HB

236

STATE OF ALASKA
THE LEGISLATURE

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
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LEGISLATIVE AFFAIRS AGENCY

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May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

H. JUD. 2-11-88 1:30 p.m.

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: HB 236
Publish Date:

REQUEST:

Revision Date:
Title: An Act establishing a State lottery, creating the Alaska State Lottery Corp., and establishing the arts and public broadcasting account, etc
Sponsor: Rep. Boyer and Cato
Requestor: House Labor & Commerce Committee

Agency Affected: Dept. of Administration
BRU: Alaska Public Broadcasting Commission
Components: APBC

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0

REVENUE	Estimate of lottery revenue should be obtained from Department of Revenue					

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

No additional expenditures of any type are anticipated by the APBC as a result of this bill.

Prepared by: Charles M. Northrip
Division: Alaska Public Broadcasting Commission
Phone: 465-2846
Date: April 22, 1987

Approved by Commissioner: Garrey Peska
Agency: Department of Administration
Date: 4/27/87

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)
Senate Secretary

POSITION PAPER
Bill #HB 236

This bill would establish an official Alaska State Lottery, to be operated by an Alaska State Lottery Corporation. The net proceeds of the lottery (after expenses and prizes) would be deposited in an arts and public broadcasting account within the State's general fund. The Alaska State Council on the Arts and the Alaska Public Broadcasting Commission would receive their appropriations, via the regular appropriations process, on an annual basis, from the lottery proceeds. The legislature would retain authority to make annual appropriations and would also maintain authority to fund other activities of State government from proceeds remaining in the lottery fund.

The major impacts of an official State lottery, insofar as State government is concerned, would be felt by the Department of Revenue, which would be required to administer the new lottery corporation. The problems associated with establishing and policing a State lottery are best left, therefore, to that department.

The impact on the Alaska Public Broadcasting Commission, currently housed in the Department of Administration, would be to change its source of State revenue from regular General Fund monies to a specific account in the General Fund.

Charles M. Northrip, Executive Director
Alaska Public Broadcasting Commission

4/27/87
Date

Commissioner Garrey Peska
Department of Administration

4/27/87
Date

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: HB 236
REQUEST Publish Date:
Revision Date: Agency Affected: Department of Revenue
Title: "Establishing a state lottery, creating the Ak State Lottery Corp. ..." BRU: Public Services Operating
Sponsor: Boyer & Cato Components:
Requestor: Labor

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES	0	169.8	-	-	-	-
TRAVEL	0	80.8	-	-	-	-
CONTRACTUAL	0	238.3	-	-	-	-
SUPPLIES	0	4.0	-	-	-	-
EQUIPMENT	0	71.6	-	-	-	-
LAND & STRUCTURES	0	0	-	-	-	-
GRANTS/CLAIMS	0	0	-	-	-	-
MISCELLANEOUS	0	0	-	-	-	-
TOTAL OPERATING	0	564.5	-	-	-	-
CAPITAL	0	0	-	-	-	-
REVENUE	0	0	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	564.5	-	-	-	-
FEDERAL FUNDS	0	0	-	-	-	-
OTHER	0	0	-	-	-	-
TOTAL	0	564.5	-	-	-	-

POSITIONS:

FULL-TIME	0	4	-	-	-	-
PART-TIME	0	0	-	-	-	-
TEMPORARY	0	0	-	-	-	-

ANALYSIS: See attached

Prepared by: Sally Smith Phone: 465-2392
Division: Public Services Date: April 24, 1987

Approved by
Commissioner: Date: 4/30/87
Agency: Revenue

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

Assumptions:

This fiscal note assumes that:

1) there will be four staff members for pre-planning, research coordination and transition with the contractors and the board;
2) the staff will be located in Anchorage;
3) research for an analysis of in-state implications will be contracted;
4) moving expenses for the executive director will be paid;
5) FY89 figures will be determined by staff and the board;
6) the board will be appointed by September and will meet monthly during the development period to develop policies and hold public hearings.

PERSONAL SERVICES

The Executive Director will handle administrative implementation of regulations of the chapter and administration of the lottery corporation. A Research Analyst IV will coordinate the direction of the contracted research and gather data and information from other state lotteries. The Analyst/Programmer will review proposed computer software required for implementation. A contractor may be selected to implement the computer system and the operational end of a lottery. This option offers lower startup costs but does not provide a structure for state-selected expansion.

Personal services assumptions: The Administrative Assistant will be hired as a temporary beginning July 1 to provide research assistance and clerical back-up. The Research Analyst will be appointed by the board on a temporary basis beginning in September. The Executive Director will be appointed by January and will select the Analyst/Programmer.

1 Executive Director	6,662	6 mos.	39,972
1 Research Analyst IV	4,961	9 mos.	44,649
1 Administrative Assistant II	3,160	12 mos.	37,920
1 Analyst/Programmer IV	4,291	5 mos.	21,455
			$143,996

Board compensation assumptions: The board will be compensated at $150 per day for monthly meetings, which beginning in September will be two days each, plus one day travel time. Beginning in January, meetings will be combined with public hearings as policies develop and will be three days in length, plus one day travel time. Three meetings will be held in rural areas necessitating an additional day of travel time.

4 members	4 meetings, 3 days each, 150.00/day	7,200
	3 meetings, 4 days each, 150.00/day	7,200
	3 meetings, 5 days each,.150.00/day	9,000
		$23,400

The board will also be traveling out of state for familiarization with other lottery operations. These trips will require four days of compensation.

4 members	4 days travel	$ 2,400

Total personal services $169,796.

TRAVEL

In-state travel will be necessary for coordination of start-up of lottery, monthly board meetings during development period, and public hearings. Out-of-state travel is required for seminars and on-site training in lottery states.

In-state

Board meetings assumptions: The board will meet monthly beginning in September. These meetings will be combined with public hearings as policies are developed. The initial board meetings from September through December will be held in Anchorage. Public hearings will be held in conjunction with the meetings from January through June in Anchorage, Fairbanks, Juneau, Kotzebue, Bethel and Ketchikan. One board member will reside in Anchorage, one in Fairbanks, one in Ketchikan and one in Nome. The Commissioner of Revenue will reside in Juneau.

Monthly meetings held in Anchorage, September through December:

Air fare (coach)	
4 members travel, 4 trips	5,808
Per diem, $80 per day, 5 members	
4 meetings, 2 days plus 1 day travel each	4,480

Meetings combined with public hearings, one in each city:

ANCHORAGE:	
Air fare (coach), 4 members travel	1,452
Per diem, $80 per day, 5 members	
3 days meeting, 1 day travel	1,520
FAIRBANKS:	
Air fare (coach), 4 members and director	1,898
Per diem, $90 per day, 5 members, director	
3 days meeting, 1 day travel	2,070
Car rental, $50 per day, 3 days	150
JUNEAU:	
Air fare (coach), 4 members and director	1,970
Per diem, $80 per day, 4 members, director	
3 days meeting, 1 day travel	1,600
KOTZEBUE:	
Air fare (coach), 5 members and director	2,994
Per diem, $90 per day, 5 members, director	
3 days meeting, 2 days travel	2,700
BETHEL:	
Air fare (coach), 5 members and director	3,127
Per diem, $85 per day, 5 members, director	
3 days meeting, 2 days travel	2,550

KETCHKAN:		
Air fare (coach), 4 members and director	2,486	
Per diem, $80 per day, 5 members, director 3 days meeting, 2 days travel	2,240	
In-state travel total		$ 37,045.

Out-of-state

Board and staff training assumptions: The board and all staff members will require familiarization with lottery operations in other states. Two board members and two staff members will travel to Salem, Or. Three board members and two staff members will travel to Olympia, Wa. Each trip will be for four days.

SALEM, OR:	
Air fare (coach), for four to Portland	2,752
Car rental, to drive to Salem, $53 per day for 4 days, plus mileage	272
Per diem, $80 per day, for 4 days	1,280
OLYMPIA, WA:	
Air fare (coach), for five to Seattle	3,250
Car rental to drive to Olympia $54 per day for 4 days, plus mileage	276
Per diem, $80 per day, for 4 days	1,600
Total board and staff training travel	$9,430

Executive director training assumptions: The executive director and research analyst will require additional training in other lottery states. Training will take place in Colorado, Montana, California, British Columbia, Illinois, and Massachusetts. Two states will be visited on each trip.

COLORADO, MONTANA:	
Air fare(coach), for two	2,500
Per diem, $80 per day, 7 days	1,120
Car rental, 5 days, $54 per day	270
CALIFORNIA, BRITISH COLUMBIA:	
Air fare (coach), for two	2,016
Per diem, $80 per day, 7 days	1,120
Car rental, 5 days, $55 per day	275
ILLINOIS, MASSACHUSETTS:	
Air fare (coach), for two	2,756
Per diem, $80 per day, 7 days	1,120
Car rental, 5 days, $60 per day	300
Total additional staff training travel	$11,477

Director candidates assumptions: Three candidates will be traveling from Baltimore, Chicago and Sacramento for final interviews. The successful candidate will be moved to Anchorage at state expense.

Candidate travel:		
Air fare (coach), for three	3,271	
Per diem, $80 per day, 4 days	960	
	4,231	
Moving expenses:		
(assumption: 4 family members from Baltimore)		
Household goods (10,000 lbs)	11,500	
Air fare for 4 adults	2,912	
Per diem for 21 days, $50 per day, for 4	4,200	
	18,612	
Out-of-state travel total		$ 43,750.
TOTAL TRAVEL		$ 80,795.

CONTRACTUAL

The contractual figures include daily office expense items and the cost of a contracted anaylsis of demographic, social and marketing possibilities. All figures are based on a staff of four over a 12 month period.

Office communications:	
Long distance: assuming 10 calls per day, 22 working days per month, at $4.50 per call	11,880
Local service: $70 per month, for 12 months	840
Total office communications	12,720
Copy costs: includes equipment lease, paper and toner	1,600
Printing and mailing of proposed regulations: 10 pages, 2 sided, 30,000 copies	25,700
Advertising of regulations and public hearings	20,000
Word processing work station maintenance: $600 per work station, 4 work stations	2,400

Office space: Figures are based on space at Ensearch Plaza which houses the current DOR offices. This will allow a simplified link to the existing computer system already in use in the DOR Anchorage field office.

850 sq feet of space @ $2.05 per sq. foot or $1,742.	20,910

Market research: These figures were derived from an estimate obtained in 1986. The Institute for Social and Economic Research would perform an indepth study of social impacts, potential markets, and a demographic analysis. 155,000

Total Contractual $238,330.

SUPPLIES

Office supplies are estimated at $1.0 each for four staff.

Office Supplies	$ 4,000.

EQUIPMENT

Office furniture and equipment costs are figured for four employees. A Wang V.S. 90 is currently in use in DOR offices, in Ensearch Plaza, in Anchorage.

4 Systems furniture($3,000 per unit)	12,000
4 Legal size file cabinets	1120
4 calculators	540
4 Wang 4230 work stations ($2,070 each)	8,280

The existing V.S. 90 computer system in Anchorage is not capable of handling the increased memory/storage required to accommodate four new work stations. The following equipment is necessary for adding to the computer's capacity.

1 serial input-out-put processor	3,600
1 390 mega-byte disk drive	22,000
1 disk input-output processor	10,500
1 field upgrade of existing V.S. 90	12,000

Telephone system: Bell Pacific TIE 612 system with four extensions and two lines. This system has expansion capacity that will allow a total of twelve extensions and six lines.

Four extensions	1,506
Installation of two lines	65
Telephone system total	$1,571

Total equipment $ 71,611.

Total Operating Budget $564,532.

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: HB 236
Publish Date:

REQUEST:

Revision Date:
Title: State Lottery, AK State Lottery Corp., Arts & Public Broadcasting Account
Sponsor: Boyer
Requestor: House Labor & Commerce

Agency Affected: Department of Revenue
BRU: Treasury
Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

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

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker MB
Phone: 465-2350
Division: Treasury
Date: April 7, 1987

Approved by Commissioner:
Date: 5/1/87
Agency: Department of Revenue

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)
Senate Secretary

Position Title	No. of Positions	Range/Step	Barg. Unit
Executive Director	1	26A	X

Time Status	Staff Months	Location	Election District
PFT	6	EBA	

Type of Expenditure		Amount
1	2	3
Salary	31,254	
Benefits	8,718	
Premium Pay		
Other		
Total Personal Services		39,972
Travel		32,777
Contractual		600
Commodities		1,000
Equipment		17,903
Other		
Total Cost		92,252

Funding Source for Total Cost		
Federal Receipts	1002	
G.F. Match	1003	
General Funds	1004	92,252
I-A Receipts	1005	
Program Receipts	1028	
CIP Receipts	1061	
Other		

Justification

The Executive Director will administer the activities of the lottery corporation and supervise its daily operations, attend monthly board meetings and act as the board's secretary. The executive director will act on advice and recommendations from the board and will, in turn, advise the board of corporate 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 Executive Director will hold press conferences to keep the public informed and supervise the Research Analyst IV, Analyst/Programmer IV and Administrative Assistant II.

The Executive Director will also visit other states for training in their lottery operations. Travel may also include moving expenses from out of state.

REQUEST FOR NEW POSITION

Agency: Department of Revenue
BRU: Public Services - Operating
Component:

Revised Date

FY 88

Position Title	No. of Positions	Range/Step	Barg. Unit
Research Analyst IV	1	21A	X

Time Status	Staff Months	Location	Election District
PFT	9	EBA	

Type of Expenditure		Amount
1	2	3
Salary	34,479	
Benefits	10,170	
Premium Pay		
Other		
Total Personal Services		44,649
Travel		7,169
Contractual		600
Commodities		1,000
Equipment		17,903
Other		
Total Cost		71,321

Funding Source for Total Cost		
Federal Receipts	1002	
G.F. Match	1003	
General Funds	1004	71,321
I-A Receipts	1005	
Program Receipts	1028	
CIP Receipts	1061	
Other		

Justification

This position will be responsible for coordinating the direction of the contracted market research, gathering various pertinent data and information from state lotteries in operation throughout the United States, and supervising the Administrative Assistant II.

The Research Analyst IV will prepare recommendations for the Executive Director and the Board from gathered data pertaining to implementation of a lottery in Alaska.

REQUEST FOR NEW POSITION

Agency: Department of Revenue
BRU: Public Services - Operating
Component:

Revised Date

FY 88

Position Title	No. of Positions	Range/Step	Barg. Unit
Analyst Programmer IV	1	19A	X

Time Status	Staff Months	Location	Election District
PFT	5	EBA	

Type of Expenditure		Amount
1	2	3
Salary	16,765	
Benefits	4,690	
Premium Pay		
Other		
Total Personal Services		21,455
Travel		970
Contractual		600
Commodities		1,000
Equipment		17,903
Other		
Total Cost		41,928

Funding Source for Total Cost		
Federal Receipts	1002	
G.F. Match	1003	
General Funds	1004	41,928
I-A Receipts	1005	
Program Receipts	1028	
CIP Receipts	1061	
Other		

Justification

This position will review/plan data processing requirements for a state lottery. The Analyst Programmer will visit another state for familiarization with lottery operations.

REQUEST FOR NEW POSITION

Agency Department of Revenue
BRU Public Services - Operating
Component

Revised Date

FY 88

Position Title	No. of Positions	Range/Step	Barg. Unit
Administrative Assistant II	1	14A	X
Time Status / **Staff Months**	**Location**		**Election District**
PFT / 12	EBA		

Type of Expenditure		Amount
1	2	3
Salary	28,380	
Benefits	9,540	
Premium Pay		
Other		
Total Personal Services		37,920
Travel		1,008
Contractual		600
Commodities		1,000
Equipment		17,903
Other		
Total Cost		58,431

Funding Source for Total Cost		
Federal Receipts	1002	
G.F. Match	1003	
General Funds	1004	58,431
I-A Receipts	1005	
Program Receipts	1028	
CIP Receipts	1061	
Other		

Justification

This position will provide research assistance to all staff and will provide for office management and clerical assistance.

The Administrative Assistant will be responsible for answering the phones, typing, handling the mail, and maintaining files in addition to preparing the budget documents.

The Administrative Assistant will also visit another state for familiarization with lottery operations.

REQUEST FOR NEW POSITION

Agency: Department of Revenue
BRU: Public Services - Operating
Component:

Revised Date

FY 88

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: HB 236
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: An Act establishing a State lottery, creating the Alaska State Lottery Corp., and establishing the arts and public broadcasting account, etc.
Sponsor: Rep. Boyer and Cato
Requestor: House Labor & Commerce Committee

Agency Affected: Dept. of Administration
BRU: Alaska Public Broadcasting Commission
Components: APBC

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	Estimate of lottery revenue should be obtained from Department of Revenue					

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

No additional expenditures of any type are anticipated by the APBC as a result of this bill.

Prepared by: Charles A. Manthis fl
Division: Alaska Public Broadcasting Commission
Phone: 465-2846
Date: January 15, 1988

Approved by Commissioner: John Andrews
Agency: Department of Administration
Date: 1/19/88

Distribution (by preparer)
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

POSITION PAPER
Bill #HB 236

This bill would establish an official Alaska State Lottery, to be operated by an Alaska State Lottery Corporation. The net proceeds of the lottery (after expenses and prizes) would be deposited in an arts and public broadcasting account within the State's general fund. The Alaska State Council on the Arts and the Alaska Public Broadcasting Commission would receive their appropriations, via the regular appropriations process, on an annual basis, from the lottery proceeds. The legislature would retain authority to make annual appropriations and would also maintain authority to fund other activities of State government from proceeds remaining in the lottery fund.

The major impacts of an official State lottery, insofar as State government is concerned, would be felt by the Department of Revenue, which would be required to administer the new lottery corporation. The problems associated with establishing and policing a State lottery are best left, therefore, to that department.

The impact on the Alaska Public Broadcasting Commission, currently housed in the Department of Administration, would be to change its source of State revenue from regular General Fund monies to a specific account in the General Fund.

Charles M. Northrip, Executive Director
Alaska Public Broadcasting Commission

1/15/88
Date

Commissioner John Andrews
Department of Administration

1/19/88
Date

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M April 27, 1987

SUBJECT: Section-by-section analysis of HB 236

TO: Representative Dave Donley

FROM: George Utermohle GU
Legislative Counsel

The following is a section-by-section analysis of HB 236, An Act establishing a state lottery, creating the Alaska State Lottery Corporation, and establishing the arts and public broadcasting account in the general fund; and providing for an effective date.

A section-by-section analysis or summary of a bill should not be considered an authoritative interpretation of a bill. The bill itself is the best statement of its contents.

Section 1. Section 1 of the bill states the Findings and Purpose of the bill.

Section 2. Section 2 of the bill amends AS 05 by adding a new chapter.

CHAPTER 18. State Lottery
ARTICLE 1. Administration.

Sec. 05.18.010 creates the Alaska State Lottery Corporation as a public corporation within the Department of Revenue. The corporation is established for the purpose of generating revenue for the support of the Alaska State Council on the Arts and the Alaska Public Broadcasting Commission and for other expenses of the state.

Sec. 05.18.020 establishes the board of directors of the corporation.

The board consists of five members, one of whom is the commissioner of revenue, one of whom has experience in public broadcasting, one of whom has experience in arts or arts administration, and two of whom are public members.

Appointed members of the board shall qualify under AS 39.05.100. The governor appoints the chair of the board.

The members appointed by the governor are appointed to staggered terms of four years. A vacancy on the board does not impair the authority of the board.

The governor may remove a member of the board provided certain procedures are followed.

Appointed members of the board receive $150 per day for each day they are engaged in the duties of the board.

Appointed members of the board also receive travel expenses and per diem.

Sec. 05.18.030 provides that the board shall meet quarterly and at other times determined by the chair or the members of the board or at other times scheduled by the board.

At least three members of the board must be present and vote in favor of the action for an action of the board to be effective.

Sec. 05.18.040 sets out the duties and powers of the board. The board is responsible for the management of the corporation but shall delegate certain powers and duties to the executive director.

Sec. 05.18.050 sets out the regulations that the board must adopt.

Sec. 05.18.060 provides for the executive director and employees of the corporation.

The executive director shall supervise and direct the corporation. The board shall appoint the executive director.

The executive director may appoint deputies and other employees necessary to perform the duties of the corporation.

The executive director and other employees of the corporation are in the exempt service, however the employees are covered by those provisions of AS 23 that are applicable to state employees.

The corporation may not employ persons who have been convicted of certain crimes.

Sec. 05.18.070 sets out the duties of the executive director.

Sec. 05.18.080 provides that executive director or the board may compel production of persons and documents by subpoenas. The executive director and the board may enforce compliance with a subpoena by applying to the superior court.

ARTICLE 2.

Sec. 05.18.100 relates to lottery retail sales agents.

The executive director may contract with persons to act as lottery retail sales agents for the corporation.

The lottery retail sales agent may sell lottery products and award certain lottery prizes. The lottery retail sales agent may employ persons to sell lottery products and to award certain lottery prizes.

The lottery retail sales agent shall supervise each employee authorized to sell lottery products and to award lottery prizes.

Sec. 05.18.110 sets out the qualifications necessary for a lottery retails sales agents.

Persons who want to be lottery retail sales agents must apply to the executive director of the corporation and pay the application fee charged by the corporation.

In awarding contracts to lottery retail sales agents the executive director shall consider several factors including

(1) the financial responsibility and security of the applicant and the applicant's business;
(2) accessibility of the applicant's place of business;
(3) the ability of the applicant to promote the sale of lottery products;
(4) the need for additional sales agents;
(5) the volume of expected sales; and
(6) other relevant factors.

The executive director may not contract with a person if the person

(1) is not a resident of the state or is not a corporation, partnership, or association licensed to conduct business in the state;
(2) does not conduct a business;
(3) is under the age of 18 years; or
(4) has been convicted of certain felonies.

Sec. 05.18.120 provides that the term of a contract with a lottery retail sales agent may not exceed two years but the contract may be renewed.

Sec. 05.18.130 provides for the revocation and suspension of contracts with lottery retail sales agents.

Sec. 05.18.140 provides for the compensation of lottery retail sales agents and establishes the criteria that the executive director must consider in setting compensation for lottery retail sales agents.

Sec. 05.18.150 establishes requirements for payment of proceeds and for reports by lottery retail sales agents.

Each lottery retail sales agent shall deposit lottery proceeds in banks designated by the executive director.

Each lottery retail sales agent shall report on the sales of lottery products every two weeks.

The executive director may impose a service charge on a lottery retail sales agent for dishonored checks and electronic fund transfers.

The executive director may charge a lottery retail sales agent interest and service charges on any amount that is 10 days past due.

The amount owed to the corporation is a lien against the property of the lottery retail sales agent at the time that the corporation files a claim of lien in the recording office where the principle place of business of the agent is located.

Sec. 05.18.160 requires the lottery retail sales agent to post a bond in the amount determined by the board of directors in order to protect the state.

The bond remains in effect until cancelled by the surety, the principal, or the corporation.

An action to collect from a bond must be brought within three years after the bond is cancelled.

ARTICLE 3. PRIZES

Sec. 05.18.200 prohibits the assignment of a lottery prize. A lottery prize may be paid to a person other than a prize winner if the payment is made under a court order, if the payment is made to the prize winner's estate, or if the payment is made to the Department of Revenue to satisfy a judgment in favor of the state.

Sec. 05.18.210 provides for the payment of prizes to persons under 18 years.

A prize of $5,000 or less shall be paid to an adult member of the minor's family or the minor's guardian. A prize of more than $5,000 shall be deposited in a bank to the credit of an adult member of the minor's family or a guardian of the minor, as a custodian for the minor. The person named as a custodian is subject to AS 45.60.

The state is discharged of liability for payment of prizes to a minor by payment under this section.

The terms "bank", "guardian", and "member" of a "minor's family" are defined.

Sec. 05.18.220 provides for the distribution of unclaimed prizes.

ARTICLE 4. MISCELLANEOUS PROVISIONS.

Sec. 05.18.300 establishes the arts and public broadcasting account in the general fund. The proceeds received from the sale of lottery products shall be credited to the account. The annual estimated balance in the account shall first be used to make appropriations to the Alaska State Council on the Arts and the Alaska Public Broadcasting Commission. That portion of the annual estimated balance in the account not necessary for the support of the Alaska State Council on the Arts and the Alaska Public Broadcasting Commission may be appropriated to other purposes.

Sec. 05.18.310 provides for an annual audit of the books and records of the corporation by certified public accountants. Special audits may be performed at the request of the board or the executive director.

Sec. 05.18.320 sets out prohibited acts.

A person may not

(1) act as a lottery retail sales agent or sell a lottery product without a contract with the corporation;
(2) sell a lottery product for a price greater than that fixed by the corporation;
(3) sell a lottery product to a person under the age of 18 years;
(4) counterfeit a lottery product;
(5) present a counterfeit or altered lottery product for payment; or
(6) impersonate a representative of the lottery.

A lottery retail sales agent, a member of the board, or an officer, employee, or a contractor of the corporation may not purchase a lottery product or receive a lottery prize.

A lottery retail sales agent may not wilfully withhold funds owed to the corporation.

A lottery product may be given to a person of any age.

Sec. 05.18.330 provides that a person may not assign a contract with the corporation without the permission of the corporation.

Sec. 05.18.340 provides that a person who violates AS 05.18.150, 05.18.160, 05.18.200, 05.18.320, or 05.18.330 is guilty of a class C felony.

Sec. 05.18.350 provides that each lottery product must indicate the odds of winning a prize.

Sec. 05.18.980 provides that the operations of the corporation are exempt from AS 05.15, relating to games of chance and contests of skill, and from state procurement laws including AS 36.30.

Sec. 05.18.990 sets out the definition of "agent", "agent contract", "board", "corporation", "director", "lottery", "lottery product", "operation and administration", and "person".

Section 3. Section 3 of the bill amends AS 36.30.015(e) to provide the Alaska State Lottery Corporation with the authority to adopt regulations substantially equivalent to the State Procurement Code (AS 36.30).

Section 4. Section 4 of the bill amends AS 36.30.050(c) to provide that the Alaska State Lottery Corporation may use lists of contractors prepared by the Department of Administration.

Section 5. Section 5 of the bill amends AS 36.30.990(1) to exclude the Alaska State Lottery Commission from the definition of "agency" so that the Alaska State Lottery Corporation is exempt from the State Procurement Code (AS 36.30).

Section 6. Section 6 of the bill amends AS 39.25.110(11) by adding a new subparagraph to provide that the employees of the Alaska State Lottery Corporation are in the exempt service.

Section 7. Section 7 of the bill amends AS 39.50.200(b) by adding a new paragraph to provide that the members of the board of directors of the Alaska State Lottery Corporation must dislose financial interests under AS 39.50.

Section 8. Section 8 of the bill sets July 1, 1987 as the effective date of sections 1, 2, 6, and 7 of the bill.

Section 9. Section 9 of the bill provides that sections 3-5 of the bill take effect on the same date as section 2, chapter 106, SLA 1986 (State Procurement Code).

GU:mkr
m11/076

A M E N D M E N T

Offered in the HOUSE By Gruenberg

TO: HB 236

Page 16, line 14 - 16, following "* Sec. 8."

Delete all material

Insert:

"The lieutenant governor shall place before the qualified voters of the state at the next general election the following question, advisory to the legislature. The question shall appear on the ballot in substantially the following form:

QUESTION

The legislature has passed a law to establish a state lottery in 1989. Should the state operate a lottery?

Yes [ ] No [ ]

* Sec. 9. Sections 1 - 7 of this Act takes effect February 1, 1989.

* Sec. 10. Section 8 of this Act takes effect July 1, 1988."

PAGES 6, 7, 8, 9, 10, 11, 13, 14, AND 15: FOR ALL OCCURRENCES.

DELETE agent and ADD "RETAILER"

DELETE agents and ADD "RETAILERS"

DELETE an agent and ADD "A RETAILER"

PAGE 6, LINE 5, DELETE agents and ADD "LOTTERY PRODUCT RETAILERS"

PAGE 8, LINE 7, 8 AND 10, DELETE RETAIL SALES AGENTS and ADD "PRODUCT RETAILERS"

PAGE 11, LINE 8, DELETE An applicant for an agent contract shall, at the time of application under AS 05.18.110, to and ADD "THE CORPORATION RESERVES THE RIGHT TO REQUIRE AN APPLICANT FOR A LOTTERY PRODUCT RETAILER CONTRACT, UNDER AS 05.18.110, TO"

PAGE 11, LINE 18 (additional sub-section regarding GLEPS)

PAGE 14, LINE 9, DELETE section 05.18.340 and REPLACE with:

STATEMENT OF ODDS. A statement to include an explanation of the odds for winning a lottery game will be available upon request from any lottery retailer.

PAGE 14, LINE 20, DELETE "agent" and ADD "'Lottery product retailer' or 'retailer'"

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INFORMATION BRIEF: NO. 1

WHAT IS THE ALASKA LOTTERY COALITION?

The Alaska Lottery Coalition is an organization that was founded to promote the establishment of a state operated lottery. It is a non-profit Alaskan corporation composed of individuals and businesses, and is controlled by a five member board of directors. We support a state operated lottery because lotteries are a proven and predictable method for generating state revenues.

To this end, we provide a formal structure for those interested in making an Alaskan lottery a reality. We are actively encouraging and supporting legislation, House Bill 236 by Representative Boyer, that would create a state operated lottery. We are addressing this goal through a state-wide educational and lobbying effort.

WHY THE ALASKA LOTTERY COALITION INFORMATION BRIEF?

This brief, and those to follow, are intended to provide legislators, coalition members, and other selected individuals and entities with current accurate information about government operated lotteries. Briefs will also discuss pending legislation that relates to an Alaskan lottery.

WHAT IS A LOTTERY?

Lotteries are a form of legalized gambling. Some forms of lotteries are currently approved by State law and regulated by the Alaska Department of Revenue. Technically, lotteries include games such as bingo, keno, lotto, raffles, numbers, pull-tabs, punch boards, instant scratch-off, and other variations in which a chance is purchased and the winning numbers are drawn at random.

Games offered by state operated lotteries can be divided into two categories; "passive" and "active." Passive games are those in which players have no input to influence whether they have they have 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.

Active games are those in which the player participates in the bet by choosing a number or set of numbers. The player's choice has no bearing on the outcome of the game. 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.

The games mentioned above are all easy to play, and none involve any skill.

ARE LOTTERIES SOMETHING NEW FOR GOVERNMENTS TO BE INVOLVED WITH?

Lotteries have a long history -- they can be traced from ancient Rome, through medieval times, and into the present. Historical references show clearly that in every age and in all countries chance has been the key to solving problems that were otherwise

insoluble; has been a source of recreation; and became an integral part of the customs and usages of peoples.

Public lotteries have been in existence for at least 500 years. During the Renaissance, lotteries were used to raise public revenue throughout Europe. During the early years of the United States, the new nation borrowed this tradition from Europe and used lottery proceeds to fund public works, economic development, schools and universities, and other projects. In the 1960's several states revived the idea of government-sponsored lotteries and a new era of public interest in lotteries began.

The development of sophisticated computer technology added a new dimension to state-run lotteries, offering improvements in performance and security that are vital to the current phenomenal success of state lotteries. With computer technology reducing operating costs and geometrically enhancing security, more states have created lotteries and the public has demonstrated its acceptance and trust in their operation. Today, 27 states plus the District of Columbia offer a variety of lottery games. In FY 1986 the lottery industry in the U.S. generated sales of $12.5 billion.

ARE LOTTERIES A GOOD METHOD OF RAISING STATE REVENUES?

Not as effective as taxes -- taxation is the most effective way of raising revenues. Lotteries are best described as a supplemental revenue source only. As Thomas Jefferson is often quoted, "Lotteries are a wonderful thing, they tax only the willing."

