one in 10 or 20 thousand than one in 10 or 20 million. That's akin to the difference between the odds of being struck twice by lightning and the odds of having your tax return audited.

Such a lottery would also put large chunks of unanticipated, discretionary money in the hands of many consumers who could then spend for new cars, boats, vacations, parties or the like, thus "stimulating the economy." Or winners might put their money to less-materialistic uses such as better food, education for their children or into a retirement fund. In either case, a significant amount of money would circulate at the lower end of the economy rather than being tied up in large a chunk at the top.

Graphics, a division of Moore Business Forms; Webrcraft Games, a New Jersey-based subsidiary of Beatrice Foods; Control Data Corporation of Bloomington, Minnesota; American Totalisator Company, a division of General Instrument Corporation; Reno-based 101 Corporation; GRECTO, based in Rhode Island; and Games Management, a division of the British-based Vernons Organization.

To further their cause, several lottery firms have already hired public-relations agencies and lobbyists to represent them in Sacramento. Scientific Games has hired Woodward-McDowell, the PR firm that ran the successful lottery initiative. The company has also retained Sacramento lobbyist Nick Konovaloff. Games Management, not to be outdone, has hired Sacramento lobbyist Bernard Teitelbaum and the Los Angeles-based public-relations firm of Cerrell Associates.

#### Other profiteers

Lottery companies aren't the only ones that stand to profit when Californians play the numbers. Telephone companies will doubtless profit handsomely from providing "secured" telephone lines for the lottery system's computers. (The lines are designed to prevent brilliantly sophisticated criminal syndicates, or precocious high school sophomores, from tapping into the winning numbers before the rest of us find out what they are.)

Advertising agencies will also fiercely compete to design the jingles and flashy billboards that will inundate, respectively, the airwaves and roadsides, urging Californians to invest their sporting dollars in the lottery. And then there are the ticket agents, retail establishments and civic and charitable groups lucky enough to be chosen to sell lottery tickets.

Lottery experts say that the rule of thumb for determining the number of ticket outlets needed in a state is to provide one for every 1200 people. In California, that would mean a whopping 20,000 ticket outlets.

Under terms of the lottery initiative, ticket agents can be paid up to five percent of the gross for the tickets they sell, plus incentive bonuses. That can amount to thousands of dollars a month for having been clean enough to pass a security check and doing a little bookkeeping.

For a mom-and-pop store, that's not bad dough. Chain outfits, perhaps more blasé about such sums, must compete for lottery agent contracts also since they have to

Advertisement

ensure that they offer all the services their competitors do.

"If one store in an area is selling tickets," said Scientific Games' Bower, "they all want to. The competition can get fierce."

It already shows signs of that in California. The liquor lobby has argued that ticket outlets should be located in bars and stores that sell liquor, since the employees of those establishments would already be trained to enforce age-restriction laws — such as the lottery's 18-and-over rule. Non-profit groups and civic organizations are arguing that they should have first priority. And large retail chains contend that the tickets should be sold in the places that attract the most people on a daily basis.

Despite its rather unusual status as the only government agency that is expected to make money, the lottery will also have a few things in common with other agencies — namely an army of bureaucrats. Lottery experts from other states estimate California's lottery payroll could easily reach 1000 by the end of the year, with people needed to deliver tickets, act as agents to help — and monitor — ticket sellers, man the computer system and do all those other things bureaucrats find to do. Just how many will be bonafide state employees and how many will be private sector workers under contract is unclear.

"It's something we haven't focused on yet," says Keith Hearn, a spokesman for the California State Employees Association. "But we will. Generally, if it's to fill a job that regular state employees are already doing in other agencies, the jobs should go to state workers and not outside contractors."

#### Something for everyone

It would seem, then, that the lottery has something for nearly everyone. Even the Legislature — the one group that was specifically singled out for exclusion by the initiative's authors — is getting into the act.

"We wanted to make it as complete as possible so that there would not be a lot of room for tinkering with it," said Dick Woodward, one of the team that pushed the lottery initiative through. "So we specifically designed it to discourage the Legislature from trying to make changes."