HOW MUCH REVENUE WILL A STATE LOTTERY PRODUCE

As stated earlier, FY 1986 statistics indicate that total gross lottery sales in the U.S. was $12.5 billion. This computes to an average annual state lottery gross revenue of about $100 per capita. A simplified means of predicting any state's likely gross lottery sales is to multiply this number ($100 per capita) by the state's population. Alaska's population (530,000) times this $100 per capita would result in $53,000,000 of gross sales for Alaska.

On the average, about 35% to 40% of gross lottery sales goes to the state as profits. Based on this $53,000,000 of gross sales, net profits for Alaska would be between $18,550,000 and $21,200,000. Future issues of this Information Brief will detail expected revenues and expenses for an Alaskan lottery.

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. An Alaskan lottery will provide one additional source of revenue to help buffer state operating budgets against the volatile swings in the oil market and our resultant primary flow of cash to operate state services.

ARE LOTTERIES POPULAR?

Yes. More people participate in state-run lotteries than any other form of legalized gaming. Of the 29 states in which the public has voted to accept or reject a state operated lottery, all voted "yes" except North Dakota. In operating lottery states, 75% of the residents favor the games. Alaskans support the concept of a state operated lottery by a margin of two to one according to a poll completed in Nov. 1985 by the Dittman Research Corporation of Anchorage. This margin of support is typical of other polls conducted in other states and smaller regions of Alaska.

Needless to say, there are those who oppose lotteries or gambling in any form. These people are free to abstain from buying tickets.

ARE LOTTERIES DIFFICULT TO ADMINISTER?

Modern-day lotteries have been in existence for 23 years in the U.S. and there certainly isn't any mystery concerning their operations. Most states have lottery commissions overseeing their operation. All lotteries have full-time directors or executive secretaries -- people with extensive backgrounds in lottery operations. Lottery staff can run from 30 to 150 depending on the size of the state.

Few problems have arisen in the lottery industry during the past 23 years. When problems have arisen the industry has been quick to react. Present lottery states are very amenable to sharing their experiences and their techniques with new entrants into the lottery field. The professional organization of lottery administrators for the U.S. and Canada, the National Association of State and Provincial Lotteries (NASPL), offers extensive assistance for new lottery states. Numerous consultants and lottery industry experts with experience in lottery implementation and operation around the world are also an available resource.

HAVE ANY MODERN STATE OPERATED LOTTERY EVER FAILED -- OR FAILED TO SHOW A PROFIT?

No lottery has ever failed -- or failed to show a profit. Gross sales have increased every year since 1964, which should be expected with additional states joining the lottery field each year. However, the real measure of lottery success and acceptance by the populace, per capita sales, has also demonstrated an increase each year and is estimated to hit $2 per week in 1987. Lotteries are now played by more Americans than any other commercial game, and this is with lotteries operational in about 50% of the states.

WHAT HAPPENS TO THE LOTTERY DOLLAR AND HOW DOES A LOTTERY AFFECT THE ECONOMY OF THE STATE?

Generally, 45 cents to 50 cents of every dollar is returned to ticket buyers in the form of prizes -- 5 cents to 7 cents of every dollar is paid to local merchants as commissions for selling tickets -- about 5 cents to 10 cents of each 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 cents ends up as the profit for the state. Almost all lottery dollars stay in the state.

Each state decides by law how to distribute revenues. Typically, special programs in areas such a education, environmental projects, economic development, transportation, senior citizen programs, or revenue sharing are targeted as beneficiaries of the net revenue. However, the financial benefits that lotteries provide a state are not limited to this disbursement of public funds. A state-sponsored lottery contributes to the economic growth of the community through the commissions earned by retailers, employment of individuals from the local work force, and the supplies and services purchased from communication, advertising, transportation, and other related industries.

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 every 1,000 people. 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 prospective licensees 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?

No. The conclusions from 20 years of extensive studies of 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 proportionately than their percentage of the population.

Government lotteries are implemented to raise revenue. It just does not make sense to try to raise revenue from people who don't have money! A $12.5 billion per year entertainment industry in the U.S. as not been "built on the backs of the poor."

DON'T LOTTERIES APPEAL TO THE UNDER-EDUCATED?

Similar to the previous question, current demographic information obtained from actual prize claim forms (which represents a near perfect sampling of those who play lotteries) over the last 23 years indicate that the vast majority (66%) of lottery purchasers have a high school education or better.

HOW ABOUT ORGANIZED CRIME AND LOTTERIES?

There is absolutely no evidence of any state lottery being infiltrated by "organized crime." Modern day lotteries are run by state governments and there are no avenues available for illegal operators to ply their trade. Isolated attempts to manipulate the outcomes of some lotteries have been made by employees, but the extensive security measures practiced by all state lotteries have foiled these few attempts.

WHAT ABOUT THE SOCIAL IMPLICATIONS OF ADVOCATING A FORM OF LEGALIZED GAMBLING AS A METHOD OF RAISING REVENUE?

Of the 53 separate U.S. governmental entities (states, territories, & Wash. D.C.), all but three, Hawaii, Indiana, and Utah, allow some form of legalized gambling. Of the many forms of gaming authorized by these governments, experts in field of social impacts of gambling conclude that lotteries are the <u>least</u> likely to affect people negatively.

This is true because state lotteries do not offer the stimuli associated with other forms of gambling. Most other forms of gaming are played in some form of social setting, offer immediate or near-immediate reinforcement (payoffs), and allow the player to apply some level of self perceived skill. State lotteries offer non of these. There is no similarity between state-run lotteries and casino gambling or horse race betting.

A recent <u>Newsweek</u> article concluded, "The only games that apparently pose no real threat of addiction are state lotteries. That is because they don't have enough action." John D. Quinn, Director of the New York State Lottery, and a past president of the National Association of State Lotteries says that during his tenure as director of the N.Y. Lottery (with sales of 3-4 billion tickets) he has not received one phone call or letter saying a wife or husband "had spent the bread or milk money on the lottery."

Please look for Information Brief No. 2; Historical Perspective on Lotteries, to be mailed in two weeks.

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INFORMATION BRIEF: NO. 2

HISTORICAL PERSPECTIVE ON LOTTERIES

Historians and linguists still argue about which language first adopted the word "lottery". It seems there are a number of languages, ancient and modern, to which we might trace this term, such as the Teutinic hlot (meaning heritage or prize-drawing), the Italian lotteria or the Dutch loterije.

As far back as history can take us, we find traces of our profound attraction toward mystery and the unknown. We have worshiped the stars and looked for signs in the heavens, we have consulted oracles, and have left to soothsayers decisions in which our very lives were at stake.

Before declaring war or giving battle, the Chinese, the Japanese, the Medes, the Persians, the Romans and the Greeks all entrusted their destiny to a reading of the future in the entrails of a freshly-killed animal, in the toss of knuckle-bones or the configuration of the zodiacal signs.

Homer, the bard of Greek mythology, relates how the soldiers put their lives in Agamemnon's hands as he determined, by drawing lots, which of them was to confront the noble Hector. Alexander the Great consulted oracles before every one of his conquests. Darius gave up his land to the invader when the auguries hinted at his defeat and fall.

Ancient historians also cite many cases when chance was called upon as an instrument of policy. Moses called upon chance to shape his people's destiny in the division of the land west of the Jordan River: "...the land shall be divided by lot: according to the names of the tribes of their fathers they shall inherit." (Numbers, XXVI, 55.) In the Bible we also read how Jonas was thrown into the sea by sailors frightened by the storm. They drew lots to find out who in the ship was bringing the storm upon them, and Jonas lost the draw. (Jonas, I, 7.)

Hindu culture developed a kind of trial by chance. Statuettes were placed in an urn, one of them representing guilt and the other innocence. The accused decided this own fate by fishing one of them out of the urn.

In China, a full century B.C., we find the game of Keno which was proposed to have been invented by Chung Lung, a member of the Han dynasty, to raise money for his armies. The game used 120 characters or Chinese proverbs, from which a certain number had to be chosen. This "Chinese lottery" came with Chinese immigrants to Europe and later to America, and reduced the grid from 120 to 80. The popular game of Bingo further reduced the grid to 75 squares, with a free number in the middle.

The use of draws of all sorts was widespread in ancient Rome. The emperors at their banquets liked to offer various presents or congiaria to their guests by drawing lots. Each guest paid his own reckoning for the meal, and might win a prize of great value or a worthless trinket. We can see the parallel between such draws and today's lotteries.

The emperor Nero (37 to 68 A.D.) marked his celebrations of the Eternity of the Empire by public draws, with up to a thousand prizes daily: jobs, land, slaves or ships were the prizes.

Lampidus, the biographer of Heliogabalus (204 to 222 A.D.), tells about this emperor's pranks in the organization of his lotteries. It pleased him to give prizes either of considerable worth or of no value at all, such as ten camels as opposed to ten flies: or ten pounds of gold against ten hens eggs.

Saint Hippolytus, a Greek Christian writer in the third century A.D., relates in his Philosophoumena (or Refutation of All the Heresies) the use of digits and numbers by the Celts.

In France, from Charlemagne to Francois I, including the reigns of Saint Louis, Charles le Bel and Charles V, edicts and regulations rained down in an attempt to dampen the slightest urge to gamble that might smolder among the people. Charlemagne, in his Capitularies, forbids both laypersons and clergy to indulge in games of chance, in the spirit of the edict of the Council of Mayenne in 813. Saint Louis, in 1252, condemned the game of dice. His successors, Charles le Bel (in 1319) and Charles V (in 1369) repeat this prohibition, adding board games like checkers and chess, as well as backgammon, billiards and bowls.

It seems, however, that local lotteries existed in Europe throughout the Middle Ages. We find the first written evidence of medieval lotteries in territory belonging to Flanders, then a part of the Netherlands.

In broadsheets of the time -- the ancestor of our newspapers -- we find, between 1443 and 1449, that many prize-draws were held in a variety of locations: Ghent, Utrecht and Bruges. They also mention lotteries being held in areas ruled by the Dukes of Burgundy at an even earlier date.

In Bruges more than a century before, since 1292 in fact, lots were drawn for the allocation of stands in the large farmers' markets. The Flanders broadsheet draws attention to the fact that in the draw of August 29, 1446, one of these positions was won by the wife of a Venetian merchant, which showed, the writer insisted, the impartiality of the draw.

Again in Bruges, we can trace the regular holding of lotteries between 1465 and 1474, most of them to support building of chapels, almshouses, canals and port facilities.

A charter dated May 29, 1475, issued by Charles the Bold, grants to the Corporation of St. George of Ghent the right to organize a lottery for four years, with two draws per year, to finance the construction of a guildhall for the corporation, and a chapel.

According to the Jesuit publication Relations, the first lottery with cash prizes dates back to 1490. The modern lottery as we know it then came into being two years before Columbus discovered America.

It is interesting to note that even in those days there were special prizes for holders of the numbers immediately above and below the winning figure, anticipating the ancillary prizes given in today's lotteries.

We also came upon traces of medieval lotteries in German states, particularly in the ancient Duchy of Bavaria, where many towns ran lotteries. In Hamburg the lottery was so effectively publicized that its popularity and fame extended to neighboring states where lotteries were banned.

It is even reported that some prizes offered in Germany were out of all proportion, starting from draws for pieces of land and swelling to the raffling of a whole town, with 29 villages, a palace, 10,000 hectares of forest, 1,000 acres of arable land and a factory.

The proliferation of lotteries during the early 1500's is evidenced by a Malines edict of May 2, 1526, wherein all lotteries operating without a license were forbidden, under penalty of confiscation of tickets and proceeds. Royal edicts or orders prohibiting or permitting lotteries soon became more frequent, in the Netherlands, Prussia and Austria, and finally throughout Europe.

In France, Francois I, an open-handed, good-natured fellow, first reintroduced betting at tennis, then authorized the setting-up of lottery offices in Paris and four other cities of the kingdom in 1520.

While the lands of northern Europe were developing the lotteries that have become traditional today, other games of chance were born farther south. In the Republic of Genoa, custom had it that lots should be drawn once a year to choose five citizens as members for the Senate among 90 candidates who were chosen six months in advance. That this should have a parallel function as a game of chance was inevitable. It cost one pistole to play. The big winner who picked all five names correctly got about 20,000 pistoles. Four correct names were worth 5,000, and three names won 500.

In 1519, Benedetto Gentile seeing the potential profits, astutely considered that one draw each year was not enough. He replaced the 90 names by 90 numbers, and the "Gioco di Seminario" quickly became one of the favorite amusements of the Genoese. The first official records of this "5/90" draw date from 1535.

The Italian Lotto soon took root in other European countries, transplanted by the Italian courtiers of Catherine de Medici. These were partially an attempt to curb the exit of cash from non-lottery jurisdictions, through subscriptions to foreign lotteries which were already very popular.

The earliest days of colonies in America were also a time in Europe during which the phenomenon of lotteries underwent an extraordinary growth.

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, partially funding the Colonial Army during the Revolutionary War.

Some 70 acts were passed by Congress before 1820 authorizing lotteries for the building of schools, roads and other public projects. Lotteries helped erect Harvard, Yale, Brown, Dartmouth, Columbia, Princeton, William and Mary and other academic institutions.

Public trust in U.S. and some European lotteries waned in the mid 1800's when their growth allowed a few dishonest public employees to manipulate the outcomes of some lotteries for personal gain. U.S. lotteries all but disappeared until 1964.

The first Western lottery to start operations in the 20th Century was Australia's Queensland State Lottery, drawing its first ticket in 1917. The first 20th Century U.S. lottery began in New Hampshire in 1964. The following list gives those states with lotteries and years their lotteries started.

1.	New Hampshire	1964	14.	Arizona	1981
2.	Massachusetts	1971	15.	Dist. of Columbia	1982
3.	New Jersey	1971	16.	Washington	1982
4.	Pennsylvania	1972	17.	Colorado	1983
5.	Connecticut	1973	18.	California	1985
6.	Maryland	1973	19.	Oregon	1985
7.	Michigan	1973	20.	West Virginia	1985
8.	Illinois	1974	21.	Iowa	1985
9.	Ohio	1974	22.	Missouri	1986
10.	Maine	1975	23.	Kansas	1987
11.	Delaware	1976	24.	Montana	1987
12.	New York	1976	25.	North Dakota	1987
13.	Vermont	1977	26.	Florida	1988

In addition voters have given approval to lotteries in Idaho and Wisconsin, and legislatures in Virginia and Indiana have given the nod to a vote by the electorate for state lotteries.

In 1984, the International Association of State Lotteries listed 63 member nations, including every continent except Antarctica. In most cases, proceeds go directly into national treasuries, or are earmarked for public benefits such as health, education or charities. The Netherlands has the oldest lottery in operation, started in 1726.

These few historical references gleaned from past centuries show clearly enough that in every age and in all countries chance has been the key to solving problems that were otherwise insoluble; has been a source of recreation; and became an integral part of the customs and usages of peoples.

Johan Huizinga, the Dutch philosopher-historian, writes is his book Homo Ludens (roughly translated by "Man the Gamester") that "... when we look deeply into the nature of our actions, the notion may surface in us that all the activities of man are nothing but a game."

For human beings lotteries have always been -- and always will be -- a game that is attractive, fascinating, and available to all.

alaska lottery coalition

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coalition

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INFORMATION BRIEF NO.3

ALASKA LOTTERY REVENUE PROJECTIONS

The most often asked question regarding an Alaskan lottery concerns the probable income to the State treasury. The simple answer, as stated in Information Brief No. 1 and detailed below, is in the range of $20,000,000 per year.

Although every state has differences, a well-precedented and accurate way for a non-lottery state to project the revenue potential of a lottery is to use averages. As with any business, if a state lottery is mismanaged, it may fall short of the average and, conversely, if a state lottery learns from the management experience of established state lotteries and uses streamlined, efficient and effective management, it will obtain revenues above the average. Nonetheless, using averages has proven an accurate, albeit slightly conservative method of predicting revenues for new lottery states.

The average per capita lottery expenditure during FY85 was $98.02. This is the highest per capita expenditure for the 23 year history of lotteries in the U.S. and continues the annual increase for this measure. The measure of per capita expenditures does not assume that everyone makes lottery purchases, it's a statistical measure which enables comparisons and projections to be made.

For convenience, the rate of $100 annual per capita expenditure will be used for the following projections. This is a conservative measure when we consider that per capita average expenditures have recently been increasing at a rate of more than $10 per year, and since an Alaskan lottery will most likely be started after July, 1988, three years later than when this 1985 measure was taken.

To estimate an Alaska gross lottery sales for 1987, we need to merely multiply this per capita expenditure by our population, which is estimated by the AK Dept. of Labor to be 544,000:
$100 (per capita expend.) x 544,000 (AK pop.) = $54,400,000 (gross rev.).

Generally, and again as an average, 35% to 40% of the gross lottery revenues are returned to the state treasury. Thus, to determine a range for net lottery revenues for Alaska for 1987, we need merely to multiply these percentages times the gross lottery sales:
35% x $54,400,000 = $19,040,000, and 40% x $54,400,000 = $21,760,000.

This range, $19,040,000 to $21,760,000, then gives us a point-in-time projection based on what is actually being experienced in the lottery market in mid-1980's dollars, and based on our current population.

However, we must keep in mind that most of the states from which the average per capita expenditures figures come are "mature lottery states." Therefore, this $20,000,000 net revenue range should be thought of as what Alaska could expect today if it had a lottery considered "mature."

The degree of maturity a state-run lottery is considered to have reached is based upon a combination of its age and its product line or game mix. An instant lottery has typically been the first lottery product made available to the public. After a period of time deemed appropriate by the lottery agency management (six months to a year), an on-line system is usually started. The on-line system provides for sales of lottery

tickets for a perio : (weekly - monthly) lotto games and generally two simple numbers games. For the past 12 years this has been the normal pattern for lottery states unless legislation stipulated particular lottery games; i.e., Colorado law restricts state lottery sales to instant games.

Sales records from operational state lotteries, started within the last five years, demonstrate similar sales curve profiles. Total sales vary considerably, depending on the size of the state, however, their sales profiles have all been similar.

Instant game sales begin very strong with first year sales being highest. Sales then decline considerably before beginning a slow, steady yearly increase. The slope of the decline and the degree to which it falls depends on several factors:

The lottery administration reaction through adjustments to game design and prize structure;
The lottery agency's advertising budget and strategies;
The size of the state population which will eventually constitute the loyal constituency for instant games.

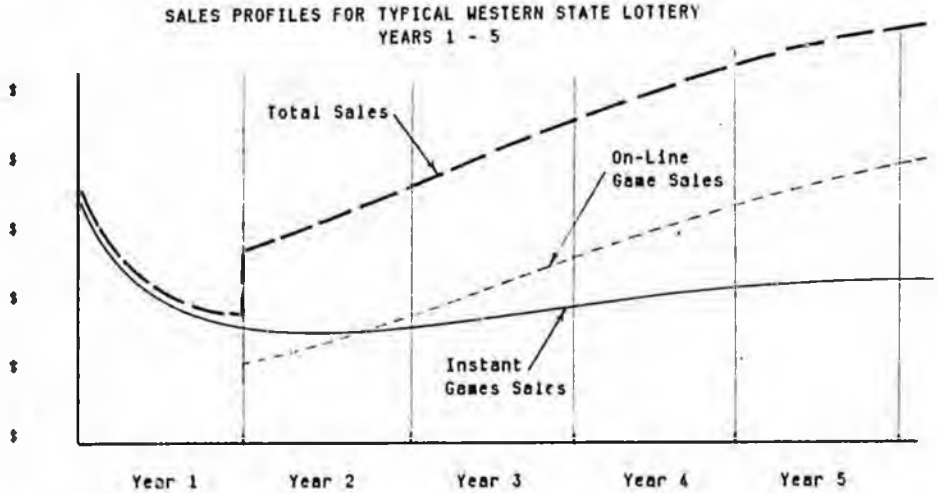
Sales for on-line games begin relatively slow in western states. Sales generally exhibit strong steady growth as more and more people become familiar with the games and more educated with lotteries in general. On-line game sales for all states have improved each year of operation and sales profiles show a continuous increasing curve.

The slump in total sales for new lotteries after the end of their first year has often been reported by the media. Doubters of lotteries have used this "news" to substantiate their claims that lotteries are not good revenue sources and their proponents have made false promises about possible revenues to the state. One only needs to study the history of new lotteries to conclude that this sales fluctuation is normal and is followed by predictable sales increases. The severity of the down-turn in sales is a function of administrative decisions and legislative constraints, as is the degree of sales increases to follow.

Graph No. 1 illustrates how these factors, instant game sales curve and on-line games sales curve, combine to generate a resulting total sales curve for the first five years of a typical lottery.

GRAPH NO. 1

SALES PROFILES FOR TYPICAL WESTERN STATE LOTTERY
YEARS 1 - 5



The additional elements of product mix and time can be factored with per capita sales averages and population estimates to begin to refine net revenue projections over a span of time for a state.

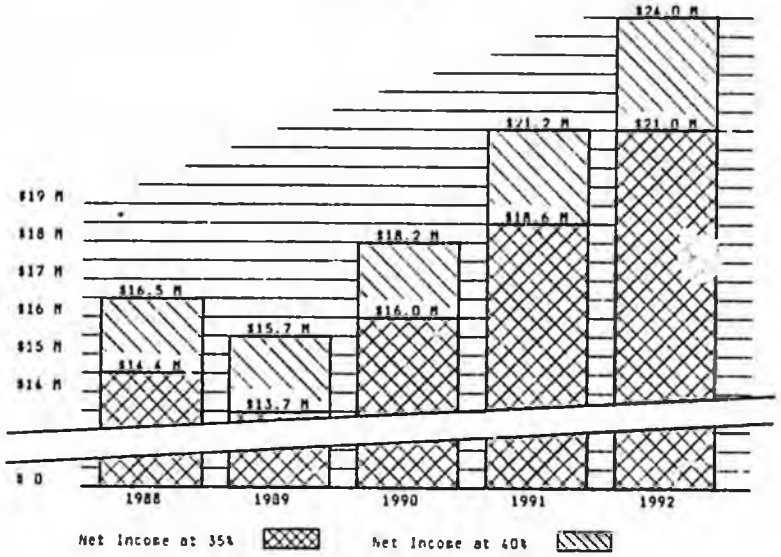
Graph No. 2 gives the range of net revenue we could expect from an Alaskan Lottery for the first five years. Until a lottery is in operation, the exact net income is impossible to predict. Just as with any convenience purchase, factors such as consumer awareness, access, and product desirability play critical roles in how successful sales

are. Sales are also affected by population demographics and concentration/dispersion patterns. (As will be discussed in a later Brief, Alaska's population is mostly urban; 80% live in communities of over 5,000; 85% live in communities of over 2,000; in sales terms, 80% live in three major marketing areas.)

Graph 2 shows a likely net revenue range for the first five years of an Alaskan lottery, operating similar to other western states.

GRAPH NO. 2

ALASKA LOTTERY NET INCOME PROJECTION
1988 - 1992



This illustration assumes:

1. Alaska would start a lottery in 1988 with an instant game and implement on-line games one year later.

2. First year per capita expenditure for <u>instant</u> game sales is $75 based on the average instant game sales of the last four states to start lotteries. Total lottery per capita expenditures decline the second year, as illustrated in Graph No. 1, and then increase to $100 per year, the 1985 rate.

   Per Capita Lottery Expenditures (PCE)
   1988; $ 75 instant game only
   1989; $ 70 instant and on-line games
   1990; $ 80 instant and on-line games
   1991; $ 90 instant and on-line games
   1992; $100 instant and on-line games

3. Alaska Department of Labor middle series population projections for 1985-1991, rounded to nearest 10,000 are correct. Alaska's population in 1992 is a 10,000 person increase from 1991 as the Alaska Department of Labor projections for the previous four years suggest is reasonable.

   Alaska Population Projections
   1988; 550,000 AK Dept. of Labor, mid series
   1989; 560,000 AK Dept. of Labor, mid series
   1990; 570,000 AK Dept. of Labor, mid series
   1991; 590,000 AK Dept. of Labor, mid series
   1992; 600,000 AK Lottery Coalition estimate

These assumed per capita expenditures and projected populations result in the following gross lottery sales for each year. Computing a low-end net revenue (35% of gross sales), and a high-end net revenue (40% of gross sales), gives a range of revenues that could be expected from the first five years of an Alaskan lottery.

Yr	PCE	Pop	Gross $	Net @ 35%	Net @ 40%
1988;	$75	x 550,000	= $41,250,000;	$14,437,500	$16,500,000
1989;	$70	x 560,000	= $39,200,000;	$13,720,000	$15,680,000
1990;	$80	x 570,000	= $45,600,000;	$15,960,000	$18,240,000
1991;	$90	x 590,000	= $53,100,000;	$18,585,000	$21,240,000
1992;	$100	x 600,000	= $60,000,000;	$21,000,000	$24,000,000

Three additional factors should be kept in mind when concluding how valid the above projections will prove to be.

1. The above computations exclude probable lottery purchases by our additional summer workforce, and our annual tourist volume of about 775,000 persons, for which specific lottery games could be targeted.

2. The relatively new development in the lottery field of smaller states conducting multi-state lottery games in addition to their in-state games which adds to the likelihood that Alaska will match national per capita sales averages.

3. A demographic analysis of the population of Alaska illustrates that when compared to other lottery states on those factors which indicate lottery success (above average income, above average education, percent in age groups which buy lottery products most, and male to female ratio) our per capita lottery sales would be higher than average.

All three of these factors suggest that the above projections are likely to be conservative. A net income range of $20,000,000 annually, once an Alaskan lottery is fully developed, is a reasonable projection for a state operated Alaskan lottery.

alaska lottery coalition

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Research has been conducted in every state with a lottery operating for over one year regarding questions one and two, and the conclusion has always been the same; the poor and less educated play the lottery to a lesser degree than their proportion of the population. Some examples:

Colorado: "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 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 (in 1983 dollars). 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, 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 cents a week played on the lottery, while being a higher percentage of the discretionary income of low income person than it is in a middle income person, is still a minor decision. . ." ("Colorado Lottery Facts", Report to the Colorado Legislature, Oct., 1983)

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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 level education. This is the natural market.

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Rep. John Sund
PO Box V
Juneau, AK 99811

STATE OF OREGON INTEROFFICE MEMO

TO: Jim Davey DATE: February 22, 1988

FROM: Gary Williams GW

SUBJECT: Alaska House Bill 236

I have the following comments concerning the Alaskan Lottery Act:

Page 2, lines 21-26: If you wanted to follow what I thought was a good part of the lottery bill in Virginia, you would modify this section to state that the funds could not be allocated by the Legislature until they are actually earned and deposited in the General Fund.

Page 3, Sec. 05.18.010: This section should be tightened up to follow the language in the preamble about where the money is to be spent. The preamble states that the money will first fund the necessary operations of the Public Broadcasting Commission and the Council on the Arts, and then other state programs as the proceeds allow. This section does not put any priorities on where the money will go; it just says that the "...Corporation is established for the continued operation of the Alaska State Council on the Arts and the Alaska Public Broadcasting Commission and for other expenses of the state." Additionally, the preamble states that the money is to be used for the "necessary" operations of the Commission and Council, while this section states that it is to be used for the "continued" operation of these bodies. It doesn't take a lawyer to see that you could easily generate some arguments on what these words mean.

Page 3, Sec. 05.18.020: No requirement for a board member with a security background. Also, do the board members elect their own chair, or is the chair appointed by the Governor?

Page 7, Section 05.18.070: If not covered elsewhere by Alaskan law, it should have a section that permits the Director to delegate his or her duties to other lottery employes.

Page 9, Sec. 05.18.120: I don't see the point in limiting the term of agent contracts to two years.

Page 11, Sec. 05.18.160: A bond isn't really necessary and it only adds to the cost of an agent in applying for a contract.

Page 12, Sec. 05.18.220: Don't return unclaimed prizes to the state; it should go back to the public as a prize.

Page 14, Sec. 05.18.980: Should exclude the Lottery from any state printing laws if they exist; also personnel rules/laws should not apply because of their limitations on establishing incentive programs for sales people.

I didn't see any section specifying the percentages for how sales revenue is to be allocated; e.g., prizes, administrative expenses, and public purpose.

I didn't see any section on the budget for the Lottery and who approves it. Maybe these are covered elsewhere in Alaskan law.

GW:sc
OSL:0616

MY TURN
by Robert D. Thomas, Director; Alaska Lottery Coalition

As Alaska searches for additional sources to replace dwindling oil revenues, some members of the Alaska legislature seem to ignore the obvious; the need to broaden our base from which we receive dollars to support state government. One small step to broaden that base could be implementation of a state-operated lottery.

We are not talking about legalizing another form of gambling and we are not talking about adopting a new public policy with regard to funding government services with public gaming revenues. Lottery games are legal in Alaska, as well as 44 other states. These games are run through state-operated lottery agencies or permit holding charitable organizations; Alaska permits about 1,000 organizations in the state to operate games of chance. The Alaska Department of Revenue annually receives about $100,000 from the activities of the games held by these permit holders.

Is the Alaska legislature willing to approve authorization to implement a lottery; estimated to contribute $20,000,000 annually to the state treasury? Even with state-wide polls indicating the public favors the concept of a lottery by a two to one margin, some legislators are still unwilling to support lottery legislation this close to re-election time. Unfortunately for the majority of the state, this minority of the legislature wields enough power to stop most legislation they are personally opposed to.

This minority is content to cut the jobs, services, and projects the $20,000,000 in new revenue would maintain. They are content to look away as untold dollars exit the state by Alaskans playing lotteries, via the mail, of other states and Canadian provinces. They choose to ignore a voluntary source of revenues from those Alaskans who would like to play a state lottery, our part-time summer population, and our huge tourist influx.

At an average of $50,000 each, $20 million would support 400 state employees. How many of the projects which did not get funded through the recently passed jobs bill, HB 512, could be funded with an additional $20 million? How many unfunded private sector economic development projects would $20 million provide through our Dept. of Commerce and Economic Development?

In addition to lottery net profits, estimates of an Alaskan lottery's annual impact include; $27,500,000 in prizes to the players, $2,750,000 in commissions to retailers of lottery tickets, $1,300,000 to advertisers and the media within Alaska, $1,750,000 in salaries for 35 new jobs within the state, and $850,000 in charges for warehouse and office rental, telephone services, courier services, etc.

The current bill which would authorize the state to start a lottery similar to those in thirty other states and every Canadian province is House Bill 236, by Rep. Mark Boyer. HB 236 has been sitting in the House Judiciary Committee for almost a year. No hearings were held for it during the interim, one hearing was held on Feb. 11th of this year. During that one hearing, although a vote was not taken, the obvious consensus was 4 to 1 in favor. The chairman was the obvious "no" vote and has refused to hear the bill again to date. There has not been one word of testimony in opposition to this bill since its introduction.

Reluctance by some House members may come from rumors that the more conservative Senate leadership does not want to address this issue. Threats to load a lottery bill, passed by the House, with too many committee hearings to complete prior to the end of session have tended to erode support for HB 236. This is unfortunate for the vast majority of the state which would like to see an Alaskan lottery become a reality.

Where does this leave supporters of a state-operated lottery? We still believe legislators listen to their constituents and "cards and letters from home" have an impact. Let your legislators know your position; call them, write them, talk to them when they come home on weekends.

The longer Alaska delays entering the state-operated lottery field, the greater our lose becomes from not providing a means for voluntary support of state government.

(The Alaska Lottery Coalition is an educational and lobbying entity established to support legislation authorizing the state of Alaska to implement a government-operated lottery.)

DT: 4/25/88

TO: Rep. John Sund

FR: Bob Thomas
Alaska Lottery Coalition

RE: HB 236, Alaska Lottery

I'm sorry we missed connections last Friday, however, I wanted to pass on some comments regarding HB 236.

1. As stated in my 3/28/88 memo to you, the Coalition supports suggested amendments to HB 236 mentioned by you and other House Judiciary Committee members (stripping the dedication language and including an advisory vote). Our first concern is support of legislation authorizing a state operated lottery. Additional provisions in any lottery bill, such as attempts to target proceeds, are of secondary concern to the Coalition. However, if given a choice we would support a bill with no dedication language over one that attempts to dedicate for some specific purpose.

2. There appears to be growing interest for the state operated lottery concept in the Senate, the Governor's office, the Dept. of Commerce and Economic Development, and the Dept. of Revenue. This interest likely stems from concerns about the state of affairs with regard to stretching current requirements for operation of charitable gaming activities not visualized when those laws and regulations were implemented. The interest is also tied to the possibility of targeting all or part of the proceeds of a lottery. In this case, the target is economic development projects throughout the state. The Oregon plan is that most often referenced in these discussions.

   Of any plan for targeting lottery proceeds, this is the type we feel offers the most palatable option. By establishing a mechanism for funding loans to private interests with viable economic development projects and grants to municipalities for enhancing economic development through needed infrastructure, we do not generate an expectation by an operating state agency or create a new entity demanding an annual appropriation for operation.

   If HB 236 were to pass the House this year and if time permitted Senate consideration, additional amendments to embody the concepts above would likely be considered.

3. The Coalition has a high level of concern with regard to the current status of HB 299, the "Bingo Bill." The lack of movement of HB 236 has resulted in amendments to HB 299 which would legalize the type of lottery now being conducted in Alaska using charitable gaming permits. The stated rationale for these amendments is to insure that the lottery concept is kept before the public until another effort to provide legislation for a state run lottery is attempted.

The two charitable lotteries currently known to be operating, "Alotto" operated by an individual from Fairbanks using a permit for the American Legion in Glenallen and one recently started in Juneau using the American Legion permit here, are operating illegally according to the Dept. of Revenue. Should HB 299 become law in its current form, this type of lottery operation would become legal and is very likely to flourish throughout Alaska.

The stage being set by these moves is very similar to that of the early 1800's when government permitted, but not regulated, lotteries flourished and were subject to manipulation by their operators. It was during this era that lotteries were banned throughout the U.S. and Canada and not revived again until the advent of computer systems which provide the key to secure accounting and absolute assurance that the game is fair to all who choose to play.

Experience in the U.S., Canada and most of the rest of the world indicates that government run lotteries are the only form of lottery operation capable of providing the necessary security to adequately protect the publics' interest. This assurance is the reason government lotteries have gained the publics' trust in recent years. The consensus from those familiar with lotteries, Alaska Dept of Revenue staff, the lottery service industry for government lotteries, and lottery administrative personnel from other states, views non-government run of lotteries to be in extreme conflict with the publics' interest.

The lotteries we see operating in Alaska today offer absolutely no security to insure that the players' are protected from outright fraud or accidental omissions eliminating players from the drawings they are promised to be a part of. We predict that it would only be a matter of time before this absence of security will result in someone "walking with the money." When this happens, the charities loose credibility and money, the public will be cheated, and the resulting image of legitiment lotteries will be tarnished.

There is also no reliable accounting method which can insure that a true picture of the gaming activities operated by the charitable gaming permitees and private operators is reported as required.

5. We again request that you calendar HB 236 to allow consideration and debate on the lottery issue.

APRN
VOICES OF ALASKA
Alaska Public Radio Network ★ 4640 Old Seward Highway ★ Suite 202 ★ Anchorage, Alaska 99503 ★ (907) 563-7733

MAY 4 1987

April 29, 1987

Representative Dave Donley
Chairman, Labor and Commerce Committee
Pouch V
Juneau, Alaska 99811

Dear Representative Donley:

I understand your committee will be reviewing HB 236 which creates a state lottery and establishes an Arts and Public Broadcasting account in the general fund. I support this bill. Its language preserves the appropriation prerogative of the legislature and at the same time states legislative intent. Proceeds from such a lottery will do little to help these important programs if simply deposited in the general fund.

I have urged such a system of support for our Public Broadcasting system since 1977. For many Alaskans these broadcast services are the only link to the outside world and it is important that a system be found to protect these services.

Sincerely,

Les Robinson

Les Robinson
Manager KDLG Dillingham
President APRN

LR: kc
CC: APRN file.

3 Myths Surrounding Lotteries

- **Overview**
- The Myth of the Poor Buying Lottery Tickets, by Dr. John R. Koza
- **Case Study:**
  - Dealing With the Press and the Myths About Lotteries, from a presentation by John D.Quinn

3 Myths Surrounding Lotteries

OVERVIEW

The expansion of the lottery industry in the U.S. during the last two decades, clearly demonstrates the positive feelings of the American public regarding state lotteries. Nevertheless, despite the fact that in legislative actions, initiatives and referendums the people have said "yes" to lotteries in 22 states plus the District of Columbia, opponents continue to attest to the danger and damage that these revenue-producing entities provide. Much of this opposition to state-run lotteries, however, is supported by myths often erroneously associated with them.

Myths about who plays the lottery abound. Around the country, allegations are repeated in public forums concerning players' economic, social and cultural status. Fears about potential negative effects of lotteries on the community are often raised, despite the fact that research done to date indicates overwhelmingly favorable results from legalized lotteries. And, of course, one of the most telling statistics is the one showing that residents where lotteries have been legalized, approve of their lottery by a vast majority.

In most cases, opposition to lotteries seems to be founded more on fear than fact. Again and again, misconceptions refutable by authoritative data are raised in public debate. Lottery marketing departments in all states regularly survey residents in an effort to determine demographics, purchasing habits, attitudes and general feelings about the lottery, and findings consistently indicate that publics enjoy and support state lotteries.

Unfortunately, lottery supporters are usually put in the position, not of arguing the relative merits and disadvantages of lotteries, but of addressing rumor and misstatement—the myths surrounding lotteries. The dictionary defines a myth as an unproved collective belief that is accepted uncritically. The myths about state lotteries certainly fall into this realm and carry with them certain underlying social and cultural implications.

WHAT ARE THE MYTHS SURROUNDING LOTTERIES?

Some of the prevalent myths are:

- The poor purchase a disproportionate amount of lottery tickets
- Lotteries appeal to the less educated
- The lottery fosters compulsive gambling
- The lottery will decrease taxes

THE POOR PURCHASE A DISPROPORTIONATE AMOUNT OF LOTTERY TICKETS

This is the prevailing myth voiced by opponents of the lottery issue today, and yet it is the easiest one to dispel. Numerous studies conducted across the United States have disproved the theory that the lowest income groups are the primary purchasers of lottery tickets. Results of participation research, polls and demographic surveys have shown that overall, lottery play is heaviest among middle to upper-middle income players. Studies in five lottery states (New York, Pennsylvania, Illinois, Michigan and New Jersey) show that the highest level of participation comes from persons whose income falls between $18,000 and $34,000 per year.

Results of a survey conducted at the end of California's first game indicated that players in California basically fit the income profile mentioned above. The California study indicated that the highest incidence of participation was by players with incomes ranging from between $15,000 to $35,000. A study of lottery playing by selected demographics published in *The Sacramento Bee* in December 1985 showed that 18 percent of heavy players have income ranges of $15,000 to $24,999 and $30,000 to $39,999.

CALIFORNIA
Income Levels of Moderate and Heavy Players

Income	Moderate %	Heavy %
Under 7,000	5	11
$7,000 - $14,999	13	13
$15,000 - $24,999	18	18
$25,000 - $29,999	16	15
$30,000 - $39,999	18	18
$40,000 - $49,999	8	12
$50,000 or more	22	13

Source: Information published in The Sacramento Bee 12/13/85.

In 1985, the research firm of Moore & Associates conducted a statewide study on behalf of the Michigan Lottery and its advertising agency, W.B. Doner and Company. One of the primary objectives of the study was to gain a clearer understanding of those individuals who play the lottery in Michigan. A total of 3,000 telephone interviews were conducted for the survey. The study stated that although it is impossible to put together an accurate profile of a "typical" game player, survey results indicate that the most active players are likely to be employed in a skilled, semiskilled or trade occupation with a household income of $20,000 to $29,999.

According to the study, 85 percent of lottery game players reported that they were employed outside the home, worked as homemakers, were retired, or were students at the time of the survey. Of these, persons employed in skilled, semi-skilled and trade occupations made up the largest group at 21 percent, while assembly workers and unskilled labor comprised the second largest group of players at 19 percent.

Ranking third were professionals at 11 percent of total players. Retired persons, along with manager/administrator and homemaker categories each made up approximately 9 percent of players. Persons in the armed forces and farmers made up the smallest group of game players at 0.1 percent and 0.3 percent respectively.

In terms of household income reported by lottery game players, 25 percent of all players surveyed fell into the $20,000 to $29,999 income range, with an additional 34 percent reporting incomes over $30,000 and 16 percent reporting incomes over $40,000.

As a final note, David Weinstein and Lillian Deitch conclude in their book, *The Impact of Legalized Gambling: The Socioeconomic Consequence of Lotteries*, that participation by various income groups is roughly equal to their respective

percentage of the total population and is relatively equal among all income classes.

OCCUPATIONS OF ARIZONA INSTANT GAME PLAYERS

Professional/Technical	33%
Clerical	13%
Laborer/Service	53%
Other	1%

Source: Information supplied by the Arizona Lottery

LOTTERIES APPEAL TO THE LESS EDUCATED

This is a myth about lotteries that is closely tied to the idea that lower income groups buy a disproportionate amount of lottery tickets. Again, the facts disprove the myth. Information from the state of Michigan reveals that nearly 88 percent of lottery players had at least a high school education. Almost 42 percent of players reported either attending college, trade or technical schools, or having post-college graduate educations. The smallest percentage of players—12.3 percent—reported less than a high school education.

CALIFORNIA
Education Levels of Moderate Lottery Players

Players	%
Less than high school	4
High school graduate	28
Some college/trade school	41
College graduate	15
Post graduate training	12

Source: Information published in The Sacramento Bee 12/13/85.

Figures in California show that among heavy lottery players, 41 percent have had some college or trade school education, while 19 percent of heavy players have less than a high school education. Light to moderate players with college degrees represent approximately 15 percent of lottery players. Only about 5 percent of light to moderate players are persons with less than high school educations.

LOTTERIES FOSTER COMPULSIVE GAMBLING

Studies have shown that the nature of lottery play does not provide the stimulus necessary to hook a compulsive gambler. The compulsive gambler is interested in the elements of risk and danger, skill, excitement, competitiveness and a degree of aggressive play. The competitive and aggressive motivational element of gambling does not apply to lottery play. Lottery play is too "slow," too "boring," and not enough skill is involved to keep the attention of a compulsive gambler.

In *Gambling and the Social Structure: A Sociological Study of Lotteries and Horse Racing in Contemporary America*, Edward C. Devereux Jr. states that lack of "certain kinds of strain" or excitement in lottery play "provokes more experienced gamblers to consider lotteries a bore." Devereux also says that lotteries are "generally considered to be peculiarly fair and equitable" and "differential skills of players, in all lotteries are hence irrelevant.."

These characteristics of lottery play force the compulsive gambler to other avenues for gratification.

In addition, Dr. Robert Custer, former acting director of mental health for the Veterans Administration in Washington, D.C., who has done extensive research on the problem and treatment of compulsive gambling, concluded that lottery play is too slow to sustain the compulsive gambler. The purchase of a lottery ticket and the subsequent wait for potential winning and collection does not satisfy the compulsive urge of the gambler.

LOTTERIES DECREASE TAXES

This, most obviously, is not an argument that has been voiced by opponents to the lottery, but it is not true either. The establishment of a state lottery will not decrease state taxes. But, it will forestall the necessity of increasing taxes to support vital public programs. If history is any precedent, taxes are always going to go up. But lottery-funded supplements to state tax revenue supports public services, the benefits of which the citizen will realize without having to pay accordingly.

An example of the role which lottery funds should play in state revenue plans is stipulated in the state constitutional amendment which established the California Lottery. It states that proceeds from the lottery will be in addition to—not in place of—funds already allocated for public education in California.

OCCUPATIONS OF MICHIGAN LOTTERY PLAYERS

Occupations	Players %	Total Surveyed %
Skilled/semiskilled trades	21.1	20.4
Labor/assembly, unskilled	18.7	17.4
Retired	9.1	10.3
Professional	11.0	13.7
Homemakers	9.0	8.9
Clerical/office	8.6	7.7
Manager/administraton	9.0	8.4
Sales	5.3	4.7
Police/fire/postal/government	2.4	2.0
Owner/proprietor	1.9	1.8
Technical	1.5	1.6
Student	0.8	0.9
Farmer	0.3	0.7
Armed services	0.1	0.4
Other	1.2	1.2

Source: W.B. Doner and Company Advertising

EDUCATION OF MICHIGAN LOTTERY PLAYERS

	Players %	Total Surveyed %
Less than high school	12.3	12.6
High school graduate	46.0	42.6
Some college	20.8	21.0
Trade/technical school	2.9	2.4
College/post graduate	18.1	21.5

Source: W.B. Doner and Company Advertising

INCOME LEVELS OF MICHIGAN LOTTERY PLAYERS

Income	Players %	Total Surveyed %
$10,000 or less	17.3	18.3
$10,000 - $19,999	23.2	22.8
$20,000 - $29,999	25.3	24.6
$30,000 - $39,999	18.1	17.2
$40,000 - $49,999	7.9	8.2
$50,000 - $59,999	4.2	4.1
$60,000 - $69,999	1.9	2.0
$70,000 and above	2.1	2.8

MICHIGAN
Profile of a Typical Michigan Lottery Player

- White
- Male/Female
- Married
- 25-44 years of age
- At least a high school graduate
- Employed in a skilled, semiskilled or trade occupation
- Household income of $20,000 - $29,999

Source: W.B. Doner and Company Advertising

Dr. John R. Koza is chairman emeritus and co-founder of Scientific Games, Inc. of Atlanta, Georgia, a leading supplier of games to the state lottery market. He has a B.A. in communication science, a M.A. in mathematics and a M.S. and Ph.D. in computer science from the University of Michigan. Despite the fact that data used in this analysis are a few years old, the following article by Dr. John R. Koza, nevertheless, remains one of the outstanding pieces of work in the lottery research area. In it, Dr. Koza reviews the massive body of data that exists on who buys lottery tickets, and he presents factual information on the question of whether or not the poor actually do buy lottery tickets to a disproportionate basis.

THE MYTH OF THE POOR BUYING LOTTERY TICKETS

By Dr. John R. Koza

Published 1982

One of the most persistent myths concerning lotteries is that the poor buy a disproportionate share of the tickets. The image is that of a poor, black welfare mother squandering her monthly welfare check on lottery tickets while her helpless children go hungry. The statement that the poor buy a disproportionate number of lottery tickets almost invariably is joined by the statement that lottery tickets (even though voluntarily purchased) are some kind of 'regressive tax' on the poor.

There is probably not one of the lottery states in the United States that does not have its resident professor who periodically holds a press conference and announces that the poor are disproportionately buying lottery tickets. There is certainly not one legislative hearing in a non-lottery state which does not hear at least one such resident or out-of-state 'expert' solemnly testifying that a state-operated lottery will promote everything from broken homes, public drunkenness, organized crime, and unemployment, to street muggings. And, of course, the statement is always made that the poor buy lottery tickets disproportionately.

Without exception, in spite of fine credentials in their actual areas of expertise, the 'experts' providing this testimony never present any actual surveys, studies or evidence that support their testimony that the poor disproportionately buy lottery tickets. In many cases, the 'evidence' consists of trying to bootstrap newspaper articles about similar previous unsupported statements into some kind of reality.

Curiously, the belief that the poor buy lottery tickets seems to be especially prevalent among some of the people who constitute the decision-making leadership in our country in business, government, universities and legislatures.

The purpose of this article is to review the massive body of actual data that exists on who actually buys lottery tickets and present some factual information on the question of whether or not the poor actually do buy lottery tickets to a disproportionate basis. The approach and conclusions herein are not based on colorful, isolated individual examples but rather upon an exhaustive examination of the massive records of actual lottery winners maintained by the various state governments involved.

WHAT THE PUBLIC THINKS

Before getting into our main questions, however, we need to emphasize a very important point. Namely, whatever some of the 'better informed' decision-makers may think about this issue, the public at large does not believe this myth. In 1980, Public Response Associates of San Francisco (PRA), a professional public opinion survey company, conducted three separate public opinion surveys in three jurisdictions where lottery referendums were on the November 4, 1980 general election ballot.

These three areas were Arizona, Colorado and the District of Columbia. In each jurisdiction, approximately 600 registered voters (randomly selected to be representative of the electorate in that jurisdiction) were interviewed to determine their attitudes about a state lottery and their voting intentions on the lottery question in the upcoming election. The interviews were conducted by telephone in March 1980 in Arizona; in both May and October in Colorado; and, in September in the District of Columbia.

On the basic question of whether or not the person favored the lottery, the percentages in the surveys were between 55 percent and 57 percent favorable in all jurisdictions. All three referendums were, in fact, subsequently approved in the actual election on November 4, 1980 by percentages of 52 percent, 60 percent and 64 percent. The data from these surveys are considered statistically reliable (as of the time they were taken) within a range of plus or minus 3 percentage points.

The three surveys showed that 81 percent of the public believed that buying a lottery ticket would appeal to the average person and not the poor.

TABLE I

QUESTION: I'm going to read some statements people have made about state-operated lotteries. Please tell me whether you agree or disagree with each statement.

	PERCENT AGREEING		
STATEMENT	AZ	CO	D.C.
People are going to gamble no matter what	88%	88%	86%
It makes no difference to me if someone wants to gamble on a lottery	84	85	78
If we authorize some forms of gambling, it will contribute to a bad moral climate	29	21	29
If we have a state-operated lottery, we will soon have casino-type gambling	24	21	27
The only one who is going to get any benefit out of a state lottery is its promoters	21	21	21
All leading law enforcement agencies will be against a state-operated lottery	18	14	20

CROSS-TABULATION OF RESULTS

In both the Arizona and the District of Columbia surveys, the percentage of people disbelieving the statement that the poor disproportionately buy lottery tickets was cross-tabulated and is available according to whether or not the respondent intended to vote in favor of having a lottery in the upcoming election. Among those favoring the lottery, 94 percent disbelieved the statement about the poor in Arizona and 88 percent disbelieved the statement in the District of Columbia.

More interestingly, among those opposing the lottery, only 30 percent of those in Arizona believed the statement about the poor and only 23 percent of those in the District of Columbia believed the statement. That is, only a minority of even those who opposed the lottery believed that the poor disproportionately buy lottery tickets.

In the Colorado survey, the percentage of people disbelieving the myth about the poor was cross-tabulated and is available according to whether the respondent said he or she would purchase a lottery ticket if the lottery was ultimately approved.

Among those saying they would purchase a ticket, 95 percent disbelieved the statement about the poor. Among those saying they would not purchase a ticket, only 29 percent believed the statement about the poor. That is, only a minority of even those who did not intend to ever participate in the lottery believed the statement about the poor.

In fact, in a report reviewing the surveys, Public Response Associates said: "Over the past year, we have conducted statewide surveys in several areas concerning voters' sentiments about legalized gambling initiatives (primarily state-supervised lotteries). The findings from all surveys are consistent—most people would like their state to establish a legal, state-operated lottery. Moreover, there are relatively few fears that the legalization of gambling will lead to a bad moral climate." Also PRA added: "Most voters have positive attitudes about the notion of a lottery, few are concerned about the 'often assumed' negative aspects of a lottery."

The results of some other attitude questions on lotteries are presented in Table I.

FACTORS ENTERING INTO THE PURCHASE DECISION

Over the past year, Scientific Games Inc. has undertaken a systematic analysis of both demographic and psychological factors that enter into the consumer's purchase decision for various lottery products.

One phase of this work has consisted of a statistical and demographic analysis of every recorded winner of a large prize in every lottery game since the very beginning of each lottery involved. The study included all winners of all large prize levels of all games of all types for which the prize claiming and prize procedure captures the names and addresses of a representative cross-section of winners of that game.

The study included winners in all such games for the entire period of existence of each lottery. This ongoing study has so far examined the demographics of lottery players in five of the most populous lottery states: New York, Pennsylvania, Illinois, Michigan and New Jersey. These five states have a total population in excess of 57 million people (about 38 million adults), which is about two-thirds of the population of the 15 states in the U.S. operating lotteries in the same time period.

So far, this study has encompassed 6.5 million recorded winners of large prizes in 140 different lottery games that these five lotteries have run since their inception (which ranged from 1971 to 1976). Almost one million additional winners of large prizes were not included in the study because they were not residents of the states in which they had claimed their lottery prize. To give some perspective to the magnitude of the data base used in this study—on the average one adult in six in these five populous states has won a recorded large prize from these lotteries over the five to 10 year time period involved.

In performing this analysis of the demographic and psychological basis for lottery purchase decisions, Scientific Games has drawn upon the computerized data base and survey analysis services provided by three leading market research services—C.A.C.I. of Rosslyn, Virginia (which invented the 'ACORN' system for classifying residential neighborhoods using zip codes), the Claritas Corporation, also of Rosslyn, Virginia (which created the 'REZIDE' data base of Federal Census data in zip code form), and the Stanford Research Institute (which provides a psychological and sociological perspective on consumer buying patterns in its 'Values and Lifestyles' program). The income data used to produce the data for this article relied upon the 'REZIDE' data base.

The 6.5 million recorded winners of large prizes lived, at the time of their winning, in a total of 7,020 different zip codes lying in the five states involved. These 7,020 zip codes averaged about 8,100 people, about 5,500 adults, and about 2,500 households.

If one considers only the larger zip codes (i.e., the 2,110 zip codes in the five states having a population of a least 5,000 people, and these zip codes contain 89 percent of the population of the five states), we find an average of 3,082 recorded lottery

winners in each such large zip code. This number of people in each of these 2,110 large zip codes is more than twice the 1,500 or so respondents commonly used in national public opinion surveys.

The processing of this massive amount of data required hundreds of hours of computer time and several thousand hours of computer programming time.

ACHIEVING RANDOM SAMPLE

Because winning in the lottery is "random," the subgroup of players who win at the various lottery games is a statistically perfect random sample of the players. Since non-redemption is very low in lottery games, the subgroup of players who claim their prizes is essentially the same as the group of players who win. The overwhelming majority of big winners claim their own prize (or, at most, are claiming the prize for someone in the same family or household as themselves) so that the address on the claim is almost always the correct address of the actual ticket buyer.

It should be remembered that, in each case, a state check was mailed to the winner at this recorded address. The state check was mailed, in each case, after the claimant presented a valid winning lottery ticket to an official state lottery claim center and signed the ticket and claim form. The names and addresses of these big winners are contained in the lottery's computerized files of claimants of its various games, and such files have been subjected to numerous internal and external audit procedures.

In preparation for this study, Scientific Games collected the first name, address, and zip code of all such centrally-paid and centrally-recorded big winners of the lottery's various games. This list of big winners was refined so as to include only big winners with valid zip codes within the state involved.

All of the computer programming and analysis in this study was performed by Scientific Games. Neither C.A.C.I., Claritas, nor S.R.I. has been involved in suggesting the design of the computer programs, in writing these computer programs, in performing the analysis, in reaching the conclusions herein, or in the preparation of this article, and accordingly, they bear no responsibility for any conclusions herein.

EVOLUTION OF GAMES IN THE 70s

The data base of 6.5 million winners represents 140 different lottery games run by the five states. The New Jersey Lottery was established in 1971; the Pennsylvania and Michigan Lotteries were established in 1972; the Illinois Lottery was started in 1974; and the New York Lottery was reestablished in 1976. The first four of these states began their operations by offering the public a 50-cent draw-type weekly lottery ticket. Over the years, each of these states varied the design of its basic 50-cent weekly game incorporating a variety of different themes, ways of winning, and ways of awarding the grand prizes.

Each of these states also introduced additional draw-type games, called 'overlay' games. These overlay games, which typically sold for $1, were run in conjunction with the basic 50-cent games. In many cases, these overlay games featured a multitude of ways of winning. The overlay games in Illinois mostly featured sports themes. In several cases, 3-digit themes were used.

In 1975, four of these five states introduced rub-off $1 instant games. New York began its operations in 1976 with a $1 instant game. Since then, the five lotteries have run a total of 76 different $1 instant games incorporating a wide variety of different themes and game designs.

In addition, four of the five states ran special draw-type games at $5 at various times, and New York ran a series of seven 'Olympic' lottery games at $10. Two states ran special Horse Race games at $2 per ticket. New York also offered a Keno game. Finally, all five states now have 3-digit daily numbers games; four have 4-digit numbers games; and two have a 6-digit numbers game (i.e., the New York and New Jersey Lotto games).

DISTRIBUTION OF HOUSEHOLD INCOME

Table II shows the distribution of household income of the 6.5 million persons who are recorded as having won a large prize in the 140 lottery games involved. Household income is divided into seven categories (based on 1980 dollars). These categories start at the 'Under $6,700' annual household income category and ranges upward to the 'Over $56,000' category. The percent of the U.S. population with each household category is presented at the bottom of the table. For example, 17.3 percent of the U.S. population have household incomes of under $6,700 in 1980 dollars.

The 140 different lottery games have been analyzed separately; however, for the purposes of this table, games of the same type selling at the same price in the same states have been grouped together. This produces 24 groupings of games. Then, for each of the seven household income categories, an 'index' has been created to indicate the degree to which the income category participates in each of the 24 groupings of lottery games.

Thus, for example, the index number of 135 appearing in the upper left corner of Table II for New Jersey's nine $1 instant games means that participation in New Jersey's nine $1 instant games by the 'Over $56,000' income category in New Jersey is 35 percent higher than this income category represents in the population. An index number below 100, such as the 67 found for New Jersey's instant games in the 'Under $6,700' income category means that participation in New Jersey in the nine $1 instant games among this low-income category is at a rate of only 67 percent of what it would be if this income category participated in proportion to its presence in the population.

The information for the $1 instant games (which represents over half of the 140 games and an even greater portion of the total lottery revenues involved) is presented in Graph I. This graph is based on 1.3 million recorded winners in these 76 instant games.

In this graph, the seven income categories are presented for each of the five states. The black bar at the right edge of each cluster of bars represents the percentage of the national population that falls into the given household income category. As can be seen, the percentage of those with household incomes above $56,000 is 4 percent nationally. And, in four of the five lottery states shown, this category participates in $1 instant lottery games at slightly above their percentage of the population.

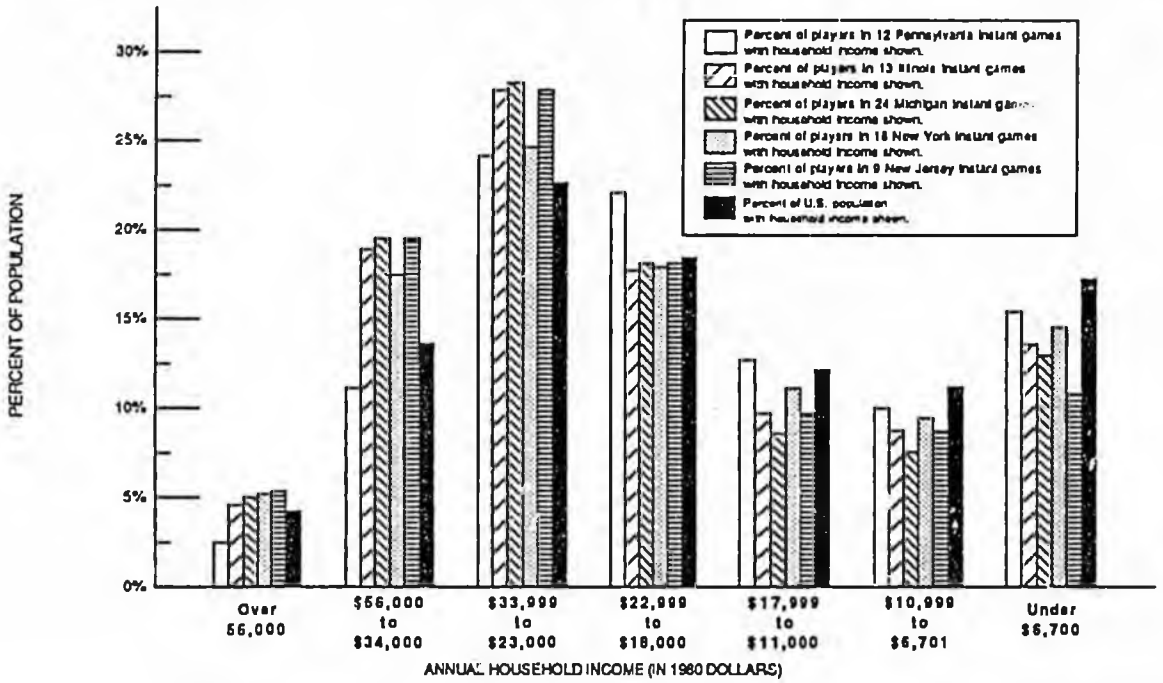
Conversely, in none of the five states is the participation by persons with household incomes below $6,700 above the national average. This is also the case for the $6,701 to $10,999 income category. In fact, it is not until the above average income category of $23,000 to $33,000 that the participation in all five states rises above the national average. The conclusion is that participation in $1 instant games is disproportionately low among those of lower incomes.

CORRELATION WITH PRICE OF TICKET

Returning now to Table II, we note that the first five rows of index numbers correspond with the data in Graph I.

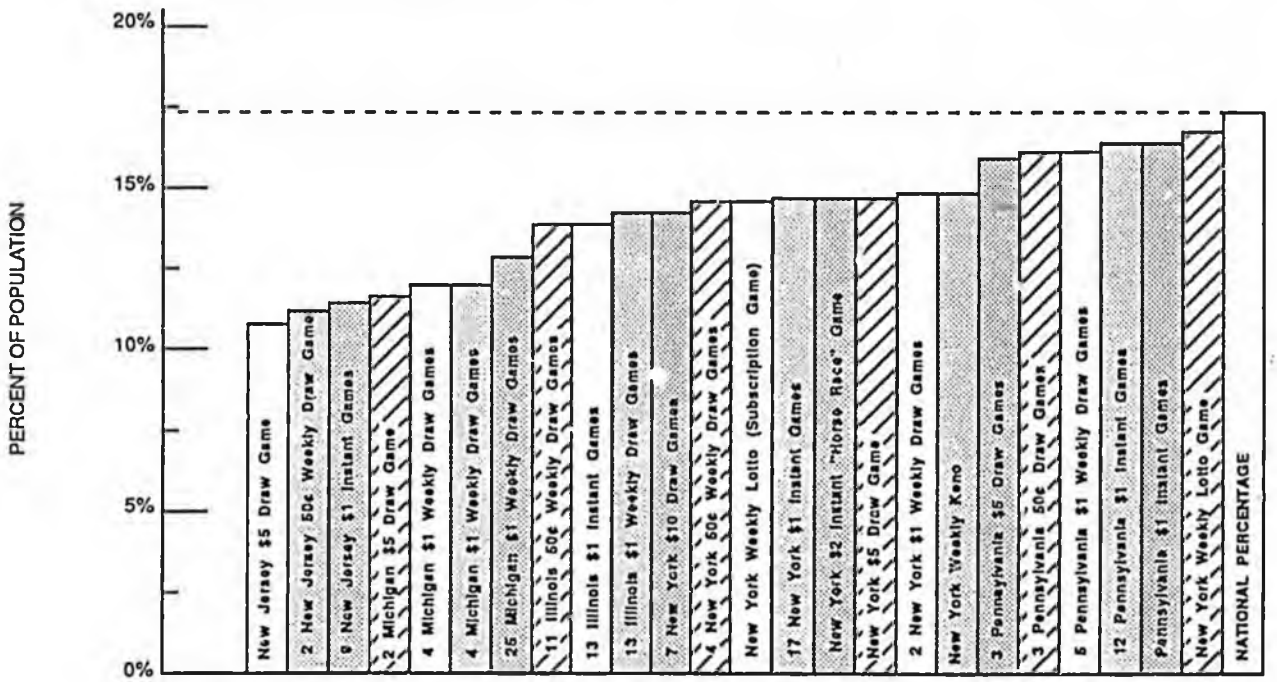
The next type of lottery game in Table II is the 50-cent weekly draw-type lottery game. Here again, as with the $1 instant, the poor participate proportionately less than their portion of the population. The same conclusion applies to the $1 weekly draw-type games (which were mostly the so-called 'overlay games'), the $2 'Horse Race' games, the $5 draw-type games, the $10 draw-type games, lotto and keno.