Lottery proponents say they are most concerned that the Legislature will attempt to dictate how the schools' share of the lottery revenues should be spent, or cut other state aid to schools in proportion to the amount they get

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## THE CITIZEN'S VOICE

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# THE LOTTERY COMMISSION

The lottery is to be run entirely by a five-member commission composed of gubernatorial appointees. The initiative required their appointment by December 7th, but Deukmejian, stressing the need for caution and care, did not make his announcement until January 29th. At an early February news conference, the appointees said that they, too, would not rush ahead and would proceed cautiously toward the next step -- hiring an executive director. Obviously, the Commission will not make the initiative's March 21st deadline for having tickets ready for sale. Not to worry, though; the initiative carried no penalties for failure.

Commissioners serve for five years but since the terms must be staggered, the governor nominated three for less than full terms. Also, the initiative required that one commissioner be an accountant and another have at least five years of law-enforcement experience. Commissioners, who require Senate confirmation, receive \$100 per day and are compensated for necessary expenses.

## Howard E. Varner, 59 Chairman

Chairman of the board and former president of Host International, a national restaurant chain and Santa Monica-based subsidiary of Marriott Corporation. Holds a degree in banking and finance from the University of Illinois. A Republican from Pacific Palisades, his term runs for two years.

## William J. Johnston, 58 Vice Chairman

Superintendent of the Los Angeles Unified School District, 1972-81. Director of public affairs for Southern California Gas Company, 1981-84. Holds a doctorate in education from UCLA. One of two commissioners who voted against the lottery initiative (Proposition 37) last November. A Republican from Los Angeles, his term runs for five years.



JOHNSTON                      WEBSTER  
VARNER                      MONTGOMERY                      PRICE

## Laverta Montgomery, 48

City manager of Compton, 1982-present. Former director of the Compton Redevelopment Agency and former Compton city controller. A Republican, she was appointed to a five-year term.

## John M. Price, 65

District attorney for Sacramento County, 1959-79, he fills the law-enforcement requirement. Holds degrees from University of California, Berkeley, and from Boalt School of Law. Now living in Mendocino County, he is a Democrat whose term runs four years.

## Kennard Webster, 64

A former partner in Deloitte, Haskins & Sells — one of the nation's largest accounting firms — Webster fills the mandate for an accountant. He is the second commissioner who voted against Proposition 37 last November. A Democrat from Palm Springs, he was appointed to a three-year term.

from the lottery.

To avoid that, the initiative contains language that expresses the voters' "intent" that lottery revenues are in addition to — not in place of — other school aid, and that the money is to go to the schools with no strings attached.

But the intent of initiative drafters — or voters — has never been much of a stumbling block for a determined Legislature.

A dozen bills are already pending in the Legislature to change the lottery, including measures that would:

- require elementary and high school districts to use lottery funds to reduce class size and require community colleges to spend their share on remedial programs (AB75, Hughes);
- give preference to nonprofit corporations in the selection of ticket agents (AB108, Agnos);
- raise the minimum age for buying lottery tickets from 18 to 21 (SBA, Dills);
- make it a misdemeanor to knowingly sell lottery tickets to youths under the age of 18. The initiative did not include any criminal penalty for this (AB2, Alatorre); and,
- require that lottery revenues be used to build new

schools and senior-citizens centers, and increase the size of the lottery commission from five to 13 by adding some local officials and appointees of the Assembly speaker and state Senate president pro tempore (ACAL, Bane).

Legislators defend their voracious interest in the lottery by contending that this initiative, like most others, has fatal flaws that only seasoned lawmakers can correct.

"Everybody who draws up an initiative always tries to keep the Legislature out because they are afraid the Legislature may correct any imbalances or inequities," said Assemblyman Art Agnos, a San Francisco Democrat. "But we have every right to fine tune it without disturbing the fundamental thrust, and that is that the people want a lottery."

Unfortunately for Agnos and his colleagues, the governor seems unwilling to go along. When asked recently about some of the legislative proposals he said he saw no need for any significant changes. "I think we should give great deference to the vote of the people," he said.

And so, it seems, we shall have a lottery much as voters approved it: a system for gathering small contributions from millions of people for the benefit of a relative few. ♣

STATE OF ALASKA  
THE LEGISLATURE

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LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 8, 1985

SUBJECT: State Lottery Bill  
(Work Order No. 14-0805)

TO: Representative David Thompson

FROM: Theresa L. Bannister *TLB*  
Legislative Counsel

With this memo I am transmitting to you a draft of the state lottery bill that you requested.