Graph I This graph shows the percentage of U.S. population having the ranges of household income shown and the percentage of instant lottery game players in 5 states with that level of income. Note that lower income individuals participate less.



This graph is based on analysis of 1,319,424 recorded winners of large prizes from 76 instant games from 5 lottery states. The data represents all valid, in-state, centrally-recorded winners in all 76 instant games in all 5 states from the time of each state's inception of instant games in 1975 (or 1976, for New York) until spring 1981. The analysis was performed by Scientific Games Inc. of Atlanta, Georgia.

Graph II This graph shows the percentage of persons with household income below $6,700 (in 1980 dollars) in each of 24 categories of lottery games conducted by 5 state lotteries. Note that these lower income individuals participate less in every instance.



This graph is based on analysis of 6,504,237 recorded winners of large prizes from 140 different lottery games in 24 categories from 5 lottery states. The data represents all valid, in-state, centrally-recorded winners in all 140 games in all 5 states from the time of each lottery's inception (which ranged from 1971 to 1976) until Spring 1981. The analysis was performed by Scientific Games Inc. of Atlanta, Georgia.

As one would expect, the participation of the higher-income categories increases as the ticket price increases. The $10 New York Olympic draw-type ticket had an index of 148 of participation in the over-$56,000 income category.

Although we have not presented each of the 140 different lottery games separately in Table II, the games of the same type and the same price in the same state typically have virtually indentical index numbers. In none of the 140 lottery games, run over the five- to 10-year period by the five states, did the lower income categories participate to a degree even equal to their percentage of the population (i.e., all the index numbers for all 140 individual games were below 100—just as they are in Table II for 24 groupings of games).

INDEXING SEPARATELY FOR EACH STATE

In addition, we should point out that one can also index the same data to the various statewide household income distributions. The median household incomes for the five states, for example, vary from 101 percent of the national median to 119 percent of the national median.

However, even if the indexing is done for each state separately (this is, against the five different statewide distributions), the conclusion is still the same; that is, there is none of the 140 lottery games in the five states (and none of the 24 groupings of games) over the five- to 10-year period for which the lower income categories participate at a rate even equal to their percentage in the population. In all cases, their participation is lower.

PROGRESSION OF LESSER PARTICIPATION BY POOR

Graph II is another presentation of the data from Table I as it relates to those persons with a household income of under $6,700 in 1980 dollars. It shows graphically again that for none of the 24 groupings of lottery games does the participation of the poor even equal their percentage of the population.

It also shows a progression of this lesser participation by the poor ranging from a low index of 65 (for New Jersey's $5 draw-type game) to a high index of 97 for New York's weekly lotto game. As expected, many of the more expensive tickets have especially low participation among the poor.

Another way to consider the same data is to consider the areas of the state for which sales are average, below-average and above-average. To illustrate this approach, we present this data for New York's 17 $1 instant games in Table III. New York was chosen because its household income profile for lottery game players was most representative of the average of the five states involved.

For this purpose, an area was defined as having 'above-average' sales if the sales index for that zip code averaged 25 percent or more (over the 17 games) above the statewide level. An area was defined as having 'below-average' sales if the sales index averaged 25 percent or more below 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.

DIFFERENT APPROACH YIELDS SAME RESULTS

Having thus divided the state into three distinct areas based on the actual occurrence of recorded lottery winners (and hence players), we examined the household income distribution for the three areas. To facilitate comparison, we have presented this data in the form of indexed numbers in Table III.

One can see immediately that the income profile of the areas of the state having above-average sales have relatively higher representation of the high-income categories. The same is true of the areas of the state having average sales.

However, for the areas of the state having below-average sales, the income distribution is bimodal. 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 categories 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.

We believe that the results of this analysis of the participation of lower-income individuals in lottery games should be considered definitive, since it is based on all valid, in-state, centrally-recorded winners of large prizes in all 140 different lottery games that were run by the five states involved during the entire five- to 10-year period in which each state has been operating a state lottery.

The conclusions herein are based upon the fact that 6,504,237 state prize payment checks were mailed to 6,504,237 individuals during the 10-year period in response to their presenting a valid, randomly-winning lottery ticket to the official state lottery claim center. The data base used for this analysis is not only extremely large, it is essentially complete in the sense that there is no more data available anywhere on the names and addresses of actual lottery players in these state lotteries.

It might be added that this conclusion has been well known by all state lottery officials for years (in spite of the persistent myth to the contrary).

One might add that in the course of designing and producing lottery games for 14 of the 15 state lotteries over the past eight years, literally dozens of different public opinion surveys and market research studies have come to my attention and the attention of my associates. These studies have been conducted by a variety of different polling organizations, advertising agencies, and market research companies using a variety of techniques and methodologies.

In every single case, if an income profile of the lottery players was part of the study (and it almost always was), the participation of low-income individuals was less than their percentage of the population and less than the level of participation of individuals with average or above-average incomes.

One final interesting perspective is available from the 1980 District of Columbia survey. In that survey, the percentage of people who intended to buy a lottery ticket was cross-tabulated and is available according to the respondent's incomes.

The highest percentage of planned participation occurred in the $20,000-to-$35,000 income category. The lowest percentages of planned participation occurred in the over-$35,000 category and in the two lowest income categories. In other words, the public's own perception of their own future likelihood to participate in a future lottery corresponds to what actually happens—that is, the lower income categories participate less

CONCLUSION

To summarize: We examined the household income profile of $6,504,237 recorded, valid, in-state winners of large prizes in all 140 lottery games run by the state lotteries of New York, Pennsylvania, Illinois, Michigan and New Jersey since the inception of those lotteries until the spring of 1981 for which the names and addresses of a representative cross-section of winners was in existence.

TABLE II

This table shows the index of participation of each income group for each different type of lottery game in l lottery states based on the national income distribution. Note that lower income individuals participate less in every instance.

	ANNUAL HOUSEHOLD INCOME (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
$1 INSTANT GAMES (76 GAMES)							
NJ - 9 G.	135	143	120	96	80	74	67
NY - 17 G.	133	126	110	95	89	84	84
MI - 25 G.	113	145	123	97	72	71	74
IL - 13 G.	110	134	121	94	81	76	78
PA - 12 G.	65	84	107	118	105	95	93
50¢ WEEKLY DRAW-TYPE (22 GAMES)							
NJ - 2 G.	140	145	120	96	79	73	66
NY - 4 G.	115	124	114	98	88	81	83
MI - 2 G.	120	152	124	94	69	69	71
IL - 11 G.	115	134	120	94	81	75	78
PA - 3 G.	70	86	107	118	103	93	92
$1 WEEKLY DRAW-TYPE (24 GAMES)							
NY - 2 G.	133	126	107	94	90	84	86
MI - 4 G.	123	153	123	93	68	69	71
IL - 13 G.	110	132	120	95	82	77	80
PA - 5 G.	68	85	107	118	104	94	92
$2 INSTANT 'HORSE RACE' GAMES (2 GAMES)							
NY - 1 G.	133	126	110	95	89	83	84
PA - 1 G.	65	84	107	118	105	94	93
$5 DRAW-TYPE GAMES (6 GAMES)							
NJ - 1 G.	138	146	120	96	78	71	65
NY - 1 G.	130	126	110	95	88	83	84
MI - 1 G.	125	159	124	92	66	66	69
PA - 3 G.	73	87	108	118	103	92	90
$10 DRAW-TYPE GAMES (7 GAMES)							
NY - 7 G.	148	132	111	93	86	78	80
WEEKLY LOTTO (1 GAME)							
NY - 1 G.	108	106	101	98	98	97	96
WEEKLY KENO (1 GAME)							
NY - 1 G.	140	128	107	93	90	84	86
PERCENT OF U.S. POPULATION WITH INCOME LEVEL SHOWN							
	4.0%	13.7%	23.0%	18.9%	12.0%	11.0%	17.3%

NOTE:
This graph is based on analysis of 6,504,237 recorded winners of large prizes in 140 different lottery games of 24 categories from five lottery states. The data represents all valid, in-state, centrally-recorded winners in all 140 games in all five states from the time of each lottery's inception (which ranged from 1971 to 1976) until spring 1981. The analysis was performed by Scientific Games Inc. of Atlanta, Georgia.

We examined the data in detail by individual game and by convenient groupings of games, and we examined it on the basis of above-average sales areas in the states. We examined the data against both the national and the individual statewide household income distributions.

Regardless of how we looked at this massive (and essentially complete) data base containing the names and addresses of the many people who actually play state lottery games, the results were the same—namely, "the poor" participate in the state lottery games at levels disproportionately less than their percentage of the population.

The assertion that the poor disproportionately buy state lottery tickets is only a myth.

TABLE III

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

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
Above-Average	105	128	120	99	83	75	75
Average	158	139	109	90	83	75	79
Below-Average	140	94	81	89	111	116	113

Delaware

STATE: DELAWARE

POPULATION: .6 million

SIZE & NATURE OF STATE: 2,057 sq. mi.; 70.6% Urban; Principal industries chemicals, agriculture, poultry, shellfish, tourism, auto assembly, food processing, transportation equipment; Per capita income (1985) $14,337.

LOTTERY: Delaware State Lottery

ADDRESS: Blue Hen Mall, Suite 202
Dover, DE 19901

PHONE: (302) 736-5291

GOVERNOR: Michael N. Castle

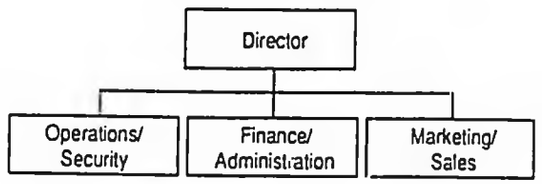
DIRECTOR: Otho Brown

OTHER KEY ADMINISTRATIVE STAFF:
Operations & Security Administrator: Fred R. Cleaver
Finance & Administration: Frank Brown
Marketing & Sales: Ted Manno

TOTAL # EMPLOYEES: 16

ORGANIZATIONAL CHART:

Delaware State Lottery



LOTTERY START-UP DATE: First Sale 10/75

HOW CREATED: By legislative action. Start-up time 7 months; Seed money $250,000, repaid to state in 18 months.

GOVERNMENT STRUCTURE:

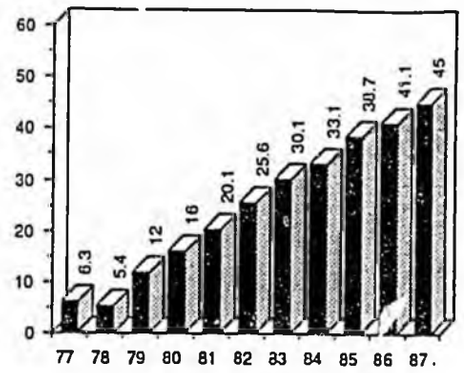
GOVERNING DEPT: Division of Dept. of Finance

DIRECTOR REPORTS TO: Secretary of Finance who reports to governor.

GOVERNMENTAL RELATIONSHIP: No commission (dissolved 10 years ago);

SALES HISTORY CHART:

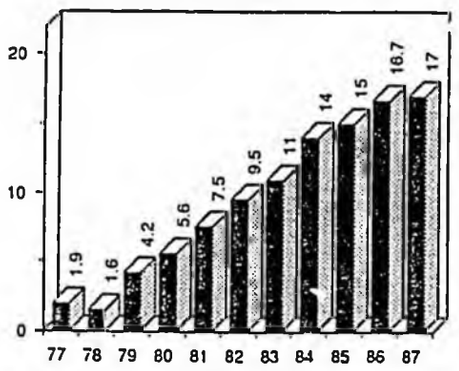
FY Gross Sales: Delaware



FY 77: $6.3m
FY 78: $5.4m
FY 79: $12.0m
FY 80: $16.0m
FY 81: $20.1m
FY 82: $25.6m
FY 83: $30.1m
FY 84: $33.1m
FY 85: $30.7m
FY 86: $41.1m

REVENUE HISTORY CHART:

Net Revenue to State: Delaware



FY 76: $2.0m
FY 77: $1.9m
FY 78: $1.6m
FY 79: $4.2m
FY 80: $5.6m
FY 81: $7.5m
FY 82: $9.5m
FY 83: $11.0m
FY 84: $14.0m
FY 85: $15.0m
FY 86: $16.7m

PROJECTIONS FOR FY87:

SALES: Over $45 million
REVENUE TO STATE: $17 million

HOW MONEY IS USED:

Distribution of Funds: Delaware Lottery

GENERAL FUND: 41%
PRIZE FUND: 48%
LOTTERY ADMINISTRATION:
Commissions 8%
Operational expense 3%

RETAILER/AGENT INFO:

OF AGENTS: 420

OF ON-LINE TERMINALS: 236

PATs: 2

COMMISSION STRUCTURE: 5% of total sales

AGENT CHARGES: Agent pays for dedicated line and line charges of $10/week; No bonding requirement.

OF SALES DISTRICTS: 4

OFFICES: One main office

OF SALES/FIELD MANAGERS/REPS: 4

MAXIMUM PAYOUT BY AGENT: Instant $50; On-Line $599

TICKET DISTRIBUTION: Instant through banking network- on consignment.

SUPPLIER INFO:

INSTANT: Scientific Games

ON-LINE: Control Data Corporation

EXPANSION PLANS:
Addition of numbers terminals.
Possibility of Multi-State Lotto.

PRODUCT MENU & EVOLUTION:

INSTANT: Began 10/75; prizes $2 to $1000; 5 to 6 games per year; Life of game 9 weeks; Avg. 95,000 ticket per game; Used to have grand prize drawing for $1,000 a month for life but was eliminated.

3-DIGIT: Play 3 began 1/78; Mon thru Sat.

4-DIGIT: Play 4 began 1/80; was 4 times/week, changed to 6 days/week in 86.

LOTTO: Began 4/83 as 6/30 with Thursday draw; change to Tues & Fri draw in 3/84; Format changed to 6/34 in 11/86.

OTHER: Advance play for one week; Easy Pick on 3-, 4- and 6-digit.

SALES RANKING:
1. 3-Digit
2. 4-Digit
3. Lotto
4. Instant

New Hampshire

STATE: NEW HAMPSHIRE

POPULATION: .998 million

SIZE & NATURE OF STATE: 9,304 sq. mi.; 52.2% Urban; Principal industries manufacturing, tourism, agriculture, trade, mining; Per capita income (1985) $14,308.

LOTTERY: New Hampshire Sweepstakes Commission

ADDRESS: Fort Eddy Road
Concord, NH 03301

PHONE: (603) 271-3391

GOVERNOR: John H. Sununu (R)

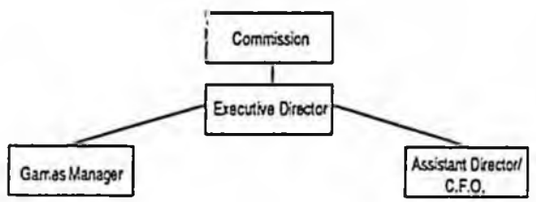
DIRECTOR: George C. Jones

OTHER KEY ADMINISTRATIVE STAFF:
Asst. Director & Chief Financial Officer: Robert H. Brotherton
Games Manager: James Wimsatt

TOTAL # EMPLOYEES: 57

ORGANIZATIONAL CHART:

New Hampshire State Lottery



LOTTERY START-UP DATE: First sale 3/64

HOW CREATED: First U.S. Lottery; enacted by legislative action

GOVERNMENT STRUCTURE:

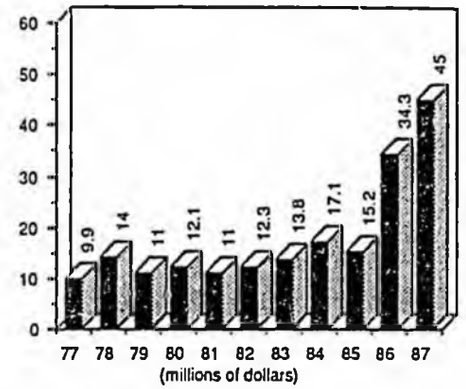
GOVERNING DEPT: Independent agency.

DIRECTOR REPORTS TO: Commissioners, then Governor

GOVERNMENTAL RELATIONSHIP: Director appointed by 3-member commission; commission appointed by Governor.

SALES HISTORY CHART:

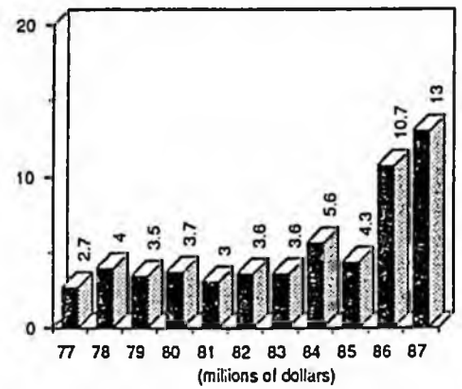
FY Gross Sales: New Hampshire



FY 77: $9.9m	FY 82: $12.3m
FY 78: $14.0m	FY 83: $13.8m
FY 79: $11.0m	FY 84: $17.1m
FY 80: $12.1m	FY 85: $15.2m
FY 81: $11.0m	FY 86: $34.3m

REVENUE HISTORY CHART:

Net Revenue to State: New Hampshire



FY 75: $4.2m	FY 81: $3.0m
FY 76: $5.7m	FY 82: $3.6m
FY 77: $2.7m	FY 83: $3.6m
FY 78: $4.0m	FY 84: $5.6m
FY 79: $3.5m	FY 85: $4.3m
FY 80: $3.7m	FY 86: $10.7m

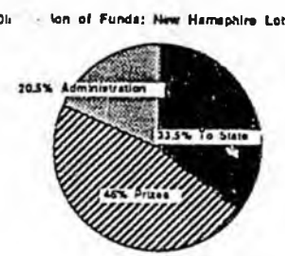
PROJECTIONS FOR FY87:

SALES: $45 million

REVENUE RETURNED TO STATE: $13 million

HOW MONEY IS USED:

Distribution of Funds: New Hampshire Lottery



EDUCATION: 33.5%*
PRIZE FUND: 46%*
LOTTERY ADMINISTRATION: 20.5%*
*Average over 23 years.

RETAILER/AGENT INFO:

 # OF AGENTS: 1,200

 # OF ON-LINE TERMINALS: 697

AGENT CHARGES: No charges to agent for installation/line charges; no bonding requirement

COMMISSION STRUCTURE: 5% on sales

 # REGIONAL OFFICES: Main office & two satellite offices

 # OF SALES DISTRICTS: 11 sales areas

 # OF SALES/FIELD MANAGERS/REPS: 11 field reps

MAXIMUM PAYOUT BY AGENT: $100 for instant; $599 on-line

METHOD OF TICKET DISTRIBUTION: By field reps; tickets on consignment; no telemarketing but considering.

PATs: No

SUPPLIER INFO:

INSTANT: Glenconn (for 30 million tickets)

ON-LINE: Scientific Games through 5/88

EXPANSION PLANS:
No plans.

PRODUCT MENU & EVOLUTION:

INSTANT: Began in '75; Now 10-14 per year; 1.5 million tickets per game; life of game 4-6 weeks; Used to have grand prize draw but changed to put funds into low-tier prize structure.

3-DIGIT: Began 9/85; Pick 3; 6 days/wk

4-DIGIT: Began 9/85; Pick 4; 6 days/wk

LOTTO: Began Tri-State Megabucks 9/85 as 6/30 format with ME & VT; Changed in 1/86 to 6/36; Sat draw; has subscription program.

SALES RANKING:
1. Lotto (Megabucks)
2. Instants
3. 4-Digit
4. 3-Digit

Maine

STATE: MAINE

POPULATION: 1.16 million

SIZE & NATURE OF STATE: 33,215 sq. mi.; 47.5% Urban; Principal industries manufacturing, services, trade, government, agriculture, fisheries, forestry; Per capita income (1985) $11,423.

LOTTERY: Maine State Lottery

ADDRESS: State House Station 30
Augusta, ME 04333

PHONE: (207) 289-2081

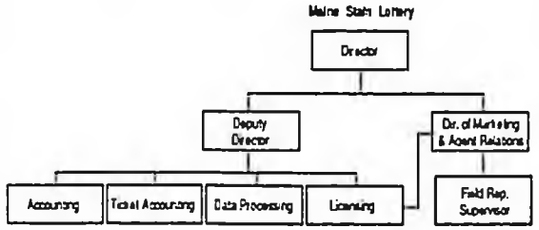
GOVERNOR: John McKernan (R)

DIRECTOR: H. Alan Timm

OTHER KEY ADMINISTRATIVE STAFF:
Deputy Director: Pamela Coutts
Director of Marketing & Agent Relations: Harry Murchin
Field Rep Supervisor: Marcia Wright-Mathieu

TOTAL # EMPLOYEES: 33

ORGANIZATIONAL CHART:



LOTTERY START-UP DATE: First sale 6/74

HOW CREATED: Established by legislature and approved in statewide referendum in 11/73; sales began with 50¢ weekly game; Joined with Vermont & New Hampshire in 9/85 to form Tri-State Megabucks

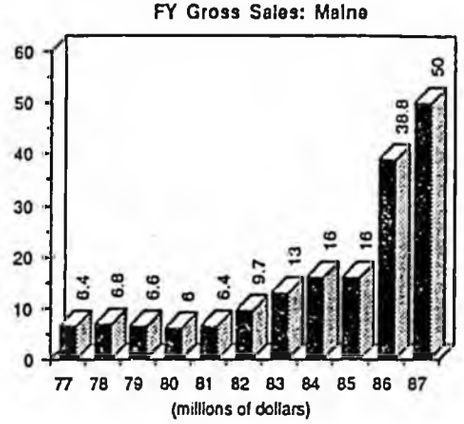
GOVERNMENT STRUCTURE:

GOVERNING DEPT: Independent agency but may be put under Finance Dept. (not finalized)

DIRECTOR REPORTS TO: Governor

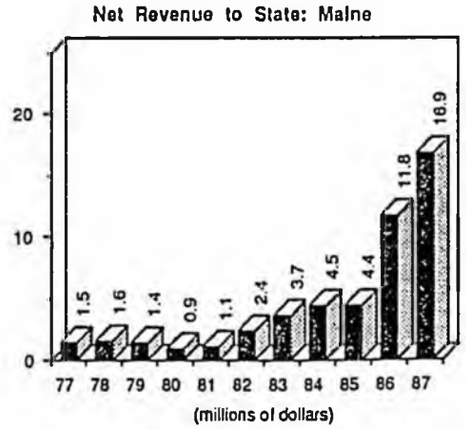
GOVERNMENTAL RELATIONSHIP: Director appointed by governor; 5-member commission appointed by governor, approved by legislature & director.

SALES HISTORY CHART:



FY 77: $6.4m
FY 78: $6.8m
FY 79: $6.6m
FY 80: $6.0m
FY 81: $6.4m
FY 82: $9.7m
FY 83: $13.0m
FY 84: $16.0m
FY 85: $16.0m
FY 86: $38.8m

REVENUE HISTORY CHART:



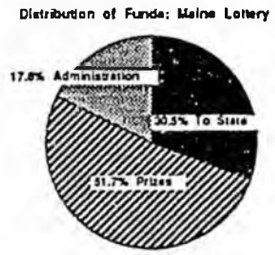
FY 75: $1.19m
FY 76: $2.610m
FY 77: $1.491m
FY 78: $1.593m
FY 79: $1.379m
FY 80: $.896m
FY 81: $1.093m
FY 82: $2.385m
FY 83: $3.694m
FY 84: $4.516m
FY 85: $4.442m
FY 86: $11.845m

PROJECTIONS FOR FY87:

SALES: Over $50 million

REVENUES TO STATE: $16.9 (based on $8.483 in 6 months)

HOW MONEY IS USED: (based on FY86)



GENERAL FUND: 30.5%
PRIZE FUND: 51.7%
LOTTERY ADMINISTRATION:
Operating expenses: 10.2%*
Agent commissions: 6
Ticket expense: 1%
*Half to Maine State Lottery; half to Tri-State

RETAILER/AGENT INFO:

 # OF AGENTS: 1,600

 # OF ON-LINE TERMINALS: 700 (approx.)

AGENT CHARGES: Lottery covers installation and line charges; no bonding requirement

COMMISSION STRUCTURE: 8% on instant sales; 5% on on-line

 # OF SALES DISTRICTS: 11 territories

 # REGIONAL OFFICES: one main office

 # OF SALES/FIELD MANAGERS/REPS: 11

MAXIMUM PAYOUT BY AGENT: up to $599

METHOD OF TICKET DISTRIBUTION: by field reps; tickets on consignment; use telemarketing

SUPPLIER INFO:

INSTANT: Scientific Games (ends 6/87-RFP out)

ON-LINE: Scientific Games through 5/88

EXPANSION PLANS:

ON-LINE TERMINALS: as needed, no ceiling

PATs: looking at but no plans

MULTI-STATE: looking at but no plans

PRODUCT MENU & EVOLUTION:

INSTANT: Began 7/75; 6-7 per year (may increase); 3 million tickets per game; life of game 8-10 weeks; low-tier prize structure; Used to have grand prize for $50,000 but eliminated—sales up over 100%;

3-DIGIT: Pick 3 began 6/80; top prize $250; Mon-Sat.

4-DIGIT: Pick 4 began 7/85; top prize $2500; Mon-Sat.

LOTTO: (Tri-State Megabucks) Began 9/85 as 6/30 format; changed to 6/35 in 1/86; Sat. draw; have subscription.

SALES RANKING:
1. Megabucks (Lotto)
2. Instant*
3. 3-Digit
4. 4-Digit

*Instant games have been within $50,000 of Lotto

District of Columbia

STATE: DISTRICT OF COLUMBIA

POPULATION: .64 million

SIZE & NATURE OF STATE: 67 sq. mi.; Seat of federal government; May 1974 voters approved charter giving them the right to elect own mayor and a 13-member city council; District can levy own taxes but Congress retains power to veto Council actions and approve city's annual budget.

LOTTERY: District of Columbia Lottery and Charitable Games Control Board

ADDRESS: 2041 Martin Luther King Jr. Ave. SE
Washington, DC 20020

PHONE: (202) 433-8000

MAYOR: Marion Barry, Jr.

DIRECTOR: Executive Director: Bernard Edwards

OTHER KEY ADMINISTRATIVE STAFF:
Executive Assistant: Sylvia M. Kinard
Public Information Officer: Dana V. Shelley

TOTAL # EMPLOYEES: 94

ORGANIZATIONAL CHART:

Not Available

LOTTERY START-UP DATE: First Sale 8/82

HOW CREATED: Legislative approval granted 3/81. Start-up of on-line one year later; Seed money $628,000, repaid in one month.

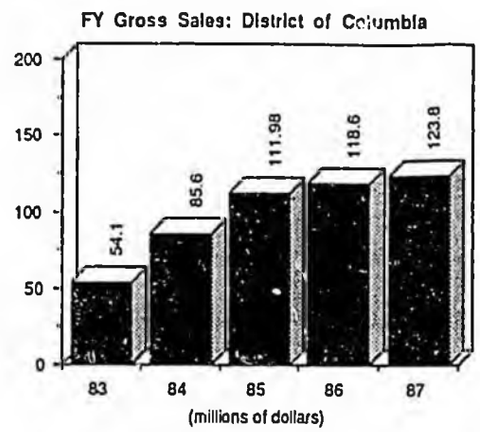
GOVERNMENT STRUCTURE:

GOVERNING DEPT: Under Committee On Finance & Revenue

DIRECTOR REPORTS TO: 5-member Board (D.C. Lottery & Charitable Games Control Board)

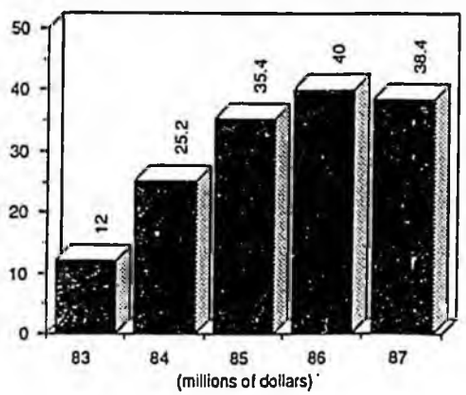
GOVERNMENTAL RELATIONSHIP: Mayor appoints 5 members of D.C. Lottery Board; board reports to Mayor who presents budget, legislation to city council, then to Hill; Chairman of Finance & Revenue Committee oversees lottery; Granted independent personnel authority 2/87. Charitable Games Division is responsible for licensing raffles and bingo for non-profit organizations.

SALES HISTORY CHART:



FY 83: $ 54.1m
FY 84: $85.6m
FY 85: $111.98m
FY 86: $118.6m

REVENUE HISTORY CHART:

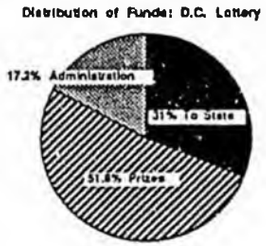


FY 83: $12.0m
FY 84: $25.2m
FY 85: $35.4m
FY 86: $40.0m

PROJECTIONS FOR FY87:

SALES: $123.8 million
REVENUE TO STATE: $38.4 million

HOW MONEY IS USED (Based on FY87):



GENERAL FUND: 31.0%
PRIZE FUND: 51.8%
LOTTERY ADMINISTRATION:
Commissions 5.5%
Advertising 2.9%
Administrative expense 4.3%
Other 4.5%

RETAILER/AGENT INFO:

 # OF AGENTS: 681

 # OF ON-LINE TERMINALS: 560

COMMISSION STRUCTURE: 4% on-line sales; 6% on instant; 3% on cashing tickets

AGENT CHARGES: Lottery pays installation and line charges; agent pays $75 bonding fee.

 # OF SALES DISTRICTS: structured by existing 8 wards of city

OFFICES: One office

 # OF SALES/FIELD MANAGERS/REPS: 6

MAXIMUM PAYOUT BY AGENT: Up to $599

TICKET DISTRIBUTION: Four district centers set up-handled by 3-member in-house Inventory Control Dept; Use telemarketing; retailer pays up front- modified GLEP.

SUPPLIER INFO:

INSTANT: Scientific Games (renegotiated 3/86 for two years)

ON-LINE: LTE through 12/88

EXPANSION PLANS:

ON-LINE TERMINALS: Current contract provides for up to 1,000

PATs: Considering

MULTI-STATE: Looking at

PRODUCT MENU & EVOLUTION:

INSTANT: Began 8/82; 4 games per year; 1.25 million tickets per game; Life of game 11 to 12 weeks; Features Fortune Wheel-players use "entry" tickets and spin for money and merchandise.

3-DIGIT: Lucky Numbers began 8/83; 6 draws per wk.

4-DIGIT: DC Four began 4/85; 6 draws per wk.

LOTTO: Began 4/84 as 5/40 with Wed. drawing; changed to 6/36 Lucky Lotto in 11/85 and draws changed to Tues. & Fri. in 10/86; No subscription but considering

OTHER: Began Daily Double 2-Digit (0-99) game in 3/86; 6 draws per wk. Looking at adding low-tier instant games to menu- another 4-5 per year. Quick Pick feature on all on-line games.

SALES RANKING:
1. 3-Digit
2. 4-Digit
3. Lotto
4. Instant
5. 2-Digit

Vermont

STATE: VERMONT

POPULATION: .54 million

SIZE & NATURE OF STATE: 9,609 sq.mi.; 33.8% Urban; Principal industries manufacturing, tourism, agriculture, mining, government; Per capita income (1985) $11,599.

LOTTERY: Vermont Lottery Commission

ADDRESS: PO Box 420
Route 14
South Barre, VT 05670

PHONE: (802) 828-2274 or 800-322-8800

GOVERNOR: Madeleine M. Kunin (D)

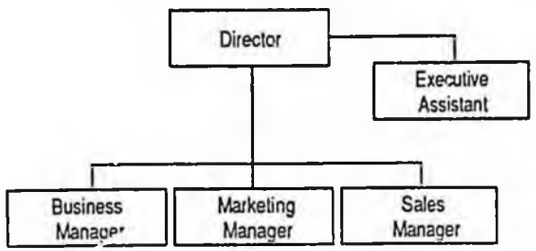
DIRECTOR: James M. Bolton

OTHER KEY ADMINISTRATIVE STAFF:
Sales Manager: Robert B. Quinlan
Business Manager: Harry Seal
Marketing Manager: Tom McGuire
Executive Assistant: Carole Lacasse

TOTAL # EMPLOYEES: 22 (including part-time)

ORGANIZATIONAL CHART:

Vermont Lottery



LOTTERY START-UP DATE: First sale 2/78 (weekly game)

HOW CREATED: Referendum 11/76; Legislative approval of act

GOVERNMENT STRUCTURE:

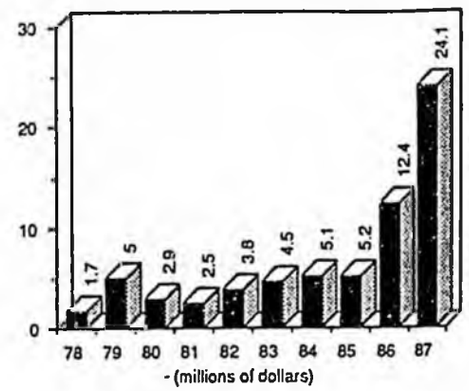
GOVERNING DEPT: State of Vermont

DIRECTOR REPORTS TO: Commission

GOVERNMENTAL RELATIONSHIP: Lottery classified as Agency of Administration (Governor's office and staff), overseen by 5-member commission appointed by governor; reports to governor's office on budgetary matters but relatively autonomous.

SALES HISTORY CHART:

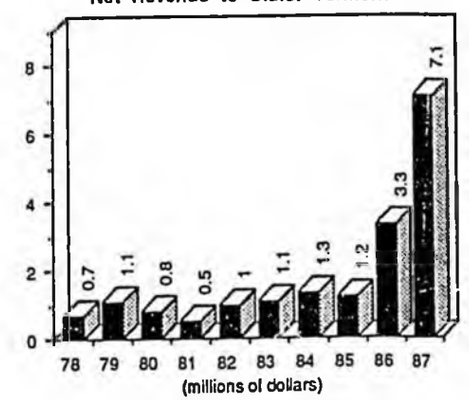
FY Gross Sales: Vermont



FY 78: $1.7m
FY 79: $5.0m
FY 80: $2.9m
FY 81: $2.5m
FY 82: $3.8m
FY 83: $4.5m
FY 84: $5.1m
FY 85: $5.2m
FY 86: $12.4m

REVENUE HISTORY CHART:

Net Revenue to State: Vermont



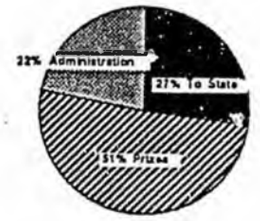
FY 78: $.729m
FY 79: $1.148m
FY 80: $.824m
FY 81: $.476m
FY 82: $.968m
FY 83: $1.117m
FY 84: $1.285m
FY 85: $1.235m
FY 86: $3.342m

PROJECTIONS FOR FY87:

SALES: $24.06 million
REVENUE: $7.078 million

HOW MONEY IS USED*:

Distribution of Funds: Vermont Lottery



GENERAL FUND: 27%
PRIZE FUND: 51%
LOTTERY ADMINISTRATION:
Goods & Services: 14%
Agent bonuses: 5%
Employee income: 3%
*Based on FY 86

RETAILER/AGENT INFO:

 # OF AGENTS: 650

 # OF ON-LINE TERMINALS: 186

AGENT CHARGES: No charges to agents; no bonding requirement

COMMISSION STRUCTURE: 5% of sales; 1% bonus on prizes $500 or more sold (max $15,000)

 # OF SALES DISTRICTS/OFFICES: 5 districts; One main office

 # OF SALES/FIELD MANAGERS/REPS: 5 DSRs

MAXIMUM PAYOUT BY AGENT: $100 on instant; $599 on-line

METHOD OF TICKET DISTRIBUTION: By field reps

SUPPLIER INFO:

INSTANT: Scientific Games for 12 million tickets

ON-LINE: Scientific Games through 5/88

PATs: None

EXPANSION PLANS:

ON-LINE TERMINALS: Hope to add more

PATs: Desire to test for future use

MULTI-STATE: Will not participate

OTHER: Running two instant games at same time.

PRODUCT MENU & EVOLUTION:

INSTANT: Began 7/78; changed fall 86 to low-tier prize structure, no drawings; top prize $1,000; 8-10 games per year; 1.2-2.4 million tickets per game; life of game 4-8 weeks;

3-DIGIT: Pick 3 began '81; 6 days/wk

4-DIGIT: Pick 4 began 9/85; 6 days/wk

LOTTO: Tri-State Megabucks began 9/85 as 6/30; change to 6/36 in 1/86; Sat draw; Has subscription

OTHER: All lottery winnings free of state taxes; Advance play and Quick Pick features.

SALES RANKING:
1. Instants
2. Lotto (Megabucks)
3. 3-Digit
4. 4-Digit

military rules allow, a ...hardson spokesman said ...sday.

field, Fanning said. He said he believes Cowper will not take a similar approach to his bill if it passes

believe... confide...

HB 236

ECONOMIC IMPACT OF AN ALASKA LOTTERY

FEB. 1988

ALASKA LOTTERY
FINANCIAL PLAN*
FISCAL YEAR 1988

INCOME		
INSTANT GAMES		$27,500.000
ON-LINE GAMES		27,500,000
INTEREST EARNINGS		80,000
TOTAL REVENUES		55,080,000
GAME EXPENSES		
PRIZES	(50% OF SALES)	27,500,000
COMMISSIONS	(5% OF SALES)	2,750,000
TICKET COSTS	(1.2% OF SALES)	660,000
ON-LINE CHARGES	(3% OF SALES)	1,650,000
TOTAL GAME EXPENSES		32,560,000
OPERATING EXPENSES		
ADVERTISING/PROMOTION	(2.4% OF SALES)	1,300,000
PERSONNEL EXPENSES	(2.2% OF SALES)	1,200,000
SERVICE AND SUPPLIES	(1.5% OF SALES)	850,000
DEPRECIATION		120,000
TOTAL OPERATING EXPENSES		3,470,000
NET INCOME		$19,050,000

* Hypothetical Alaska Lottery financial plan projected from Oregon Lottery, FY 1988 draft financial plan.

ECONOMIC IMPACT OF AN ALASKA LOTTERY

RETAILER COMMISSIONS

On a projected $55,000,000 gross sales and a 5% commission to retailers a total of $2,750,000 would be paid to those retailers. Assuming 275 retailers are contracted to market lottery products (one retailer for every 2,000 population), each retailer would receive an average of $10,000 annually.

INSTANT GAMES TICKET EXPENSES

Ticket costs for $27,500,000 (one-half of total sales) would run about $660,000. These monies would most likely exit the state. Secure ticket printing within the state would most likely require a higher expenditure, reducing net to the general fund.

ON-LINE GAMES EXPENSES

On-line charges include lease of on-line terminals and data line charges to the central computer management system. Lease charges would be negotiated with a selected vendor and be dependent on the number of terminals used. If we assume a lease fee of 4% of on-line sales, these charges would total $1,100,000. About one-half of this amount would exit the state and the other half would be used by the vendor to staff their Alaska operations, approximately 10 additional jobs.

The remaining $550,000 would pay for data line charges. A portion of this would be an interagency transfer from the lottery agency to the Alaska Telecommunications Network. The remainder would purchase data communication services from local telephone companies to connect retailer terminals to local nodes of the telecommunications network.

ADVERTISING AND PROMOTION EXPENSES

$1,300,000 would be spent for advertising and promotion: TV, 43%; Radio, 14%; Printed Media, 10%; Point-of-Sale, 12%, Production, 10%; Public Relations, 10%; and Other, 1%. See attached tables for national averages of lottery expenditures for advertising and promotion. All of these expenditures should remain within Alaska.

PERSONNEL EXPENSES

Staffing the lottery agency would require about 25 employees for a state the size of Alaska. At $50,000 per employee the budgeted $1,200,000 would provide 24 new jobs.

SERVICE AND SUPPLIES

General office expenses, $850,000, would remain within the state. Office and warehouse space, office equipment, phone, etc. would be provided by this expenditure.

DRAFT

OREGON LOTTERY
FINANCIAL PLAN
FISCAL YEAR 1988

	FY 1988	FY 1987	INCREASE
INSTANT TICKETS	60,476,389	64,328,000	(3,851,611)
MEGABUCKS	52,666,438	30,623,902	22,042,536
DAILY 4	9,235,963	2,140,640	7,095,323
INTEREST EARNINGS	150,000	358,296	(208,296)
OTHER INCOME	18,000	51,000	(33,000)
TOTAL REVENUES	122,546,792	97,501,838	25,044,954
GAME EXPENSES			
PRIZES	61,273,396	48,750,919	12,522,477
COMMISSIONS	5,871,330	4,798,927	1,072,403
ON-LINE CHARGE	3,959,280	2,105,122	1,854,158
TICKET COST	1,477,438	1,736,856	(259,418)
TOTAL GAME EXPENSE	72,581,444	57,391,824	15,189,620
GROSS PROFIT	49,965,348	40,110,014	9,855,334
OPERATING EXPENSES			
ADVERTISING/PROMOTIONS	2,942,530	2,986,258	(43,728)
PERSONAL EXPENSES	2,672,620	2,631,073	41,547
SERVICES AND SUPPLIES	1,927,678	1,844,800	82,878
DEPRECIATION	365,754	384,976	(19,222)
TOTAL OPERATING EXPENSES	7,908,582	7,847,107	61,475
NET INCOME	42,056,766	32,262,907	9,793,859
DIST. TO ECONOMIC DEVELOPMENT FUND	41,665,909	33,359,999	8,305,910
AMOUNT RETAINED	390,857	(1,097,092)	1,487,949

U.S. LOTTERY RETAIL AGENTS

STATE	POPULATION (In millions)	TOTAL # AGENTS	# ON-LINE TERMINALS	SALES COMMISSION BASE*
ARIZONA	3.2	1,950	1,268	6%
CALIFORNIA	26.4	19,500	6,500	5%
COLORADO	3.2	2,600	0	5%
CONNECTICUT	3.2	3,500	2,000	5%
DELAWARE	0.6	420	236	5%
D.C.	0.6	681	560	6% instant/4% on-line
ILLINOIS	11.5	8,952	3,249	5%
IOWA	2.9	3,500	1,100	5%
MAINE	1.2	1,600	700	8% instant/5% on-line
MARYLAND	4.4	1,658	1,658	4%
MASSACHUSETTS	5.8	4,700	4,367	5%
MICHIGAN	9.3	8,300	4,000	6%
MISSOURI	5.0	4,550	1,410	5%
NEW HAMPSHIRE	1.0	1,200	697	5%
NEW JERSEY	7.6	4,100	4,100	5%
NEW YORK	17.6	10,393	4,400	6%
OHIO	10.7	6,600	3,800	5%
OREGON	2.7	2,400	1,200	5%
PENNSYLVANIA	11.9	9,000	3,000	5%
VERMONT	0.5	650	186	5%
WASHINGTON	4.4	3,900	930	5%
WEST VIRGINIA	1.9	2,527	780	5%

General Notes
* Does not include incentive programs or cashing fees

4

INCENTIVE PROGRAMS PROLIFERATE

Lottery agents continue to cash in on commissions

Lottery agents continue to cash in on the lottery frenzy sweeping the continent.

In fiscal 1986, total commissions paid to the 144,444 North American lottery agents amounted to US$779.5 million, which represented 3.5 percent of the industry's total sales.

(Separately, the 23 U.S. lotteries paid out $860.3 million in commissions, the five provincial lotteries C$159.6 million or U.S. $119.2 million.)

In the U.S., the agents earning the biggest cut of the pie operate in Arizona, Maine, Michigan, New York and Rhode Island, where commissions average between 6 and 8 percent of sales. (See table 1.)

In Canada, agents commissions are higher on the average (about 6.1 percent of sales) than their counterparts in the U.S. because commission structures vary by game. While on-line agents typically earn a 5-percent commission for sales, the rate for the national passive games is set at 8 percent for the $10 Super Loto ticket, 10 percent for the $5 Provincial ticket. Commissions also vary for provincial passive games and instant tickets.

Lotteries license a wide variety of retail outlets to sell lottery tickets, including fruit and vegetable markets, snack bars, mass merchandisers, sporting good stores, nurseries, arcades, travel agencies and racetracks.

In Canada, non-profit associations and mobile ticket sellers also hawk tickets. The free-standing lottery kiosk, a fixture in Canada, generates substantial sales in malls.

Altogether, in North America there are 24,914 grocers, 34,061 convenience stores, 13,048 liquor stores, 8,538 restaurants and taverns, 4,435 newsstands, 14,292 drug/variety stores, and 2,408 tobacconists selling lottery tickets. (See tables 2 and 3.)

The sales contribution by type of agent varies significantly, as illustrated in table 4 (page 28).

Incentive programs

While lotteries typically do not change their sales commission, it is not uncommon for special bonuses to be instituted to hike sales.

In 1987, agent incentive programs are expected to proliferate as lotteries seek new ways to arrest declines in maturing products.

Currently, sales bonuses tied to agents achieving higher sales quotas are found only in three states: Arizona, Colorado and Missouri.

More popular by far is the 1-percent bonus given out to the agent who sells the winning lotto jackpot ticket or high-tier instant ticket. Eleven North American lotteries offer this type of bonus.

Critics of the prize bonus, however, contend that it does not reward the hard-working agent, but rather the lucky one. Consequently, many mature

Table 1

U.S. & Canadian Lotteries' commission and bonus plans

Lottery	Off-line Agents	On-line Agents	Total Agents	Sales Commission	Additional Bonus	FY '88 Commissions ($M)	% of FY '86 sales
Arizona	735	1,275	2,010	6%	1% quota bonus	$ 7.3	6.0%
California	19,070	5,315	24,385	5%	1/2% of top three tier lotto prizes, $1,000+ instant tickets	89.3	5.1%
Colorado	2,700	—	2,700	5%	1% sales bonus (1)	6.5	6.0%
Connecticut	1,750	1,975	3,725	5%	Bonus plan for high tier instant winners	21.2	4.9%
Delaware	179	238	415	5%	2% bonus for $100+ winner 1% bonus if exceed average payout	2.0	5.0%
D.C. (1)	99	580	679	4-8%	3% redemption: 1% for selling winning lotto jackpot ticket	6.3	5.3%
Illinois	5,562	3,382	8,944	5%	1% for any ticket winning over $1,000	65.8	5.1%
Iowa	2,253	1,050	3,303	5%	1% for selling winning lotto jackpot winner	4.4	5.4%
Maine (2)	1,000	700	1,700	5-8%	Bonus for selling winning tickets	2.6	6.6
Maryland	—	1,887	1,887	4%	3% redemption: $1 for each processing claim for 600+ prizes	38.5	5.1%
Massachusetts	895	4,487	5,382	5%	1% redemption: 1% for selling winning lotto jackpot ticket	64.0	5.6%
Michigan	5,083	3,117	8,200	6%	2% redemption	67.0	6.7%
Missouri	3,600	1,400	5,000	5%	1% quota bonus for instant sales	11.5	5.6%
New Hampshire	525	734	1,259	5%	Bonuses for selling winning instant and on-line sales	1.7	5.0%
New Jersey	—	4,209	4,209	5%	1% redemption	53.0	5.3%
New York	6,030	4,246	10,276	6%	None	79.0	6.0%
Ohio	2,700	3,800	6,500	5.5%	.5-1.5% redemption	51.7	5.5%
Oregon	1,140	1,160	2,300	5% 3% PAT	1% redemption	4.7	5.3%
Pennsylvania	6,000	3,000	9,000	5%	Quota bonuses for instant sales	68.7	5.2%
Rhode Island (3)	450	650	1,100	5-8%	1% for off-line ticket winning over $1,000	4.1	7.2%
Vermont	669	189	858	5%	1% for any ticket winning over $500	.6	5.0%
Washington	2,880	937	3,817	5%	"Ask for Sale" bonus	9.2	5.1%
West Virginia	2,127	780	2,907	5%	1% for any ticket winning over $500	2.6	4.9%
Total	85,447	44,909	110,358			$860.3	5.5%

Canadian Lotteries

Atlantic	2,185	1,508	3,693	5-10%	1% for any ticket winning over $10,000 $.10 for cashing	$ 8.7	5.7%
B. Columbia	610	2,025	2,635	5-10%	None	17.6	5.3%
Loto-Quebec	8,091	4,057	12,148	5-10%	1% for any ticket winning over $1,000	48.0	5.4%
Ontario	8,073	4,000	12,073	5-10%	1% for any ticket winning over $10,000 $1,000 bonus for jackpot, $500, 2nd tier lotto ticket	65.8	6.9%
Western	1,678	1,861	3,539	5-10%	2% redemption	19.4	6.1%
Total	20,637	13,451	34,088			$159.6	6.1%

(1) D.C. pays 4% for on-line sales, 6% for instant sales
(2) Maine 5% for on-line sales, 8% for instant sales
(3) Rhode Island pays 8% for on-line sales, 5% for instant sales

lotteries are considering incentive programs to hike sales.

Marketing experts say incentive programs tied to sales motivate the agent to push the product through the distribution channel. While lotteries can try to rejuvenate sales by repositioning the product or changing the prize structure, without concrete retailer support, sales will not improve.

The problem with paying quota bonuses in money to agents, directors feel, is that they get disillusioned or annoyed if they don't meet their quota the next month. Merchandise awards serve as a constant reminder of the lottery's role in an agent's business.

Recently, the Michigan lottery became the first state to institute an incentive program where agents win merchandise prizes for exceeding sales quotas for its 3-digit and 4-digit games.

The first in a series of four eight-week incentive programs to run in fiscal 1987, these numbers promotions involve agents earning five award points for each dollar sold over their weekly sales goal.

Award credits are deposited each week to an agent's "award bank account." Points can be redeemed at any time or accumulated over all four promotions for larger value prizes. There are seven award collection levels, with merchandise ranging from calculators to 35-millimeter cameras.

Before the promotion's start-up, the lottery's Daily 4 sales were averaging 9.5 percent over the previous year. Since the program's start-up, Daily 4 sales are up 20.7 percent.

Apparently, these numbers have also impressed lottery executives elsewhere. According to a recent *Gaming & Wagering Business* survey, 10 North American lotteries are contemplating merchandise/cash incentive program in fiscal 1988. It should be a good year for lottery agents. —T. La Fleur

(Table 4 is on page 28)

Where they're sold in North America

Convenience stores	34,061
Grocers	24,914
Drug/variety	14,292
Liquor stores	13,048
Restaurants, bars	8,536
Newsstands	4,435
Smokeshops	2,408
Other*	42,750
TOTAL	144,444

*Includes gas stations, racetracks, bowling alleys, beauty shops and specialty stores.

Table 2

On-line Agents
Distribution of agents by type of business

Lottery	Grocers	Convenience Stores	Liquor Stores	Restaurant/ Taverns	Newsstands	Drug/ Variety	Smokeshops	Other	Total Agents
Arizona	470	637	87	41	21	8	10	10	1,285
California	983	1,844	1,383	202	5	292	11	415	5,315
Connecticut	170	885	535	69	209	154	105	47	1,975
Delaware	24	57	95	0	19	12	3	25	236
D.C.	75	122	244	23	23	64	0	29	580
Illinois	812	676	643	189	145	372	0	545	3,382
Iowa	385	534	20	25	0	39	0	67	1,050
Maryland	104	387	619	188	33	256	0	100	1,687
Massachusetts	431	1,777	1,005	153	247	431	0	444	4,487
Michigan	1,184	935	581	25	0	405	6	0	3,117
Missouri	504	588	112	42	0	42	0	112	1,400
New Jersey	513	448	0	1919	430	513	290	96	4,209
New York	1,089	0	373	281	1,373	0	0	1,130	4,246
Ohio	1,368	456	722	380	152	418	304	0	3,800
Oregon	213	574	44	15	2	43	0	268	1,160
Pennsylvania	630	435	165	213	288	281	39	969	3,000
Rhode Island	101	142	165	70	22	99	9	41	650
Washington	177	610	6	68	29	47	0	0	937
West Virginia	148	465	9	17	13	29	0	99	780
Total	9,382	11,374	6,968	3,921	3,013	3,485	777	4,397	43,296
% of total	21.8%	26.3%	16.1%	9.1%	7.0%	8.0%	1.8%	10.2%	
Canadian Lotteries									
Atlantic	30	739	0	30	166	483	0	60	1,50
B.C.	43	1,179	0	16	200	186	0	399	2,023
Loto Quebec	755	1,728	0	195	0	211	787	402	4,057
Ontario	392	1,200	0	0	212	1,420	0	776	4,000
Western	43	758	0	41	0	564	174	281	1,861
Total	1,262	5,604	0	282	578	2,864	941	1,918	13,449
% of total	9.4%	41.7%	0.0%	2.1%	4.3%	21.3%	7.0%	14.3%	

Notes:
1) No data available for Maine, New Hampshire or Vermont
2) New York groups convenience stores and grocers together
3) Classified as beverage distributor
4) Other includes kiosk category. Percentage of agent network: B.C. (7.8%); Loto-Quebec (4.3%) Ontario (7.3%); Western (7.3%)

Table 3

Off-line Agents
Distribution of agents by type of business

Lottery	Grocers	Convenience Stores	Liquor Stores	Restaurant/ Taverns	Newsstands	Drug/ Variety	Smokeshops	Other	Total Agents
Arizona	137	375	53	34	63	35	15	24	735
California	4,245	3,299	3,217	1,404	0	1,499	0	5,406	19,070
Colorado	466	941	540	115	0	468	0	171	2,700
Connecticut	529	410	509	39	95	149	0	21	1,750
Delaware	27	61	48	30	0	2	2	9	179
D.C.	28	20	17	3	10	14	1	9	99
Illinois	1,724	667	612	834	195	373	128	1.029	5.562
Iowa	496	834	45	288	0	115	0	478	2,253
Missouri	612	1,260	382	313	11	108	0	914	3,600
Ohio	378	540	162	135	27	162	0	1,296	2,700
Oregon	298	507	64	113	2	18	1	137	1,140
Rhode Island	53	138	53	53	2	47	2	101	450
Vermont	408	174	20	0	0	20	47	0	689
Washington	580	1,415	240	321	159	166	0	0	2,880
West Virginia	374	742	118	86	20	166	0	621	2,127
Total	10,352	11,383	6,080	3,766	583	3,338	196	10,216	45,914
% of total	22.5%	24.8%	13.2%	8.2%	1.3%	7.3%	0.4%	22.2%	
Canadian Lotteries									
Atlantic	109	1,158	0	2	219	631	66	0	2,185
B.C.	8	231	0	16	42	20	0	293	610
Loto-Quebec	2,808	2,308	0	485	0	316	324	1.853	8.091
Ontario	969	1,372	0	0	0	3,391	0	2,341	8.073
Western	44	659	0	63	0	247	105	560	1.878
Total	3,938	5,727	0	567	261	4,605	494	5,047	20,637
% of total	19.1%	27.7%	0.0%	2.7%	1.3%	22.3%	2.4%	24.5%	

Notes:
1) No off-line agents in New Jersey or Maryland
2) No data available for Maine, Massachusetts, Michigan, New Hampshire, New York or Pennsylvania

(continued from previous page)

Table 4

Sales Contribution by Type of Agent

(% of sales)

U.S. Lotteries

	Grocers		Convenience Stores		Retail Liquor Store		Restaurants/ Taverns		Newstands		Drug/Variety		Smokeshops		Other	
	Off-line	On-line	Off-line	On-line	Off-line	On-line	Off-line	On-line	Off-line	On-line	Off-line	On-line	Off-line	On-line	Off-line	On-line
Arizona	34.7%	45.0%	48.1%	43.5%	3.1%	3.3%	2.4%	.7%	.1.5%	4.9%	5.9%	.3%	1.2%	.1%	3.1%	1.6%
California	38.0	17.8	20.0	37.3	14.1	30.1	3.5	2.5	—	—	5.9	5.1	—	.3	10.4	6.3
Colorado	38.2	—	37.5	—	8.8	—	1.6	—	—	—	—	—	—	—	10.7	—
Connecticut	28.1	10.3	23.4	34.7	29.1	27.1	2.2	3.5	5.4	15.9	8.5	7.8	—	—	1.2	2.4
Delaware	9.0	8.1	57.0	18.7	21.0	41.3	10.0	—	—	13.0	1.0	5.4	—	1.6	2.0	11.9
D.C.	20.0	10.0	10.0	7.0	20.0	60.0	5.0	3.0	10.0	2.0	20.0	5.0	—	—	15.0	13.0
Illinois	24.3	19.9	21.0	20.6	10.6	20.3	12.0	5.6	3.0	3.8	3.9	8.9	—	*	25.2	20.9
Iowa	39.2	50.0	40.8	40.4	1.5	.1	6.4	1.4	—	—	2.4	2.7	—	—	9.8	5.4
Maryland	—	6.7	—	20.9	—	39.5	—	10.1	—	2.1	—	15.8	—	*	—	4.9
Massachusetts	—	10.6	—	38.9	—	25.1	—	2.2	8.5	—	7.7		—	*	—	7.0
Michigan	—	60.0	—	20.0	—	12.0	—	.4	—	—	—	7.0	—	.6	—	—
Missouri	28.4	38.0	43.0	42.0	7.7	8.0	5.5	3.0	.4	—	2.0	3.0	—	—	13.0	8.0
New Jersey	—	10.1	—	13.2	—	—	—	40.2	—	14.1	—	11.6	—	8.3	—	2.5
New York	39.2	25.6	—	—	7.7	8.9	6.3	6.6	22.3	32.3	—	—	*	*	24.5	26.6
Ohio	30.0	34.0	15.0	11.0	17.0	20.0	10.0	8.0	5.0	6.0	10.0	13.0	—	—	13.0	8.0
Oregon	28.1	18.4	44.5	49.5	5.6	3.8	9.9	1.3	.2	.2	1.6	3.7	.1	—	12.0	23.1
Pennsylvania		18.7	—	13.0	—	6.2	—	5.9	—	12.8	—	8.8	—	1.8	—	32.8
Washington	40.1	18.7	36.6	64.9	9.2	.5	6.6	6.0	1.9	3.4	4.3	5.9	—	—	1.2	.6
West Virginia	19.6	18.0	53.8	62.0	2.1	.7	2.1	1.4	1.4	2.2	5.5	3.5	—	—	5.2	3.6

Canadian Lotteries

Atlantic	2.0	1.0	50.0	50.0	—	—	—	—	12.0	11.5	31.4	33.2	4.5	4.0	—	—
B.C.	.9	1.4	16.7	38.5	—	—	1.1	.4	2.8	12.9	1.3	8.7	*	*	77.2	38.1
Loto-Quebec	32.3	12.9	30.2	35.5	—	—	8.3	6.2	—	—	4.2	4.6	4.1	4.6	20.9	36.2
Ontario	9.0	7.3	17.0	22.8	—	—	—	—	—	—	36.5	38.8	—	—	37.5	31.1
Western	2.1	1.7	40.2	27.9	—	—	4.0	1.2	6.6	9.5	14.1	27.9	*	*	33.0	31.8

* Newstand/Tobacconist/Sundries combined classification

Lottery ad budgets remain flat in fiscal '87

Advertising expenditures for the 23 U.S. lotteries should top $156.4 million in fiscal 1987, a 26.4 percent leap over fiscal 1986. However, established lotteries are holding down their budgets as sales flatten out.

In Canada, the five Canadian lotteries spent CS51 million on advertising, up 3.3 percent from the previous year. Fiscal 1987 lottery sales are expected to hit CS3.3 billion, a 27.4 percent jump over the previous year.

Sales for the U.S. lotteries are estimated at $12.4 billion, a jump of 2.8 percent from last year's $12.1 billion. In Canada, fiscal 1987 sales are projected at CS3.3 billion, up from S2.6 billion in fiscal 1986 (see table 1).

Taken together, advertising represented 1.26 percent of sales for the U.S. lotteries, 1.52 percent for the Canadian lotteries.

Table 1 also shows that advertising expenditures grew at a faster pace than sales for 12 state lotteries. Four lotteries reduced fiscal 1987 ad budgets over the previous year: Colorado, District of Columbia, Washington and Ontario.

Television continued to account for the lion's share of the lotteries' advertising budget. In fiscal 1987, the U.S. lotteries allocated 42.6 percent of their budget to TV, the Canadians 37 percent (see table 2).

Among the U.S. lotteries, radio came in second at 13.8 percent, while point of sale was third, with 10.4 percent. In Canada, printed media is the second most favored advertising vehicle, with the lotteries allocating 19 percent of their budget. Radio came in third, at 13 percent.

Table 2 also lists the actual dollar breakdown by lottery on advertising cost for five key media, plus production, drawings and public relations expenditures.

Also new to *Gaming & Wagering Business*' third annual advertising report is the allocation of advertising dollars by product category. The breakdown in fiscal 1987 was as follows: instant (40 percent), 3-digit (9 percent), 4-digit (2 percent), lotto (35 percent), other (9 percent). Six percent of the budget was earmarked for corporate advertising (see table 3).

Because of the large sales contribution from passive games, the Canadian lotteries earmark 50 percent of their advertising budget for this category. Lotto comes in second, at 27 percent; instant, third, at 22 percent.