The draft is based on the New Jersey lottery statutes that accompanied the work order, but I had to change the New Jersey law to conform it to Alaska law and to Alaska's drafting style. Therefore, the draft appears different from the New Jersey law, but the substance remains similar.

Please note that there is a policy question raised in the coverage of Sec. 05.18.240(e) of the draft, which you may want to consider further. That subsection prohibits certain persons, who may be involved in the lottery administration, from participating in the lottery itself. Do you want to exclude other persons? Do you feel the present provision is too broad? If a local government is a lottery sales agent its employees are prohibited from participating. Do you want that? Should members of the Governor's staff or office be allowed to participate? If you decide on changes for the present subsection, or to the draft in general, please so advise.

TLB: csh  
c3/035

Statement of Mary A. Nordale  
Commissioner of Revenue  
on HB 338

The Department of Revenue is opposed to the establishment of a five member volunteer commission which would have unilateral authority to establish lotteries in and for the State of Alaska. Unpaid commissioners, by definition, have primary responsibilities for the management of their own concerns and only secondary responsibilities for the work of their commission. We cannot expect them, therefore, to devote the time and energy needed to fulfill the demands of this bill. Additionally, this bill makes no provision for the expertise needed to provide an appropriate product. Such power in the hands of five people, three of whom constitute a quorum, leaves the development of a state lottery open to a very high degree of politicizing. Those who would want the appointment would be suspect. Those we would wish to take the appointment would be properly intimidated by the responsibility.

This bill provides the commission with almost total authority, but creates conflicts which could seriously inhibit responsible decision making. The commissioner of the department has the responsibility to hire the director, but is not, by this legislation, a member of this commission. Certainly, this puts the director in an untenable position of having to choose between obedience to the Commissioner of the department or the commission, and sets the stage for a power struggle between the commissioner of the department and the lottery commission. Such inherent tension serves no useful purpose.

It is our belief that a lottery in this state will be successful only if there is careful, professional consideration of all of its aspects. After all, the motivation for its implementation is to raise revenues. It must, therefore, be viewed as a revenue source, not a game, and must be approached thoughtfully and responsibly in that context.

We recommend that if the legislature wishes to pursue creation of a lottery, you direct the Department of Revenue to provide you with the considerations and possibilities. In the limited time we have been given to review this issue, we have identified areas that will require substantial time and expertise to investigate. Modeling an Alaska lottery after those in other states has its limitations, since the experience of other states does not mirror our population either in terms of size or diversity. They do not have the geographical considerations nor the diversity of economic considerations. Their benefit to cost would, most certainly, enjoy a higher ratio.

Any efforts we make to raise revenues through lottery should be founded on hard facts specific to our people and our state. We recommend that these efforts be made only after adequate research is conducted by and with professionals who will help us meld revenue raising and gaming in a responsible fashion. For example: marketing considerations should be matched to economic indicators; an analysis should be made of the probable impact on welfare programs; there should be some understanding of the impact a lottery will have on our communities, both urban and rural; we should anticipate the effect a state lottery will have on charitable gambling and

existing lotteries and how that will affect state programs; we should carefully analyze the distribution of revenues to insure the rich and influential do not trade on the dreams of the poor. Additionally, a formula must be developed and placed in law which will provide for the payment of expenses and prizes.

The crafting of provisions for payment to agents should assure collection of revenues. The Department currently wrestles with delinquent vendors of fish and game licenses and tags, and the legislature has heretofore been reluctant to provide us with adequate means for enforcement. There should be provisions, in law, for enforcement of collections and against alteration and forgery.

The list of considerations continues, but the problem remains. Despite delegation to a commission, the responsibility for ultimate success or failure lies with the legislature and the administration. Let us work with you to develop the best possible solutions. But let us not work in haste before we are able to craft the laws necessary to insure that an Alaska lottery will be fair, honest, non-discriminatory and an effective means of raising revenue.



# RECORDS CERTIFICATION



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Signature of Camera Operator

  
Date