Advertising budgets includes miscellaneous point-of-sale, drawing costs, market research and public relations expenditures. No cost breakdown was available from the Arizona, British Columbia, Michigan, and New Jersey lotteries.—T.La Fleur

Table 1

U.S. Lotteries' Advertising Expenditures Fiscal 1987

($ in millions)

Lottery	Proj. FY 87 Sales	Proj. FY 87 Adv. Budget	Adv. as % of FY 87 Sales	Adv. budget per capita	% chg. in ad budget '86 to '87	% chg in FY sales '86 to '87
Arizona	$ 130.0	$ 4.50	3.46%	$1.42	14.5%	7.5%
California	1,415.0	35.30	2.49%	1.35	52.8%	-19.8%
Colorado	120.0	4.70	3.92%	1.46	-10.5%	10.2%
Connecticut	480.0	4.50	0.94%	1.42	28.9%	11.9%
Delaware	45.0	0.50	1.11%	0.81	11.1%	10.0%
D.C.	125.0	3.60	2.88%	5.77	-16.3%	5.4%
Illinois	1,400.0	12.94	0.92%	1.12	43.8%	6.4%
Iowa	N/A	N/A	N/A	N/A	N/A	N/A
Maine	50.0	0.73	1.45%	0.62	7.4%	28.9%
Maryland	756.8	5.00	0.66%	1.14	42.2%	5.4%
Massachusetts	1,245.0	10.80	0.87%	1.86	2.9%	9.8%
Michigan	1,000.0	12.22	1.22%	1.34	19.2%	0.1%
Missouri	206.0	11.90	5.78%	2.36	210.7%	-0.5%
New Hampshire	45.0	0.58	1.28%	0.58	32.2%	34.3%
New Jersey	1,100.0	4.50	0.41%	0.60	4.7%	11.1%
New York	1,465.0	15.70	1.07%	0.88	7.0%	11.2%
Ohio	1,035.1	10.40	1.00%	0.97	4.0%	9.8%
Oregon	116.0	2.00	1.72%	0.74	42.9%	30.9%
Pennsylvania	1,330.0	8.70	0.65%	0.73	2.4%	0.7%
Rhode Island	57.5	0.45	0.78%	0.46	11.1%	1.1%
Vermont	20.0	0.35	1.74%	0.65	64.5%	61.3%
Washington	183.5	3.13	1.71%	0.71	-8.5%	1.3%
West Virginia	81.0	3.90	4.81%	2.01	85.7%	52.8%
Total	$12,405.9	$156.40	1.26%	$1.15	26.4%	2.8%

Candian Lotteries' Advertising Expenditures (FY 1987)

(C$ in millions)

Lottery	Proj. FY 87 Sales	Proj. FY 87 Adv. Budget	Adv. as % of FY 87 Sales	Adv. budget Per Capita	% chg. in ad budget '86 to '87	% chg. in FY sales '86 to '87
Atlantic	$ 200.0	$ 6.64	3.32%	$2.88	24.8%	31.0%
B. Columbia	450.0	3.20	0.71%	1.11	6.7%	36.3%
Loto-Quebec	1,000.0	14.15	1.42%	2.15	2.6%	13.2%
Ontario	1,255.0	20.20	1.61%	2.23	-7.8%	32.6%
Western	444.8	6.85	1.54%	1.52	27.4%	40.0%
Total	$3,349.8	$51.04	1.52%	$2.01	3.3%	27.4%

Table3

Canadian Lotteries: Advertising Dollars by Game

(C$ millions)

Lottery	Instant	3-digit Numbers	4-digit Numbers	Lotto	Corporate	Passive	Total
Atlantic	1.01	—	0.31	1.05	0.24	2.07	4.68
B.C.	0.51	—	—	1.50	—	1.18	3.19
Lotto-Quebec	4.33	0.20	—	2.55	—	7.10	14.18
Ontario	3.50	—	—	6.50	—	9.00	19.00
Western	0.59	—	—	0.70	—	3.25	4.54
Total by game	$8.94	$0.20	$0.31	$12.30	$0.24	$22.60	$45.59
	22%	44%	1%	27%	1%	50%	

Table 3

U.S. Lotteries: Advertising Dollars by Game
($ millions)

Lottery	Instant	3-digit Numbers	4-digit Numbers	Lotto	Corporate	Other	Total
Arizona	1.24	—	—	1.98	0.29	—	3.50
California	16.75	—	—	16.75	—	—	33.50
Colorado	4.10	—	—	—	—	0.60	4.70
Connecticut	1.46	0.81	—	2.29	—	—	4.50
Delaware	N/A	N/A	N/A	N/A	N/A	N/A	N/A
D.C.	0.80	—	—	0.90	0.20	0.20	2.10
Illinois	2.60	0.40	—	1.30	1.90	1.70	7.90
Iowa	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Maine	0.27	0.09	—	0.07	0.15	—	0.58
Maryland	1.50	0.80	—	0.80	0.65	0.25	4.00
Massachusetts	3.70	2.10	—	3.80	0.80	0.40	10.80
Michigan	3.30	1.70	1.20	2.30	—	3.40	12.10
Missouri	5.10	0.95	—	3.06	0.49	2.56	12.16
New Hampshire	0.10	0.05	0.05	0.05	0.10	0.20	0.50
New Jersey	0.31	0.61	1.11	1.31	0.90	0.27	3.40
New York	3.61	3.77	—	5.97	0.47	1.88	15.70
Ohio	2.30	0.78	—	2.30	2.50	0.37	8.25
Oregon	1.14	—	—	0.86	—	—	2.00
Pennsylvania	4.21	0.70	0.07	2.70	—	1.03	7.67
Rhode Island	0.34	—	—	0.11	—	—	0.45
Vermont	0.24	0.03	0.03	0.01	0.03	—	0.34
Washington	1.20	0.19	—	1.65	0.10	—	3.14
West Virginia	1.80	0.15	—	0.90	—	0.15	3.00
Total by game	$58.07	$13.12	$2.48	$49.30	$8.58	$13.02	$140.30
	40%	9%	2%	35%	6%	9%	

Table 2

U.S. Lotteries' Advertising Allocation

Lottery	TV		Radio		Printed Media		Billboards		Out of Home		POS		Production		Drawings		Public Relations		Other		TOTAL
	(SM)		(SM)		(SM)		(SM)		(SM)		(SM)		(SM)		(SM)		(SM)		(SM)		
Arizona	28%	1.26	12%	0.54	14%	0.63	7%	0.32	2%	0.09	9%	0.41	28%	1.26	—	—	—	—	—	—	4.50
California	50%	17.65	11%	3.88	3%	1.06	2%	0.71	2%	0.71	11%	3.88	9%	3.18	2%	0.71	5%	1.77	5%	1.77	35.30
Colorado	24%	1.13	21%	0.99	5%	0.24	—	—	—	—	10%	0.47	8%	0.38	4%	0.19	11%	0.52	15%	0.71	4.70
Connecticut	32%	1.42	41%	1.85	19%	0.87	8%	0.36	—	—	—	—	—	—	—	—	—	—	—	—	4.50
Delaware	—	—	71%	0.36	26%	0.13	3%	0.02	—	—	—	—	—	—	—	—	—	—	—	—	0.50
D.C.	39%	1.40	17%	0.61	10%	0.36	—	—	—	—	10%	0.36	17%	0.61	—	—	7%	0.25	—	—	3.60
Illinois	34%	4.39	11%	1.35	6%	0.77	11%	1.35	—	—	—	—	—	—	4%	0.52	2%	0.28	14%	1.78	12.94
Maine	53%	0.38	—	—	3%	0.02	—	—	—	—	6%	0.04	35%	0.25	—	—	3%	0.02	—	—	0.73
Maryland	47%	2.35	15%	0.75	10%	0.50	—	—	—	—	6%	0.30	16%	0.80	1%	0.05	1%	0.05	4%	0.20	5.00
Massachusetts	63%	6.75	—	—	—	—	—	—	—	—	13%	1.35	21%	2.27	—	—	3%	0.27	2%	0.16	10.80
Michigan	47%	5.73	23%	2.81	8%	0.98	—	—	—	—	18%	2.20	—	—	—	—	3%	0.37	3%	0.01	12.22
Missouri	35%	3.51	1%	0.13	30%	3.07	—	—	—	—	7%	0.68	14%	1.40	—	—	13%	1.30	—	—	11.90
New Hampshire	30%	0.17	15%	0.09	15%	0.09	10%	0.06	5%	0.03	5%	0.03	10%	0.06	10%	0.06	5%	0.03	5%	0.03	0.58
New Jersey	35%	1.58	22%	0.99	21%	0.95	—	—	3%	0.14	—	—	10%	0.45	—	—	1%	0.05	—	—	4.50
New York	46%	7.22	14%	2.20	7%	1.10	—	—	3%	0.47	24%	3.77	—	—	—	—	—	—	6%	0.94	15.70
Ohio	42%	4.37	23%	2.39	12%	1.25	8%	0.83	—	0.00	7%	0.73	9%	0.93	9%	0.93	—	—	6%	0.61	10.40
Oregon	16%	0.32	28%	0.56	12%	0.24	1%	0.02	—	—	9%	0.18	17%	0.34	—	—	17%	0.34	—	—	2.00
Pennsylvania	53%	4.61	5%	0.44	18%	1.52	8%	0.71	—	—	18%	1.57	—	—	—	—	—	—	—	—	8.70
Rhode Island	30%	0.14	10%	0.05	9%	0.04	8%	0.04	3%	0.01	18%	0.08	10%	0.05	3%	0.01	9%	0.04	—	—	0.45
Vermont	23%	0.08	18%	0.06	—	—	—	—	—	—	21%	0.07	—	—	15%	0.05	10%	0.03	13%	0.05	0.35
Washington	37%	1.14	31%	0.97	4%	0.12	—	—	—	—	2%	0.06	22%	0.68	—	—	2%	0.05	3%	0.08	3.13
West Virginia	25%	0.98	15%	0.59	5%	0.20	—	—	—	—	4%	0.14	10%	0.39	15%	0.59	10%	0.39	17%	0.64	3.90
Total	$86.58		$21.59		$14.12		$4.41		$1.44		$16.30		$13.03		$3.04		$5.76		$6.98		$156.40
% of total budget	42.8%		13.8%		9.0%		2.8%		0.9%		10.4%		8.3%		1.9%		3.7%		4.5%		

Canadian Lotteries' Advertising Allocation

Lottery	TV		Radio		Printed Media		Billboards		Out of Home		POS		Production		Drawings		Public Relations		Other		TOTAL
	(SM)		(SM)		(SM)		(SM)		(SM)		(SM)		(SM)		(SM)		(SM)		(SM)		
Atlantic	26%	1.74	4%	0.25	35%	2.30	4%	0.25	4%	0.28	10%	0.64	18%	1.18	—	—	—	—	—	—	6.64
B.Columbia	43%	1.38	24%	0.77		0.00	7%	0.22	—	—	8%	0.26	18%	0.58	—	—	—	—	—	—	3.20
Loto-Quebec	54%	7.61	12%	1.74	15%	2.18	—	—	—	—	7%	1.00	—	—	4%	0.60	—	—	1%	1.00	14.15
Ontario	27%	5.45	13%	2.63	25%	5.05	4%	0.81	—	—	4%	0.81	10%	2.02	12%	2.42	—	—	—	—	20.20
Western	38%	2.62	19%	1.29	1%	0.09	10%	0.68	—	—	4%	0.27	13%	0.89	6%	0.44	5%	0.37	3%	0.20	6.85
Total	$18.80		$8.68		$9.62		$1.96		$0.28		$2.98		$4.67		$3.46		$0.37		$1.20		51.05
% of total budget	37%		13%		19%		4%		1%		6%		9%		7%		1%		2%		

TOTAL NUMBER OF EMPLOYEES IN U.S. LOTTERIES

STATE	TOTAL NUMBER LOTTERY EMPLOYEES
ARIZONA	120
CALIFORNIA	1,000
COLORADO	120
CONNECTICUT	22
DELAWARE	16
DISTRICT OF COLUMBIA	94
ILLINOIS	300
IOWA	120
MAINE	33
MARYLAND	119
MASSACHUSETTS	520
MICHIGAN	180
MISSOURI	191
NEW HAMPSHIRE	57
NEW JERSEY	254
NEW YORK	210
OHIO	270
OREGON	82
PENNSYLVANIA	200
VERMONT	22
WASHINGTON	130
WEST VIRGINIA	110

10

The Region

Jersey's Gambling: Too Much of a Bad Thing?

By JOSEPH F. SULLIVAN

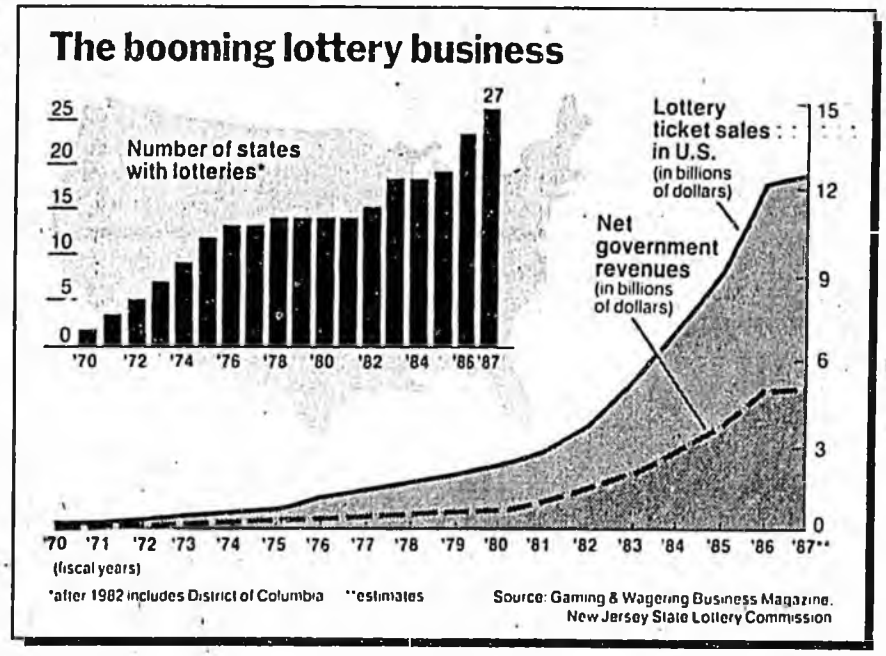
TRENTON

LEGALIZED gambling in New Jersey has generated more than $4 billion in state revenues over the last 17 years, but there is a growing sense of alarm about its social effects.

These concerns are being raised even as the state looks to gambling for additional revenues. The New Jersey Lottery Commission started a new lotto game two weeks ago — its fourth. Meanwhile, many experts say compulsive gambling is increasing.

"We have to decide to what extent we are willing to be addicted," said Assembly Speaker Charles L. Hardwick, Republican of Westfield, who sponsored the bill creating the Governor's Advisory Commission on Gambling. "We still have not taken the necessary steps to ensure that gambling is carried on in a socially responsible way."

In 1970, New Jersey was the first state in the country to offer a lottery that allowed players to pick numbers, as they do in illegal numbers games. Now 26 other states — twelve since 1982 — the District of Columbia, Puerto Rico and the Virgin Islands have similar numbers lotteries.



New Jersey's lottery operation, including its ruboff card games, are expected to contribute $480 million to the state treasury this year. In addition, the state is home to 11 gambling casinos in Atlantic City that took in $2.5 billion last year and five horse tracks that supplement their racing cards with simulcasting, a system that allows betting on races at out-of-state tracks.

But some officials are questioning the impact of gambling and the wisdom of further expansion. The decision by lottery officials to start the new game raised protests from state Senate President John F. Russo, Democrat of Toms River, and Arnie Wexler, director of the Council on Compulsive Gambling, a nationwide, nonprofit organization devoted to helping people with gambling addictions.

Mr. Russo called for the resignation of the lottery's executive director, Barbara A. Marrow, saying she "apparently is too busy scheming how to squeeze more money out of the working men and women of this state to worry about social responsibility."

Ms. Marrow denies that the new game, the first in seven years, "represents overkill or an abandonment of social responsibility." She noted that New York offers five numbers games and Pennsylvania, four — "the same number that our new lotto game gives us."

When legalized gambling is proposed it is often linked to some worthwhile public purpose. For example, New York Gov. Mario Cuomo cited the additional $29 million that would be generated for state education programs when he recently proposed a new multistate lottery. In New Jersey, an 8 percent tax on casino revenues is designated for programs for the elderly and disabled. The tax has raised about $1 billion, including $200 million during 1987. In addition, the casinos must contribute 1.25 percent of their income for 25 years to a fund that will support redevelopment projects in Atlantic City and across the state. The fund is expected to gross more than $1.5 billion.

It is this love-hate relationship between New Jersey and gambling that the Advisory Commission is expected to examine, reporting its recommendations by June. Among the divergent proposals the commission will consider are an industry request for 24-hour gambling, and, from the other side, requests to curb gambling advertising and to provide more funds for treatment of gambling addicts and for educational programs on gambling's dangers.

The Council on Compulsive Gambling estimates there are 12 million gambling addicts nationwide and 400,000 in New Jersey. Last week, for example, the 18-year-old daughter of an Atlantic City police detective was sentenced to one year's probabition and ordered to undergo treatment for gambling addiction after being convicted of violating a state law that prohibits betting by minors. The woman, Debra Kim Cohen, had begun gambling when she was 16.

Mr. Wexler said the percentage of calls the council receives from lotto players is rising. From January to June of last year, 19 percent of the calls were from people who had gone overboard betting on lotteries, compared with 4 or 5 percent in previous years, he said.

Assembly Speaker Hardwick told of a woman who lost more than $50,000 on lottery tickets. The woman got the money from her husband who sent it to her from Alaska where he worked in the oil fields. When her husband was scheduled to return, the woman embezzled more money from the bank where she worked to buy more lottery tickets in an attempt to win back the funds she had lost — and lost that money, too.

"We don't understand compulsive gambling enough," Mr. Hardwick said. "We don't have a handle on what the hype does to people, how it induces the uninitiated to begin to gamble and those already gambling to bet more."

1. BRAD THOMPSON, DEPUTY DIR.
DIV. OF RISK MGMNT → supports the att'd language from Idaho bill.
465-2180
IDAHO; P. 7; LINE 31

2. PROCUREMENT CODE EXEMPTIONS
P. 58

3. UNCLAIMED PRIZES
IDAHO; P. 11 & 12.

4. GLEPS
103, 134

5. SUBPOENA POWERS

secondary security measures that can be taken to invalidate stolen or misplaced tickets, as in other matters, prevention is better than a cure. Lottery premises, both administrative and warehousing, must be secure and must be seen to be secure. Most states require that retail agents be of good moral character and submit to some form of pre-sale examination or licensing. Lottery suppliers and staff are also subjected to the closest scrutiny in order to vouchsafe the integrity of the lottery. Ticket delivery and distribution systems must also be

Continued on page 148

A lottery start-up offers a combination of blessings and potential pitfalls. While public anticipations of a lottery virtually guarantees healthy initial sales, the image that is created before, during, and after start-up will stick with a state's residents and legislators for a long time. Here, Scientific Games Vice President James Culver analyzes the innovations created and lessons learned as a start-up consultant.

GLEPS

THE SCIENCE OF LOTTERY START-UPS

By James Culver

From: *Public Gaming June 1985*

Starting a lottery is a little like sky diving. It is fun, exhilarating, challenging and just a little bit frightening—and the consequences of failure are severe in both cases. Things are a little uncertain when the first step is taken, but when things go well, one feels a great sense of pride and accomplishment.

No one has perfected the way to run a lottery. Each new lottery builds upon the experience of those that have gone before it, creating a synergistic entity that combines the best of the old with the innovation of the new. The result is a dynamic and expanding industry that improves with the addition of each new lottery.

New lottery start-ups produce innovation and invention from rethinking and reapplying time-tested systems and procedures. They also focus more minds on universal lottery problems, which ultimately benefits all. As former Michigan Lottery Deputy Director Alvin Whitfield was fond of saying, "Where many spit, a well is formed."

The Arizona Lottery start-up (July 1981) provided three significant contributions to the lottery industry. It was the first lottery to utilize the term "retailers" to apply to its ticket sellers; the first to incorporate the use of a Guaranteed Low End Prize Structure (GLEPS), and the first to institute a lottery Tel-Sell system. Since then, many new lotteries have incorporated these features. Additionally, several "mature" lotteries are revising their systems to add one or more of the innovations.

Prior to the Arizona start-up, other states had used the term "agent" when referring to the retail outlet engaged in the sale of lottery tickets. Confusion often existed as to whether the "agent" was the person who sold the tickets or the lottery field representative. Most lotteries now agree that "retailer" is preferred terminology, and many confess that, "if we had it all to do over again, we would use the term 'retailer'." Every lottery starting after Arizona has adopted the "retailer" terminology.

GLEPS is a system of providing a pre-determined amount of low-tier (below $25) winners in each pack of tickets. The packs are then discounted to the retailer, who in turn provides redemption to his/her customers. Retailers and players prefer this system since they can be assured of a specific number of winning tickets in each pack.

But the major beneficiary is the lottery, since it no longer has to deal with the redemption of low-end prizes. This provides an enormous administrative cost savings. It also eliminates the misunderstanding which inevitably arise when retailers must return redemption envelopes to the lottery for credit or reimbursement.

The Arizona Lottery also introduced the first lottery Tel-Sell program. Under this system, lottery sales representatives telephoned retailers to determine their ticket requirements, prior to delivery by the field representative (usually on the following day).

The start of the Colorado Lottery (January 1983) brought refinements to the Tel-Sell system which had been introduced in Arizona. Colorado inserted automation into the system to produce the lottery industry's first automated Tel-Sell program. Tel-Sell representatives could now utilize the lottery's central computer to determine a retailer's rate of sale and other pertinent information at the same time they were talking to the retailer about his/her ticket inventory status.

The automated Tel-Sell system also produced improvements in ticket accounting and marketing information. The lottery could now determine on a daily basis the status of all claims, redemptions and ticket inventories.

Washington State (November 1982) had already implemented its lottery prior to the Colorado Tel-Sell enhancements, but it quickly contracted with Scientific Games to install the same system.

Ironically, Washington was able to assist the Arizona Lottery in upgrading its Tel-Sell program, bringing the circle back to the lottery which had first introduced the concept to the industry.

Subsequently, Oregon utilized the same system with even more enhancements with the installation of the Stratus Fault Tolerant XA600 computer system.

New lottery start-ups also tend to produce a healthier, more competitive vendor environment. A stroll through any of the recent gaming conferences reveals a wide variety of new lottery business ventures with new ideas and improved technology. A bigger marketplace attracts better "mousetraps" and maintains acceptable pricing policies for the older ones.

The role of the lottery start-up consultant is a delicate one. New lotteries find no shortage of advice. The staff has probably visited several states and returned with loads of facts, figures, point-of-sales materials and well-intended counsel from other lotteries.

In fact, they may have too much advice, often of a contradictory nature. The problem lies in the fact that different sets of challenges and opportunities face different lottery jurisdictions. What works well in one situation may not function at all in another.

The start-up consultant should have a broader perspective and the knowledge of how to apply proven, time-tested systems and procedures that can function in the new lottery's unique environment. This is not to say that the people who buy lottery tickets in one state are "different" from those in another (an expression often voiced in a new lottery). But political, demographical and geographical considerations must be addressed when making recommendations to a lottery.

For example, our recommendations to the Iowa Lottery

operating the lottery and fulfilling its objectives.

67-7429. PROHIBITION ON USE OF STATE FUNDS. It is the intent of this chapter that the state lottery, established by this chapter, shall be a self-supporting, revenue raising agency of state government. No appropriations, loans, or other transfer of state funds shall be made to the state lottery, except for the temporary line of credit for initial start-up costs of the lottery, as provided in this chapter.

67-7430. TEMPORARY LINE OF CREDIT FOR START-UP COSTS. There is hereby established a temporary line of credit to be drawn from the state general account to the state lottery account in the amount of one million dollars ($1,000,000). This amount of money is continuously appropriated for carrying out the purposes of this chapter. This temporary line of credit may be drawn upon by the state lottery only during the first eighteen (18) months after the effective date of this chapter and only for the purpose of financing the initial start-up of the lottery. The lottery may draw upon all or part of this temporary line of credit, as shall be required. The money so advanced from the state general account shall be repaid with interest to the general account within one (1) year from the date the lottery first begins to sell lottery tickets or shares. The interest of ten percent (10%) per annum, shall be calculated upon the principal amount outstanding each month until repaid.

67-7431. CASH RECEIPTS. The following moneys shall be deposited in the state lottery account, as established under section 67-7428, Idaho Code:

(1) All moneys received from the sale of lottery tickets or shares;

(2) Funds drawn against the temporary line of credit, as established under section 67-7430, Idaho Code; and

(3) Any other moneys received by the lottery from whatever source.

67-7432. CASH DISBURSEMENTS. The director is authorized to make the following disbursements from the state lottery account:

(1) Payment of prizes directly to the holder of valid winning tickets or shares;

(2) Purchase of annuities or investments to be utilized to pay future installments of winning tickets or shares;

(3) Refunds, if any, due to lottery retailers or players;

(4) Expenses of the lottery;

(5) The payment of the lottery's obligations, including the funds advanced under the temporary line of credit, as provided for under section 67-7430, Idaho Code, and the purchase of property, buildings and equipment; and

(6) The payment of dividends, as provided for under section 67-7434, Idaho Code.

GLEPS

67-7433. PRIZE EXPENSE. Total prize expense, net of unclaimed prizes, as determined on a cumulative basis, shall be no less than forty-five percent (45%) of lottery revenues. In addition, low-tier claims, if any, that are to be paid by the selling lottery game retailer and are not claimed, shall be construed to be a prize expense and shall inure to the benefit of the selling lottery retailer.

67-7434. LOTTERY DIVIDENDS. At least annually, the lottery shall transfer

UNCLAIMED PRIZES 11

one-half (1/2) of its net income to the permanent building account and one-half (1/2) of its net income to the school district building account, after reserving sufficient moneys to ensure the continuation of the lottery, as determined by the director and commission. After the twelfth month of ticket sales the transfer of lottery dividends to the permanent building account and school district building account shall represent no less than thirty-five percent (35%) of lottery revenue less prizes computed annually.

A one (1) time allotment of two hundred thousand dollars ($200,000) of the lottery's first year dividends shall be allocated and used by the permanent building fund advisory council for the construction of a Vietnam veterans memorial in the state.

67-7435. REIMBURSEMENTS FOR GOVERNMENT SERVICES. It is the intent that the lottery shall be a self-supporting agency of state government. The director shall reimburse at a reasonable rate all other governmental entities for any and all services necessary to effectuate the purposes of this chapter provided by such governmental entities to the lottery.

67-7436. AUDITS. The state auditor or a certified accounting firm appointed by the state auditor shall conduct audits of all accounts and transactions of the lottery. The director, the state auditor and their agents conducting an audit under this chapter shall have access and authority to examine any and all lottery-related records of lottery contractors. Such records shall be treated as confidential records and shall not be subject to public disclosure. The lottery may contract with or employ an outside auditing firm to conduct special audits of any financial accounts of the lottery at the request of the director. An independent certified public accountant, retained by the lottery, shall witness all drawings of the lottery.

67-7437. PRIZES. Except as otherwise provided in this section, any prize won under this chapter is not assignable. If the prize winner dies before the prize is paid, the prize shall be paid to the estate of the prize winner. A prize is subject to garnishment and recovery for unpaid taxes, child support or public assistance benefits paid and recoverable by the state or any county, or by a person pursuant to a judgment and execution under an order of the court. The lottery shall not pay a prize claim until the lottery ticket or share has passed the validation tests established by the lottery.

No prize shall be paid arising from claimed tickets or shares that are stolen, counterfeit, altered, fraudulent, unissued, produced or issued in error, unreadable, not received or not recorded by the lottery by applicable deadlines, lacking in captions that confirm and agree with the lottery play symbols as appropriate to the game involved, or not in compliance with such additional specific rules and regulations and public or confidential validation and security tests of the lottery appropriate to the particular lottery game involved.

No particular prize in any lottery game may be paid more than once, and in the event of a binding determination that more than one claimant is entitled to a particular prize, the sole remedy of such claimants is the award to each of them an equal share in the prize.

67-7438. PRIZE CLAIMING PERIOD. Prizes may be claimed for a period of one hundred and eighty (180) days after the drawing in which the prize was won or from the last day tickets from that specific instant game were sold. Prizes

won through an electronic terminal shall be payable in accordance with rules and regulations of the lottery. If a claim is not made for the prize within the applicable period, the prize money shall be added to future prize pools, to be used in addition to prize allotments already allocated, except as provided in section 67-7433, Idaho Code.

67-7439. TAXES. No state or local taxes of any kind whatsoever shall be imposed upon the proceeds from a prize awarded by the state lottery. No taxes of any kind whatsoever shall be imposed upon the sale, purchase, storage, use or other consumption of state lottery tickets or shares, or upon equipment, devices or systems directly used in the production, operation, sales, distribution, tracking, drawing, accounting, communication of or computation of lottery games.

The lottery shall pay to a city, county, the state or any political subdivision or municipality thereof in which the lottery occupies a premise owned by the state a grant not to exceed the amount that would be payable as taxes on the property in that year, if the property were not exempt from taxation.

67-7440. RESTRICTED PLAYERS. No lottery ticket or share may be purchased by, and no prize may be paid to, any of the following persons:

(1) Any member of the commission or employee of the lottery; or

(2) Any owner, or in the case of a corporation, an owner of five percent (5%) or more of the corporation stock, any officer or employee of a company that is currently under contract to provide a major procurement; or

(3) Any other person doing business with the lottery as may be determined by the director; or

(4) Any person related by blood, adoption or marriage and who is a member in the same household in the principal place of abode of any such person.

Notwithstanding the above, any of the above may purchase a lottery ticket or share and attempt to claim the related prize provided the purpose of such purchase or claim is to test the lottery's systems or is related to an investigation and is approved in advance by the director of security. If a ticket or share is claimed in such a test or investigation, the warrant must be returned to the lottery without being cashed.

67-7441. RECORDS. All papers, records, correspondence, communications and proceedings of the Idaho state lottery and the commission shall be open to the public except as otherwise provided by statute; provided, however, that business records and information provided to the lottery pursuant to sections 67-7412 and 67-7420, Idaho Code, shall remain confidential and shall not be subject to public inspection.

Notwithstanding any other provision of law, the commission shall determine which documents and information obtained and held for the purposes of lottery security and investigative action shall be confidential by rule and regulation. Such confidential information shall be subject to disclosure only by subpoena or court order upon a showing that the public interest in disclosure substantially outweighs the private need for protection from public disclosure. Nothing herein shall prohibit the lottery from disclosing information obtained by it to law enforcement agencies or other lottery organizations.

No lottery employee shall divulge or make known to any person in any manner any information, whatsoever, obtained directly or indirectly by him in the discharge of his duties, or permit any copy thereof to be seen except under such rules and regulations which the lottery shall prescribe. Any employee

offering for sale or lease, buying, or servicing of gaming materials or equipment.

No person shall be a lottery game retailer who is engaged exclusively in the business of selling lottery tickets or shares. The director may contract with lottery game retailers on a permanent, seasonal or temporary basis. The lottery may require payment by each lottery game retailer to the lottery of an initial fee and an annual fee as a condition for a contract to be a lottery game retailer. The authority to act as a lottery game retailer shall not be assignable or transferable. A lottery game retailer shall report immediately to the lottery any changes in the information required in this section.

67-7413. TERMINATION OF THE LOTTERY GAME RETAILER. The director may terminate a contract with a lottery game retailer for such reasons of termination as shall be recited in such contract, which reasons shall include, but not be limited to, the knowing sale of tickets or shares to any person under the age of eighteen (18).

67-7414. COMPENSATION FOR LOTTERY GAME RETAILERS. The compensation paid to lottery game retailers shall be five percent (5%) of the retail price of the tickets or shares. The director may pay lottery game retailers an additional one percent (1%) incentive bonus based on attainment of sales volume or other objectives specified by the director for each lottery game.

67-7415. SALES TO PERSONS UNDER THE AGE OF EIGHTEEN. No tickets or shares in the lottery games shall be sold by or to persons under the age of eighteen (18). In the case of lottery tickets or shares sold by lottery game retailers or their employees, such persons shall establish safeguards to help assure that such sales are not made to natural persons under the age of eighteen (18).

BONDING

67-7416. DISPLAY OF CERTIFICATE OF AUTHORITY. No lottery tickets or shares shall be sold by a lottery game retailer unless the retailer has on public display on the premises a certificate of authority to sell lottery tickets or shares signed by the director.

67-7417. LOTTERY GAME RETAILER BONDING. The director may require an appropriate bond from any lottery game retailer or may purchase blanket bonds covering the activities of selected lottery game retailers.

67-7418. LOTTERY GAME RETAILER ACCOUNTING. The director shall establish procedures which shall be utilized by lottery game retailers to account for all tickets or shares that are sold to the public by each lottery game retailer and to account for all funds received from the public by each lottery game retailer for the tickets or shares.

67-7419. LOTTERY GAME RETAILER PAYMENTS. No payment by lottery game retailers to the lottery for tickets or shares shall be in cash. All such payments shall be in the form of a check, bank draft, electronic fund transfer, or other recorded financial instrument as prescribed by lottery rule. The director may require lottery game retailers to deposit to the credit of the lottery, in financial institutions designated by the director, money received by lottery game retailers from sale of tickets and/or shares, less the amount of compensation, if any, authorized under section 67-7414, Idaho Code, and to

prize money shall be reverted to the State Lottery Fund for the specific purpose of awarding additional prizes in order to comply with the intent of this statute as to the percentage of prize awards to be paid.

XXI. INELIGIBILITY TO BUY STATE LOTTERY TICKETS AND SHARES

A State lottery ticket or share may not be bought by and a prize may not be given to:

A. an officer or employee of the Lottery; or

B. an individual who is a spouse, child, parent, or sibling of an officer or employee of the Lottery and resides in the principal residence of the officer or employee.

C. The Director is authorized to establish rules prohibiting contractors and others directly involved in the production of games from purchasing Lottery tickets.

XXII. PROHIBITED ACTS; PENALTIES

A. Scope of Section—This section does not prohibit:

1. giving a State lottery ticket or share as a gift; or
2. buying a State lottery ticket or share as a gift for a minor.

B. Unlawful Sale of Tickets and Shares—A person may not:

1. unless a licensed agent or employee of a licensed agent, sell a State lottery ticket or share; or
2. sell a State lottery ticket or share at any price other than the price that the rules and regulations of the Lottery set; or
3. sell a State lottery ticket or share to a minor.

C. Unlawful Presentation of Lottery Ticket—A person may not:

1. knowingly present a counterfeit or altered State lottery ticket or share for payment;
2. knowingly transfer a counterfeit or altered State lottery ticket or share to another person to present for payment; or
3. with intent to defraud, falsely make, alter, forge, utter, pass or counterfeit a lottery ticket or share.

D. Unlawful Acts—

1. An agent may not willfully withhold funds due and owing the Lottery.
2. A person may not impersonate a Lottery representative.

E. Penalties—Any person violating any of the provision of this Act shall be guilty of a misdemeanor and upon conviction be fined up to one thousand dollars ($1,000) or imprisoned up to six (6) months or both fined and imprisoned.

Edward J. Powers served as the executive director of the New Hampshire Sweepstakes Commission, the first lottery in the U.S. in the 20th century. Powers is also a founder of the National Association of State Lotteries, and served as president of the Association from 1974 to 1976. He is currently a consultant to the gaming industry, and in the following article he offers his advice on ten basic points to consider when establishing a state lottery.

DO YOU WANT TO START A STATE LOTTERY?

By Edward J. Powers

It is comparatively easy to operate a successful state lottery these days. In 1964, when New Hampshire was getting under way, it was a much different situation. There was no place to seek information or guidance. There was no past experience that could be researched and there were restrictive federal laws affecting taxes, drawings and the use of mails, radio and television.

Today, 22 states and the District of Columbia have legalized lotteries. The archaic federal laws restricting the operation of a state lottery have been amended by Congress. The NASPL (North-American Association of State and Provincial Lotteries), composed of lottery directors and industry professionals, is most cooperative in helping a new state get started. The Public Gaming Research Institute is also a storehouse of information and statistical data about the experiences of all the state lotteries.

A roadmap, then, of successful techniques is clearly marked for all to examine. State lotteries have been tested in the crucible of experience and have succeeded. However, a state lottery continues to be a complex, sensitive business that requires thorough planning and research. The objective of this article is to provide ideas for reflection on the process of the legalization of lotteries.

LOTTERY CHECKLIST

There are several basic points that should be carefully considered in the plans to establish a state lottery:

1. A vote of the people is desirable. A state lottery is still controversial and it is important that the people are afforded a chance to vote on the question. A favorable vote is the quickest way to silence the opposition.

2. The director should be a professional person with lottery experience. The lottery should be as free from political interference as possible. The director should have the authority to build the staff with people of merit and qualifications. All candidates should be carefully screened and their experience and background verified.

3. The question of whether or not there should be a commission is debatable. Michigan has been very successful with one commissioner who functions as the director. He answers only to the governor and has the authority to make all the essential decisions. This is probably the most efficient system because it cuts through the political red tape, permits quick decision-making and eliminates bickering, needless delays and personality clashes that may develop within a commission of several members.

On the other hand, there are some advantages to having a commission. A commission made up of three to five members can share with the director the responsibility for sensitive problems, can be a sounding board for major decisions and can work effectively with the legislature. Many commissioners have previously served in the legislature, and this experience is a valuable asset.

4. Full public accountability must be required. Periodic reports of revenue and expenses must be issued 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.

5. 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 to change marketing strategy. It should not be in a budget straitjacket that prevents it from making personnel or policy changes.

6. It is recommended that the lottery be a separate agency and not under the control of any other state agency. It 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 and news releases. It should be able to employ personnel and to enter into contracts, within established state procedures, and to issue its own bid specifications. However, it should be noted that a number of state lotteries are currently functioning within another state agency.

7. Careful consideration should be given to whether the lottery agency should be permitted to enter into no-bid contracts or to accept a contract from a vendor who is not the low bidder. Security requirements are so essential on tickets and drawing equipment, for example, that it is possible that the low bidder would not provide the state with the best product. The lottery should work closely with the state purchasing department in these matters.

8. Who would be the beneficiary of the lottery revenues? Many states channel the net revenues into the general fund while others earmark them for public education, for cities and towns, for aid to senior citizens or for parks and recreation. It seems preferable from the lottery viewpoint to earmark the funds for a special purpose. By doing this, the benefits derived can be more readily measured and recognized. For example, it is very impressive to read in the annual report of the Pennsylvania Lottery of the $538 million distributed as tax rebates and free transportation for senior citizens, with appropriate photographs.

Another benefit of earmarking is the creation of a support group for the lottery. The legislation in Colorado established the beneficiary as parks and recreation. This immediately provided an incentive for these state employees, their families and their vendors to work for public approval. The group was very effective in obtaining a favorable vote from the people.

9. 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.

10. 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. The draft 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. 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.

There is room for discussion on all these points. There is no one single road to a successful lottery. The essential factor is to recognize the problems and then to tailor the solutions to fit the special circumstances that exist in each state.

One thing a state must consider when establishing a state lottery is whether or not to tax lottery winnings. This practice varies from state to state as indicated in the following article.

TO TAX OR NOT TO TAX LOTTERY WINNINGS

From: *Public Gaming July 1985*

Many lottery winners are unpleasantly surprised to find that 20 percent of their winnings (in prizes of $5,000 and over) is immediately deducted for federal income taxes. Some become further dismayed upon learning that their prize money is subject to state taxation as well.

Although the 20 percent federal withholding affects winners in all states and is required by law, not every state imposes state taxes on lottery winners. As laws differ from state to state, so do attitudes concerning these tax policies. Many states whose residents must pay state taxes on lottery winnings feel that this is an unfair form of "double taxation," and are pushing legislation to eliminate the state tax requirement.

In Ohio, the Lottery Commission is interested in legislation to eliminate the state tax on lottery winnings "simply because it is not fair to the consumer, who is more or less double taxed," said spokesperson Anne Bloomberg. "You could consider the lottery a form of recreation tax."

Sylvia McMorris of the District of Columbia Lottery's public relations office said that, because 35 percent of the lottery's take-in goes to the general fund, playing is a form of taxation in itself, so residents are not subject to state taxes on lottery winnings.

In Maryland, legislation to end the current state tax requirement on lottery winnings has been attempted several times, but has never passed.

And, in New York, the lottery has for six years been pushing for legislation eliminating the state tax requirement. Although the proposal has reached committee, it has never proceeded into the voting stage.

Pennsylvania residents originally had to pay state income tax on their winnings, but a law calling for exemption was signed in July 1983. (But long-term prize payments started before that time are still subject to the tax.)

Arizona, however, took a different route. Under original legislation, lottery winnings were exempt from state taxation, but

ARGUMENTS AGAINST A STATE-OPERATED LOTTERY

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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.[1]

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.[2] In fiscal 1982, 88.8 percent of New Jersey's lottery income was from daily numbers games.[3]

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.[4]

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.[5]

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.[6]

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.[7] 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.[8]

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.[9] One of the few forms of gambling which was more regressive than state-operated lotteries was the illegal numbers game.[10] 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 recommendation: "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."[11]

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,[12] approximately $200,000 in Arizona,[13] $150,000 in Oregon,[14] perhaps another $150,000 in Colorado and the District of Columbia,[15] 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.[16] 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.[17] 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:

- Older Population, Lower-Middle Income, Eastern Europeans, Northeastern U.S., and
- 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 represented income levels classified as middle-class or above.[18]

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 population was less attracted to the lottery than were whites.[19]

At this point it should be noted that the daily numnbers 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.[20] 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 ...."[21] 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."[22]

Koza's study further demonstrates the dramatic appeal that state-operated lotteries have to ethinic 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 the frequency of the average population, or almost double.[23]

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.[24]

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.[25] 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."[26]

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."[27]

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.[28]

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."[29]

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.[30]

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."[31]

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."[32]

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.[33]

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 com-pulsive 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.[34]

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.[35]

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.[36] 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 gam-blers. In addition, he cites studies that almost 20% of wife abuse cases involve domestic tension resulting from compulsive gambling.[37]

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."[38]

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."[39]

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:

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

- Studies indicate that in excess of 90% of compulsive gamblers began gambling prior to age 21.
- 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.[40]

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:

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

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."[42]

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 seperate 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."[43] (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:

- Instant game. The per capita expenditure was $12, and the figure for the 16% who played twice monthly or more often was $63.15.
- 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.
- 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.
- 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 legitimatize existing illegal wagering must recognize the clear danger that legalization may lead to unexpected and ungovernable increases in the size of the gambling clientele."[44]

Other relevant quotes are also noteworthy: "By directly engaging in the promotion of a gambling business, a State takes on the responsibilty 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."[45]

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."[46]

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...."[47] 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."[48]

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."[49]

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."[50]

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

[1]Chicago Tribune, March 2, 1980, Section 1, p. 6.

[2]Chicago Tribune, March 2, 1980, Section 1, p. 6.

[3]Lucky for New Jersey: New Jersey State Lottery 1982 Annual Report, p. 2.

[4]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.)

[5]Gambling in America: Final Report of the Commission on the Review of the National Policy Toward Gambling (Washington: 1976), p. 91.

[6]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.

[7]G. Robert Blakey, "State Conducted Lotteries: History, Problems and Promises," The Journal of Social Issues, Vol. 35 #3 (1979), pp. 63-64; The Christian Science Monitor, May 12 '82, p. 10; Dudley E. Sarfaty, "A Need to Guard Against a Gambling Dependent State," Engage/Social Action, Vol. 11 #8 (Sept. '83), p. 14; The Impact of State Sponsored Gambling on the Community: A six-month study conducted in New Castle County, Delaware, by the Delaware Council on Compulsive Gambling.

[8]The Impact of State Sponsored Gambling on the Community. A six-month study conducted in New Castle County, Delaware, by the Delaware Council on Compulsive Gambling.

[9]M. Spiro, "On the Tax Incidence of the Pennsylvania Lottery," National Tax Journal, Vol. 27 (1974), pp. 57-61; R. E. Brinner and C. T. Clotfelter, "An Economic Appraisal of State Lotteries," National Tax Journal, Vol. 28 (1975), pp. 395-404; Suits, "Gambling Taxes: Regressivity and Revenue Potential," pp. 19-35.

[10]Suits, "Gambling Taxes: Regressivity and Revenue Potential," pp. 24-29.

[11]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. ii.

[12]Washington Post, March 19 '85, p. A14.

[13]Bill Curry, "State Lotteries: Roses and Thorns," State Legislatures, Mar. '84, p. 16.

[14]Oregon Statesman Journal, July 24 '84.

[15]Arkansas Democrat, Dec. 12 '83.

[16]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.

[17]Dr. John R. Koza, "Who is Playing What: Part 4 of a Series," Public Gaming, June '84, pp. 50ff.

[18]Ibid.

[19]Gambling in America. Final Report of the Commission on the Review of the National Policy Toward Gambling (Washington: 1976), p. 156.

[20]S. C. Drake and H. Cayton, "Policy: Poor Man's Roulette," in Gambling, by R. D. Herman (New York: Harper and Row), 1967.

[21]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.

[22]Bower, pp. 23-24.

[23]Dr. John R. Koza, "Who is Playing What: Part I of a Series," Public Gaming, Mar. '84, p. 14.

[24]Detroit Free Press, June 23 '83.

[25]James Cook, "The Invisible Enterprise," Forbes (Sept. 29 '80), pp. 60-71.

[26]Easy Money. Report of the Task Force on Legalized Gambling sponsored by the Fund for the City of New York and the Twentieth Century Fund (Millwood, New York: Kraus Reprint Co., 1975), p. 2.

[27]"Gambling Rage Out of Control?" U. S. News and World Report, May 30 '83, p. 28.

[28]Washington Post, Apr. 26 '83, pp. A1, A8.

[29]Washington Post, May 29 '83, pp. B1, B9.

[30]Organized Criminal Activities--South Florida and US Penitentiary. Hearings before the Senate Permanent Subcommittee on Investigations, Part 3, 95th Congress, 2nd Session, Oct. 24-25, 1978, pp. 750 and 818.

[31]Crime Control Digest, Apr. 10 '78, pp. 3-5.

[32]Organized Crime Digest, Feb. '83, p. 3.

[33]Report from Gregory H. Smith, Attorney General, State of New Hampshire, to members of the Sweepstake Commission. September 1, 1982.

[34] Progress, Nov. '83.

[35]Arkansas Democrat, Dec. 26 '83.

[36]Crime Control Digest, July 7 '77, pp. 5-6.

[37]Gerald T. Fulcher, "In Response: Legalized Gambling, Who Are Its Victims?" State Legislatures, Oct. '81, pp. 20-21.

[38]The Wall Street Journal, Nov. 23 '83.

[39]The Blood-Horse, May 12 '84, p. 3443.

[40]Rickey Green, A Preliminary Study on Compulsive Gambling in New Jersey, July '79. Greene is an employee of the New Jersey Department of Health, the Alcohol, Narcotics and Drug Abuse Unit.

[41]Public Hearings on Compulsive Gambling, before the Assembly Institutions, Health and Welfare Committee, Apr. 8 '81, p. 3A.

[42]"Regulation 1984," Public Gaming, Feb. '84, p. 18.

[43]Gaming and Wagering Business, Nov '84, p, 2.

[44]Gambling in America, p. 2.

[45]Ibid, p. 159.

[46]Ibid, p. 158.

[47]The Tennessean, Sept. 4 '84, p. 1.

[48]"Gambling: Government's Bad Bet," Kiwanis Magazine, Feb. '82, p. 33.

[49]James E. Ritchie, "Gaming Today and Tomorrow--The United States," Fourth Annual Gaming Conference and International Gaming Congress, 1982, pp. 52-54.

[50]Charles H. Morin, "The Presidential Commission on the Review of the National Policy Toward Gambling Revisited," Fifth Annual Gaming Conference: 1983 (Philadelphia: Laventhol & Horwath, 1983), pp. 54-55.

WHERE DO LOTTERY PROFITS GO?

ARIZONA - Roads and Highways, Cultural Programs, & General Fund

CALIFORNIA - Public Education (K-12, 81%; CC's, 12%, Univs., 7%)

COLORADO - Parks & Recreation

DIST. of COLUMBIA - General Fund

DELAWARE - General Fund

ILLINOIS - Public Education

IOWA - Economic Development

MAINE - General Fund

MARYLAND - General Fund

MASSACHUSETTS - Municipal Revenue Sharing

MICHIGAN - Public Education

MISSOURI - General Fund

NEW HAMPSHIRE - Public Education

NEW JERSEY - Public Education (min. of 30% of gross sales; remainder of net income to General Fund)

NEW YORK - Public Education

OREGON - Economic Development

PENNSYLVANIA - Senior Citizen Benefits

RHODE ISLAND - General Fund

VERMONT - General Fund

WASHINGTON - General Fund (public schools, 46%; higher ed., 15%; human resources, 27%; parks & recreation and Miscell., 12%)

WEST VIRGINIA - General Fund

HOW DOES OPERATION OF A STATE LOTTERY AFFECT OTHER CHARITABLE GAMING?

Washington state is similar to Alaska in that they have many rural communities with a substantial number of minority residents.

Washington also licenses charitable organizations to operate games of skill and chance similar to Alaska.

According to Mary Faulk, past Director of the Washington State Lottery and current Commissioner of Administration for Washington, the lottery has not negatively affected their charitable gaming industry.

It appears that the opposite is true.

License applications for charitable gaming in Washington increased by about 10% per year for the first three years of their lottery's operation.

Gross income from those games operated by charitable organizations increased at a rate of 15% per year for the same time period.

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WHO PLAYS THE LOTTERY?

CALIFORNIA (moderate players)

Income		Education	
Under $7,000	5%	Less than high school	4%
$ 7,000 - $14,999	13%	High school graduate	28%
$15,000 - $24,999	18%	Some coll./trade school	41%
$25,000 - $29,999	16%	College graduate	15%
$30,000 - $39,999	18%	Post graduate training	12%
$40,000 - $49,999	8%		
$50,000 or more	22%		

MICHIGAN

Income		Education	
$10,000 or less	17.3%	Less than high school	12.3%
$10,000 - $19,999	23.2%	High school graduate	46.0%
$20,000 - $29,999	25.3%	Some college	20.8%
$30,000 - $39,999	18.1%	Trade/technical school	2.9%
$40,000 - $49,999	7.9%	College/post graduate	18.1%
$50,000 - $59,999	4.2%		
$60,000 - $69,999	1.9%		
$70,000 and above	2.1%		

Profile of Typical Michigan Lottery Player

* White
* Male/Female
* Married
* 25 - 44 years of age
* At least a high school graduate
* Employed in a skilled, semi-skilled or trade occupation
* Household income of $20,000 - $29,999

ARIZONA: An independent study concluded that "the poor are dramatically underrepresented among lottery players."

ILLLINOIS, 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 a levels disproportionately less than their percentage of the population."

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.

IRM DATA NETWORK

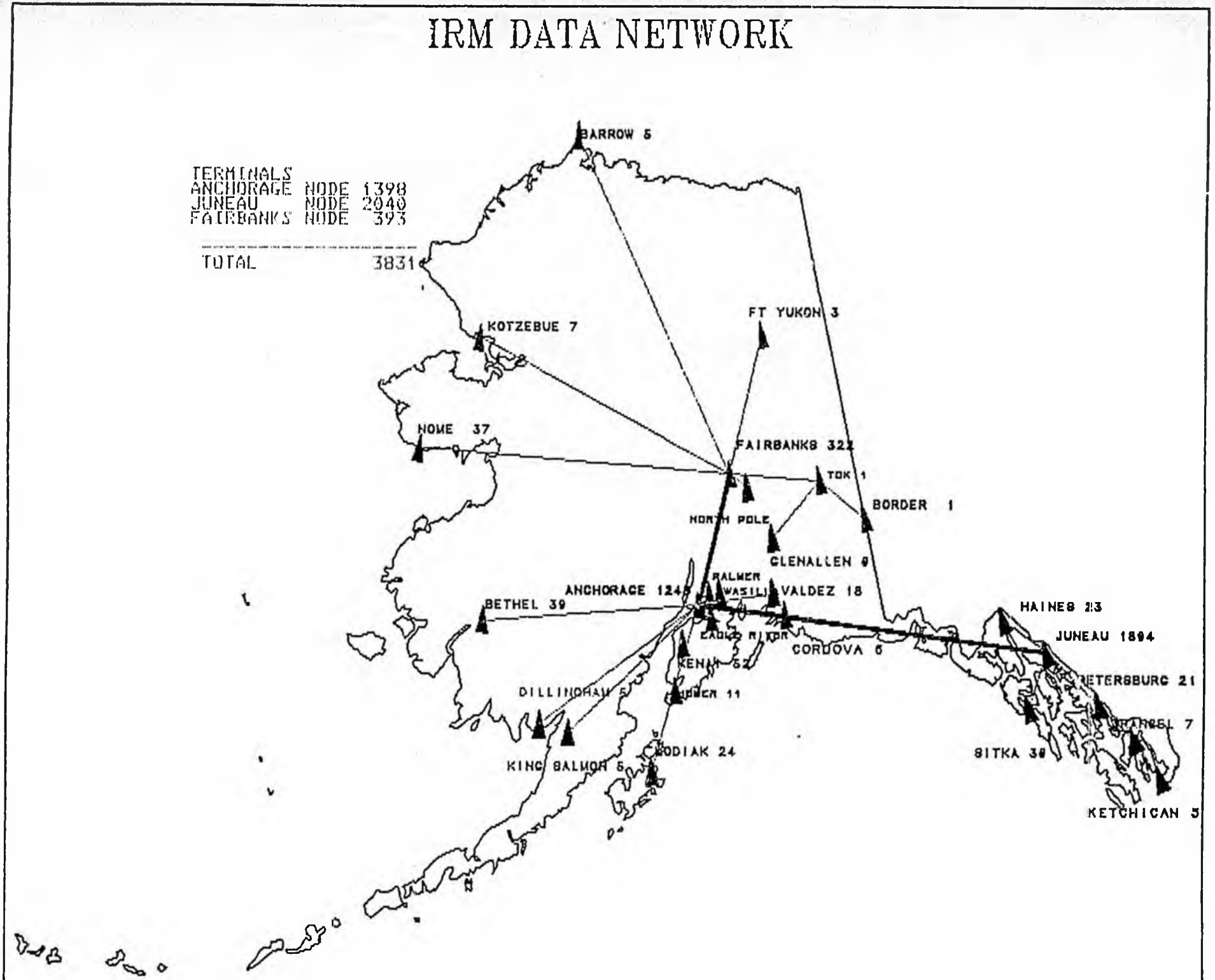


Table 3-III

1984 ALASKA POPULATION ESTIMATES FOR COMMUNITIES OVER 2000

PLACE/S	POPULATION		% of AK.
Anchorage Borough	243,829		
Subtotal		243,829	46.62
Fairbanks Area	62,175*		
(Frbnks., Eielson, College, No. Pole, & Fox)			
Subtotal		306,004	58.50
Palmer-Wasilla	25,791*		
Juneau Bourough	23,729*		
Kenai-Soldotna	23,371*		
Subtotal		378,895	72.45
Kodiak Area	11,024*		
(Kodiak & Kodiak C.G.B.)			
Ketchikan Area	10,422*		
(Ketch., No. Tongas Hwy. & Saxman)			
Subtotal		400,341	76.54
Sitka Borough	7,611		
Subtotal		407,952	78.00
Delta Jct. Area	4,850*		
(Delta Jct., Big Delta & Ft. Greely)			
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	70,286		
(262 places of less than 2000)			
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.

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	283	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.

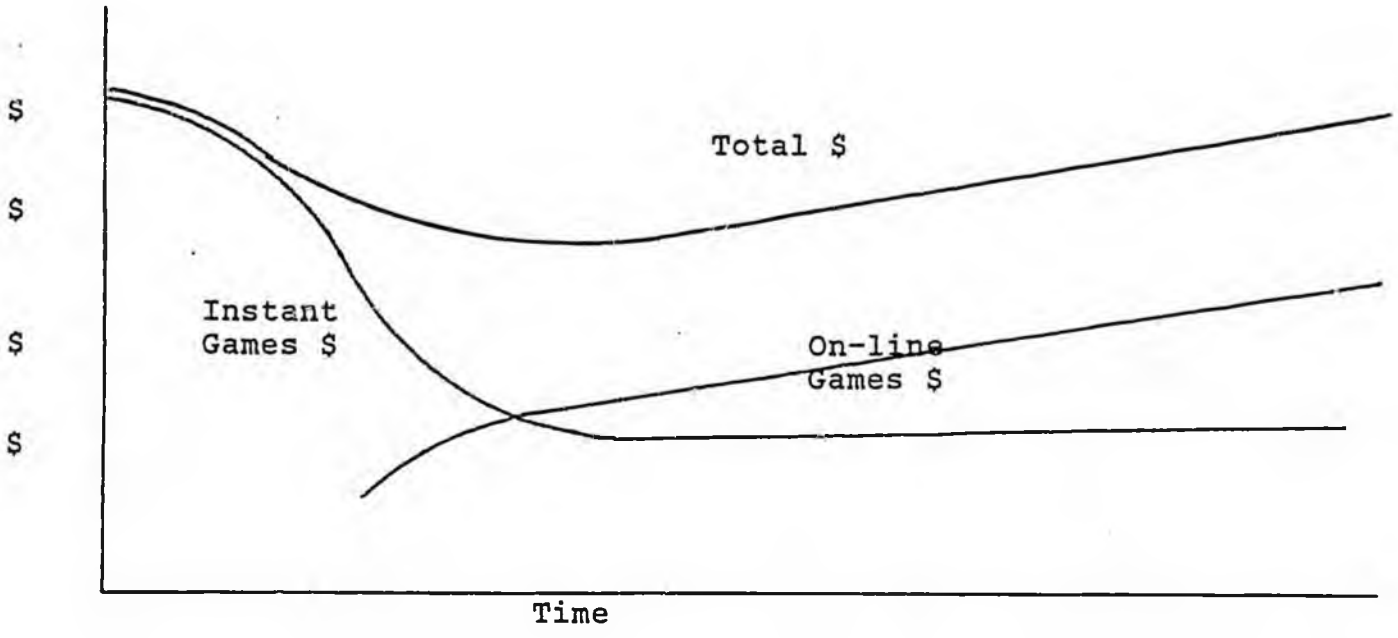
WHAT KIND OF LOTTERY GAMES WOULD BE LIKELY FOR AN ALASKA LOTTERY?

We will have to assume that Alaska will use the experiences of other states as a guide for implementing its lottery. An instant lottery is almost always the first lottery product made available to the public. After a period of time deemed appropriate by the lottery agency management team (six months to a year), an on-line system would be started. This would provide for sales of lottery tickets for a periodic (weekly - monthly draw) lotto game and two simple numbers games (pick 3, & pick 4). For the past 12 years this has been the normal pattern for lottery states.

Eightyfive percent of the state's population would have direct access to on-line games and between 85% and 95% of the population would have access to instant tickets. A subscription program could be established to provide access to the lottery for residents of rural areas.

In addition to this game structure I believe that a specific instant game would be designed and marketed to the tourist visiting Alaska.

With this game structure Alaska would experience predictable sales curves which have been consistent in state after state for lottery start-ups. One sales curve for instant games and a separate sales curve for on-line games. The sum of these two curves depict gross revenues and can help to forecast long-range net profits to Alaska. The basic sales curves experienced by previous lottery states is illustrated below.



WOULD THE STATE OF ALASKA MAKE MONEY FROM A STATE OPERATED LOTTERY?

FY85 total U.S. sales, $8,982,200,000.

FY85, U.S. per capita sales, $98.02.

FY85, weekly U.S. per capita sales, $1.88.

AK Dept. of Labor Population Estimate for 1986; 545,200.

$100 (per capita sales) x 540,000 (AK pop.) = $54,000,000 (gross sales)

35% x $54,000,000 (gross sales) = $18,900,000 (net $ to State)

40% x $54,000,000 (gross sales) = $21,600,000 (net $ to State)

45% x $54,000,000 (gross sales) = $24,300,000 (net $ to State)

$80 (per capita sales) x 540,000 (AK pop.) = $43,200,000 (gross sales)

35% x $43,200,000 (gross sales) = $15,120,000 (net $ to State)

40% x $43,200,000 (gross sales) = $17,280,000 (net $ to State)

45% x $43,200,000 (gross sales) = $19,440,000 (net $ to State)

These estimates do not include lottery product sales to the tourist market of 775,000 annually.


OH, I BELIEVE IN SEPARATION OF CHURCH AND STATE... LET THE STATE KEEP THEIR LOTTERY- WE'LL KEEP OUR BINGO-

LOTTERY START-UPS: HOW MUCH; HOW LONG?

STATE	START-UP TIME	SEED MONEY	STATE REPAID
ARIZONA	7 months	$1,400,000	12 months
CALIFORNIA	11 months	$16,500,000**	First few weeks
COLORADO	8 months	$2,000,000	2 months
CONNECTICUT	7 months	$2,150,000	10 months
DELAWARE	7 months	$ 250,000	18 months
D.C.	17 months	$ 628,000	1 month
ILLINOIS	9 months	$2,000,000	1 month
IOWA	4 months	$3,000,000	3 weeks
MAINE	7 months	$ 400,000	12 months
MARYLAND	6 months	$2,300,000	1.5 months
MASSACHUSETTS	6 months	$2,000,000	3 months
MICHIGAN	3 months	$4,400,000	6 months
MISSOURI	7 months	$5,000,000	3.5 weeks
NEW HAMPSHIRE	11 months*	$ 250,000	2 months
NEW JERSEY	12 months	$1,500,000	12 months
NEW YORK	5 months	Not available^^	Not available
OHIO	14 months	$2,000,000	4 months
OREGON	3 months	$1,800,000	6 months
PENNSYLVANIA	6 months	$1,000,000	10 months
RHODE ISLAND	1.7 months	$ 500,000	2 months
VERMONT	10 months	$ 250,000	12 months
WASHINGTON	4 months	$1,400,000	6.7 months
WEST VIRGINIA	9 months	0***	***
AVERAGE	7.9 months	$2,400,000	5.8 months

* The nation's first lottery was delayed waiting for a public vote after legislative approval. Source: State Lottery Officials
** California Lottery actually used under $3 million of appropriation.
***West Virginia Lottery did not appropriate money from state--used $367,000 from governor's contingency fund and asked in RFP that vendor provide system, software, consulting, advertising, tickets and public relations. Money repaid to governor's fund in 2 weeks.
^^New York Lottery reorganized in 1976 with $8.9 million. Original seed money figure not available.

With the success of the Tri-State Megabucks game formed by Vermont, Maine and New Hampshire, the idea of a multi-state lotto game was not far behind. For the last year, lottery directors have met in numerous meetings to discuss the feasibility of banding together to offer huge jackpots to the playing public. The following provides an update on their latest meetings and the progress they are making toward creating the Multi-State Lottery.

THE MULTI-STATE LOTTERY

STRUCTURE

Initially, 18 lotteries were investigating the possibility of joining to form a multi-state lottery, but that number has now narrowed down to eight: Illinois, Iowa, Missouri, New York, Oregon, Rhode Island, West Virginia and the District of Columbia.

The directors of the state lotteries who were planning to participate in a new multi-state lottery met in Seattle, Washington, early in 1986 to form a governing board. That board included the directors of the Illinois, New Hampshire, New York, Oregon and Rhode Island state lotteries. An executive committee now meets once a month to formulate recommendations for the governing board.

Some of the governing rules that have been formulated were modeled after the Canadian system, said Rebecca Paul, director of the Illinois Lottery. "And some of the things we've done all on our own. One of the interesting things we've done is the voting structure. In order to pass anything by the board, you have to take two votes. One state by state, one by population." This, says Paul, is a safeguard against passing something beneficial to large states and detrimental to small states, or vice versa.

Illinois, the time-zone center of the United States, has been designated the control state. The control office will be located in Chicago. Start-up costs and staffing will be underwritten by the Illinois State Lottery Board, as provided by their new games development appropriation of funds, for as long as Illinois Lottery Board employees make up the staff.

GAME DESIGN

The game design for the new multi-state lottery has not yet been released. Likewise, the size of the prize pool has not yet been determined as that will depend largely on the size of the population base, rate of participation and the game design itself. The lottery did announce it will begin with "America's Game," a lotto-type game with one drawing per week.

Preliminary discussions have also addressed the questions of how often and how many additional states may be allowed to join the core group once the new multi-state lottery is up and running. "Because the game will be designed around a population base," Paul explained, "it makes it very difficult to add at a moment's notice any state that wants to join us. "We eventually hope that every lottery state is a part of this multi-state game. But when you have to redesign a game for a new population base, print new bet slips, etc., that makes it very, very difficult."

The proposition under consideration would enable new states to join January 1 of every other year. Hence, the first opportunity for additional states to participate after the game is initiated will be January 1990.

DISCUSSIONS CONTINUE

The logistics of the new multi-state game entail back-and-forth communications between the control board and the participating lottery states.

At the meeting which took place in New York in March, several issues were still left to be ironed out if the dream is to become a reality. According to New York Lottery Director John Quinn, who is vice chairman of the Multi-State Lottery Commission, three main items were discussed at the meeting: vendor insurance; the legal agreement the participating states must enter into; and prize structure.

Vendor insurance is necessary, Quinn says, so that the lottery is not legally liable for any problems that arise. The original draft of the legal agreement was written last October, but has undergone several revisions. To date, a final draft has still not been agreed upon.

In order for the lotteries to participate in the multi-state game, they must first get approval from their respective legislatures. The one exception is Iowa, which received approval to participate in organizations such as the Multi-State Lottery in its enabling legislation. Rhode Island and West Virginia, however, have leeway within the parameters of their enabling legislation to participate. If any of the remaining states or the District of Columbia are not able to secure the necessary approval, they will be forced to withdraw.

While the idea of a multi-state lotto game is receiving a warm welcome from lottery officials, the idea of a national or federal lottery has been criticized as detrimental to the success of state lotteries. A survey of governors of states showed a less-than-favorable attitude toward the federal concept. The multi-state, then, is the preferred alternative to a national lottery, as it is more in step with the needs and wants of the states involved.

The next meeting of the interested lotteries will be sometime this spring (1987), according to Quinn. He adds that the earliest start-up date for the Multi-State Lottery would be sometime this fall, but he believes that early 1988 is probably a more reasonable estimate.

HOUSE COMMITTEE REPORT

(7)

Date referred: 4/1/87

FURTHER REFERRALS: Judiciary
Finance

DATE: 5/14/87

The Labor & Commerce **Committee has considered** HB 236

"An Act establishing a state lottery, creating the Alaska State Lottery Corporation, and establishing the arts and public broadcasting account in the general fund; and providing for an effective date."

RECOMMENDS:

[ ] replace with _____ [ ] the same title

[ ] attached amendment(s) [ ] a new title

[ ] do pass

[ ] do not pass

[X] no recommendation

[ ] individual recommendations

[ ] additional referral to the _____ Committee

ADOPTS: [ ] _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):

[X] fiscal note

[X] zero fiscal note

[ ] zero with analysis

[ ] same as previous fiscal note published _____

[ ] same as previous zero fiscal note published _____

SIGNING DO PASS:

Carl Brendler

SIGNING OTHER RECOMMENDATIONS:

Cliff Davidson - do not pass

W. Furnace NO Rec.

David Donley NO Rec.

J. Ellis no rec.

David Donley

Chairman's signature

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

From the Office of:
Representative David W. Thompson
Alaska State Legislature

Prepared by:
Bob D. Thomas

November 1985

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.

CONTENTS

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 prest gious 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 ?28) 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?

...re 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 ille gal 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[a] $Mil Gross	1982[b] $Mil Gross	$Mil Net	1983[a] $Mil Gross	$Mil Net	$ Per Capita	Rnk*	1984[a] $Mil Gross	$Mil Net	$ Per Capita	Rnk*	1985[c] $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				208.0	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	485.5	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).

[a] Lottery Journal; Vol. 1, No. 1.
[b] Games and Wagering Business; May 1985.
[c] "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.[1]

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%[1]), 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 conclusionWashington 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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[1] 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 Hsehld Income	D % of Hsehld $0-10K	E % of Hsehld $10-20K	F % of Hsehld $30-40K	G % of Hsehld $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	DW	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									
					Household Income									
					Percent Within									
	Total (Mil $)	Per Capita ($)	Trnsfr. Pymnts. (Mil $)	Median Family Income ($)	Less than $10K	$10K to $20K	$20K to $30K	$30K to $40K	$40K to $50K	$50K and Over	Median ($)	Rnk.	Per Capita ($)	Pov. Level Fam. (%)
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	31.9	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	25.7	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	17,346	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 & City Data Book, 1983

Table 4-II

PHYSICAL CHARACTERISTICS OF POPULATIONS IN LOTTERY STATES AND ALASKA

	1980										
									25 Years and Older		
										Yrs of Sch	
	Land Area (Sq Mi)	Total Persons	Urban (%)	Males Per 100 Females	18 Yrs and Older	Median Age	Total House-holds	College Enroll-ment	Total	12+ (%)	16+ (%)
New England											
Maine	30,995	1,124,660	47.5	94.4	803,273	30.4	395,814	45,764	561,840	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	91.9	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	514,105	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	638,333	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 & 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 for use as a comparative model to help predict possible revenue levels for an 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.

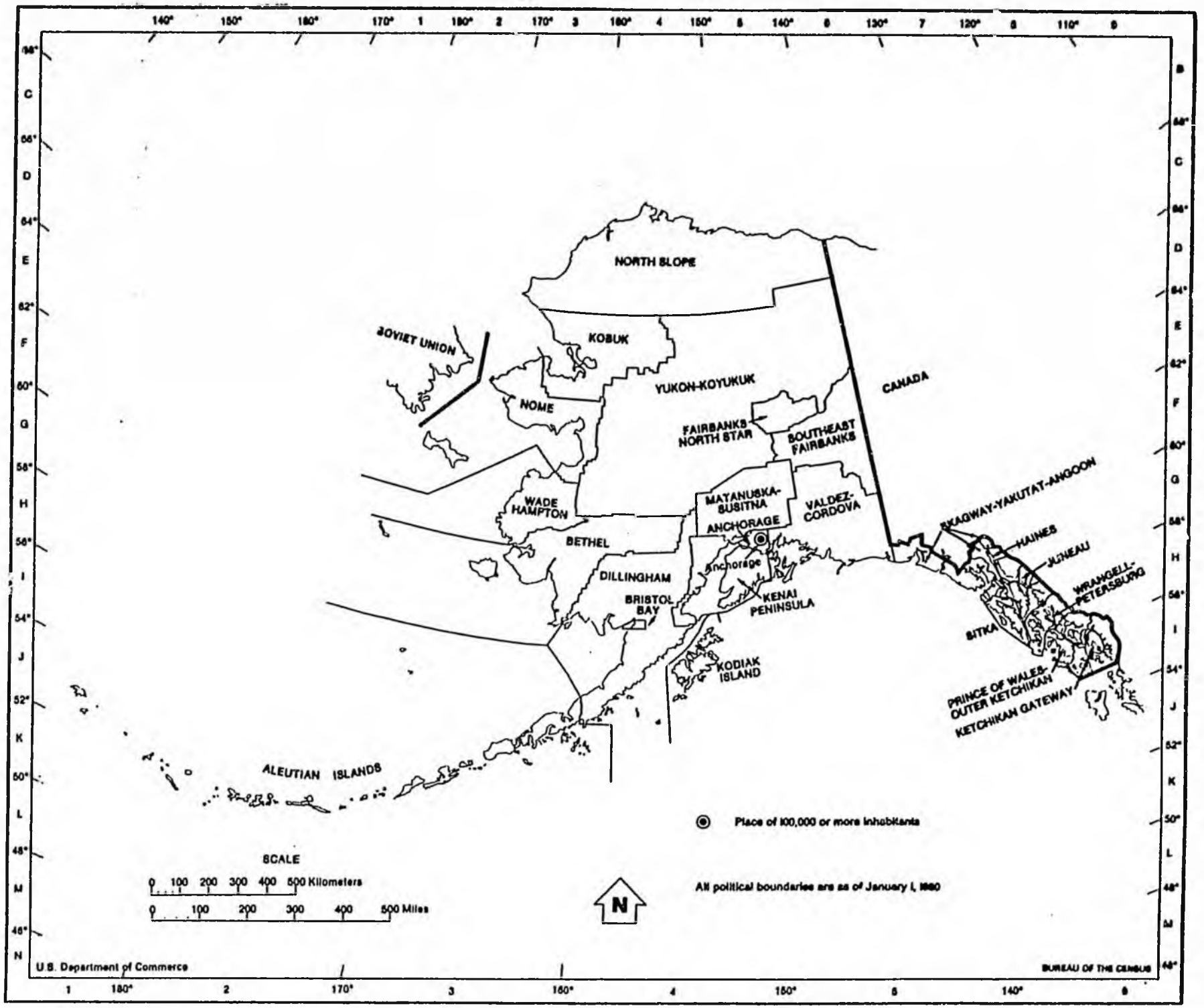
Also included is a map of Vermont, a state often used as an example to compare with Alaska for projections of lottery revenue because its total population size is similar to Alaska's. Three factors should be considered to illustrate why Vermont is not a reliable example for this comparison. Note that although Vermont's population is about the same as Alaska's, there is only one city, Burlington, with over 25,000 people. Also not 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	54.1		
	Fbnks-NS	53,983				
	Juneau	19,528				
	Ketchikan	11,316				
	Sitka	7,803				
	Wrang-Pet	6,167			316,326	78.7
AZ	Maricopa	1,509,052				
	Pinal	90,918	1,599,970	58.9		
	Pima	531,443			2,131,413	78.4
CO	Denver	492.365				
	Adams	245,944				
	Arapahoe	293,621				
	Douglas	25,153				
	Boulder	189,625				
	Jefferson	371,753	1,622,461	56.1		
	El Paso	309,424				
	Pueblo	125,972				
	Larimar	149,184				
	Weld	123,438			2,330,479	80.6
WA	King	1,269,749				
	Kitsap	147,152				
	Pierce	485,643				
	Snohomish	337,320				
	Thurston	124,264	2,364,128	57.2		
	Clark	192,227				
	Spokane	341,835				
	Yakima	172,508			3,070,698	74.3
OR	Clackamas	241,919				
	Multnomah	562,640				
	Washington	245,808				
	Marion	204,692	1,255,059	47.7		
	Lane	275,226				
	Linn	89,495				
	Benton	68,211				
	Jackson	132,456			1,820,447	69.1

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


NORTH SLOPE
SOVIET UNION
KOBUK
YUKON-KOYUKUK
NOME
CANADA
FAIRBANKS NORTH STAR
SOUTHEAST FAIRBANKS
WADE HAMPTON
MATANUSKA-SUSITNA
VALDEZ-CORDOVA
ANCHORAGE
SKAGWAY-YAKUTAT-ANGOON
HAINES
JUNEAU
BETHEL
DILLINGHAM
BRISTOL BAY
KENAI PENINSULA
WRANGELL-PETERSBURG
SITKA
KODIAK ISLAND
PRINCE OF WALES-OUTER KETCHIKAN
KETCHIKAN GATEWAY
ALEUTIAN ISLANDS
Place of 100,000 or more inhabitants
All political boundaries are as of January 1, 1980
SCALE
0 100 200 300 400 500 Kilometers
0 100 200 300 400 500 Miles
N
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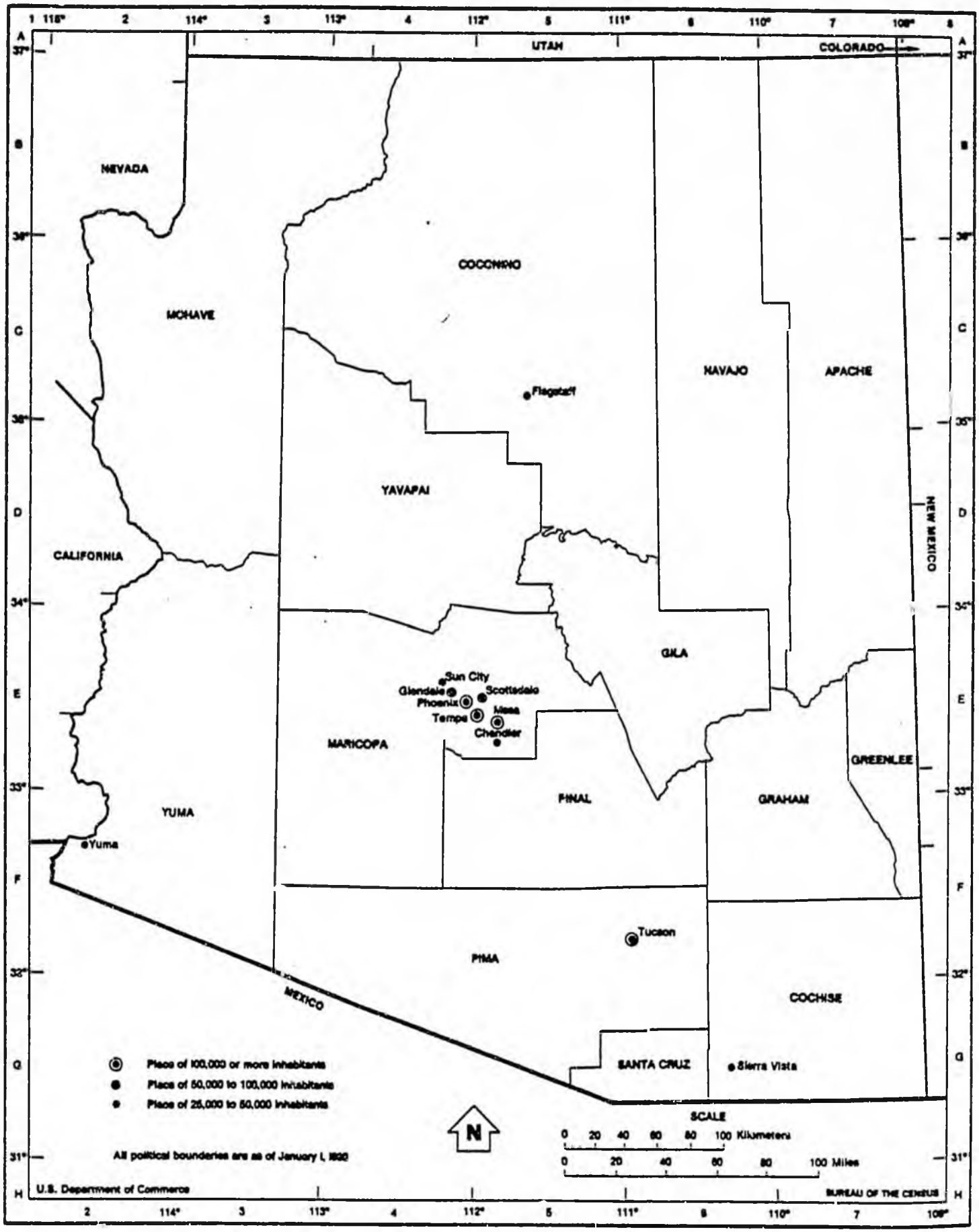
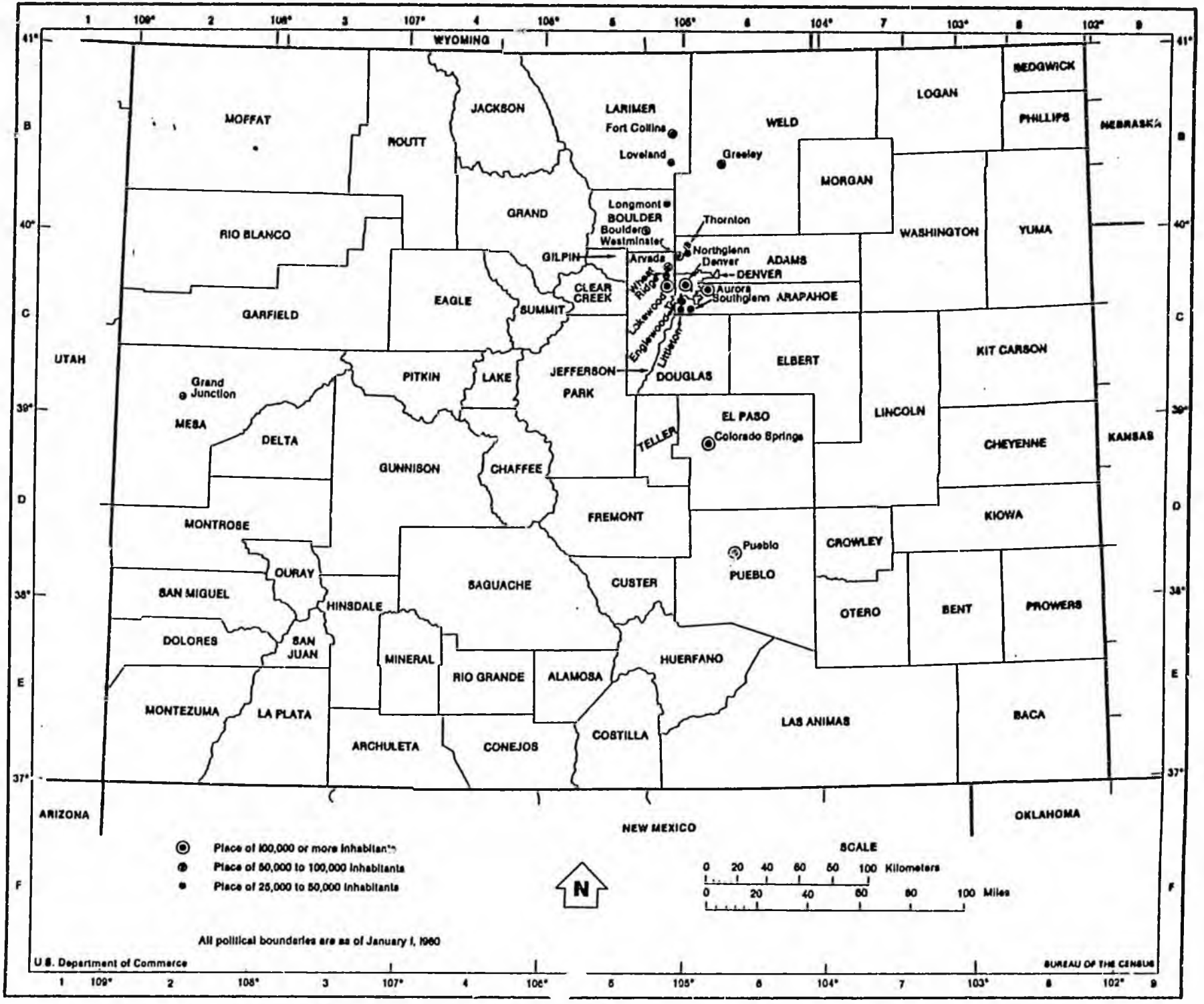
Alaska

Arizona


UTAH
COLORADO
NEVADA
COCONINO
MOHAVE
NAVAJO
APACHE
Flagstaff
YAVAPAI
NEW MEXICO
CALIFORNIA
GILA
Sun City
Glendale
Scottsdale
Phoenix
Tempe
Mesa
Chandler
MARICOPA
GREENLEE
FINAL
GRAHAM
YUMA
Yuma
Tucson
PIMA
COCHISE
MEXICO
SANTA CRUZ
Sierra Vista
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, 1990
N
SCALE
0 20 40 60 80 100 Kilometers
0 20 40 60 80 100 Miles
U.S. Department of Commerce
BUREAU OF THE CENSUS


WYOMING
NEBRASKA
UTAH
ARIZONA
NEW MEXICO
OKLAHOMA
KANSAS
MOFFAT
ROUTT
JACKSON
LARIMER
Fort Collins
Loveland
Greeley
WELD
LOGAN
SEDGWICK
PHILLIPS
MORGAN
WASHINGTON
YUMA
GRAND
BOULDER
Longmont
Boulder
Westminster
Thornton
Northglenn
Arvada
Denver
ADAMS
DENVER
Aurora
Southglenn
ARAPAHOE
RIO BLANCO
GILPIN
CLEAR CREEK
SUMMIT
EAGLE
GARFIELD
PITKIN
LAKE
JEFFERSON
PARK
DOUGLAS
ELBERT
KIT CARSON
Grand Junction
MESA
DELTA
GUNNISON
CHAFFEE
TELLER
EL PASO
Colorado Springs
LINCOLN
CHEYENNE
MONTROSE
FREMONT
KIOWA
Pueblo
PUEBLO
CROWLEY
OURAY
SAN MIGUEL
SAGUACHE
CUSTER
HINSDALE
OTERO
BENT
PROWERS
DOLORES
SAN JUAN
MINERAL
RIO GRANDE
ALAMOSA
HUERFANO
MONTEZUMA
LA PLATA
ARCHULETA
CONEJOS
COSTILLA
LAS ANIMAS
BACA
Place of 100,000 or more inhabitants
Place of 50,000 to 100,000 inhabitants
Place of 25,000 to 50,000 inhabitants
N
SCALE
0 20 40 60 80 100 Kilometers
0 20 40 60 80 100 Miles
All political boundaries are as of January 1, 1960
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CANADA
WHATCOM
Bellingham
SAN JUAN
ISLAND
SKAGIT
OKANOGAN
FERRY
STEVENS
PEND OREILLE
CLALLAM
SNOHOMISH
Everett
Edmonds
CHELAN
JEFFERSON
Seattle
Bellevue
DOUGLAS
LINCOLN
Spokane
IDAHO
Bremerton
Renton
KING
SPOKANE
MASON
Auburn
GRANT
GRAYS HARBOR
Tacoma
Lakes District
KITTITAS
ADAMS
WHITMAN
Olympia
THURSTON
PIERCE
PACIFIC
LEWIS
Yakima
WAHKIAKUM
GARFIELD
FRANKLIN
YAKIMA
COLUMBIA
Richland
Kennewick
COWLITZ
Longview
WALLA WALLA
ASOTIN
SKAMANIA
BENTON
Walla Walla
KLICKITAT
CLARK
Vancouver
OREGON
Place of 100,000 or more inhabitants
Place of 50,000 to 100,000 inhabitants
Place of 25,000 to 50,000 inhabitants
SCALE
0 20 40 60 80 100 Kilometers
0 20 40 60 80 100 Miles
N
All political boundaries are as of January 1, 1980
U.S. Department of Commerce
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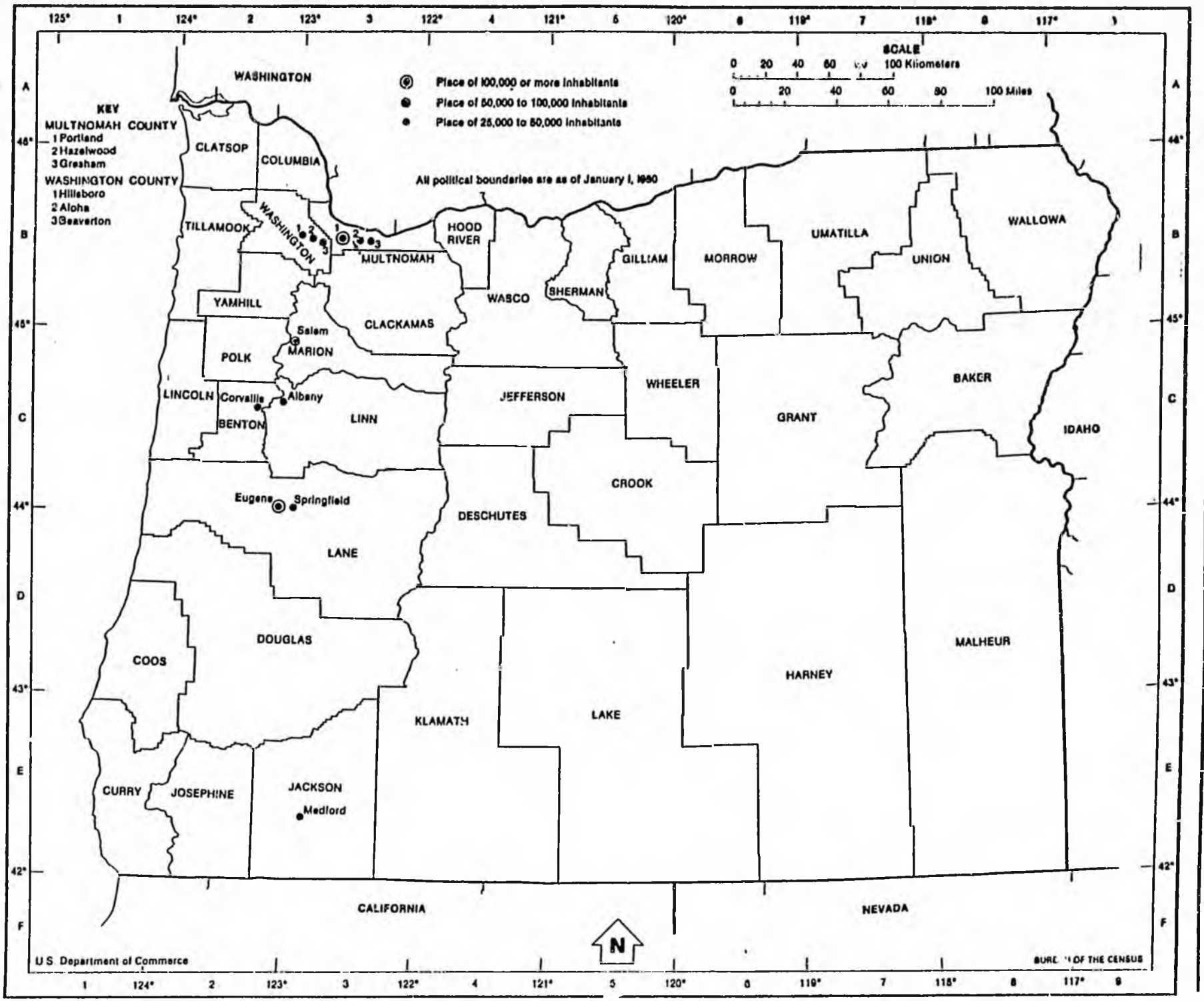
KEY
MULTNOMAH COUNTY
1 Portland
2 Hazelwood
3 Gresham
WASHINGTON COUNTY
1 Hillsboro
2 Aloha
3 Beaverton
Place of 100,000 or more inhabitants
Place of 50,000 to 100,000 inhabitants
Place of 25,000 to 50,000 inhabitants
All political boundaries are as of January 1, 1990
SCALE
0 20 40 60 80 100 Kilometers
0 20 40 60 80 100 Miles
WASHINGTON
CLATSOP
COLUMBIA
TILLAMOOK
WASHINGTON
MULTNOMAH
HOOD RIVER
WASCO
SHERMAN
GILLIAM
MORROW
UMATILLA
UNION
WALLOWA
YAMHILL
CLACKAMAS
Salem
MARION
POLK
LINCOLN
Corvallis
Albany
LINN
BENTON
JEFFERSON
WHEELER
GRANT
BAKER
IDAHO
Eugene
Springfield
DESCHUTES
CROOK
LANE
DOUGLAS
COOS
HARNEY
MALHEUR
KLAMATH
LAKE
CURRY
JOSEPHINE
JACKSON
Medford
CALIFORNIA
NEVADA
N
U.S. Department of Commerce
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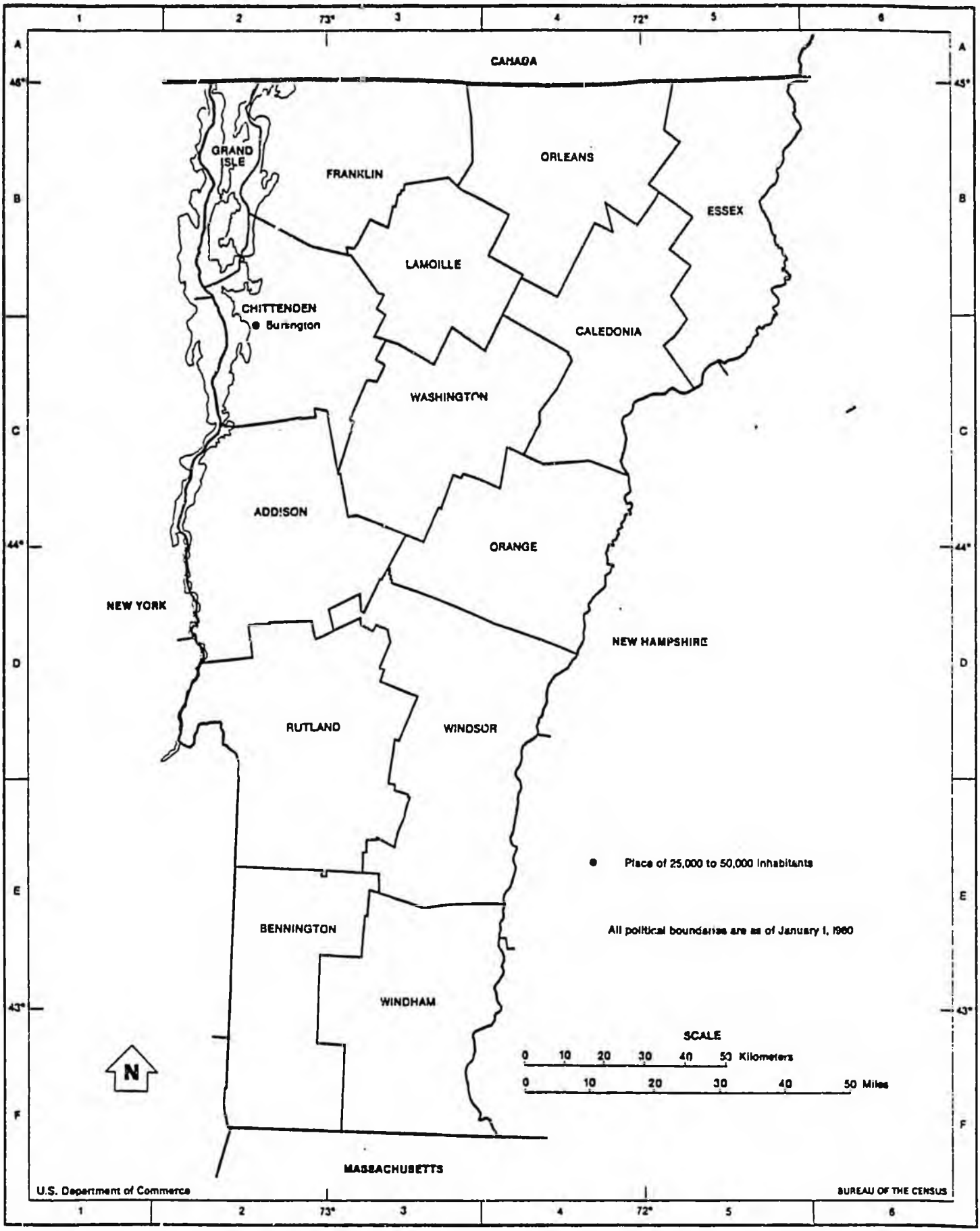
Oregon


CANADA
GRAND ISLE
FRANKLIN
ORLEANS
ESSEX
LAMOILLE
CHITTENDEN
Burlington
CALEDONIA
WASHINGTON
ADDISON
ORANGE
NEW YORK
NEW HAMPSHIRE
RUTLAND
WINDSOR
BENNINGTON
WINDHAM
MASSACHUSETTS
Place of 25,000 to 50,000 inhabitants
All political boundaries are as of January 1, 1960
SCALE
0 10 20 30 40 50 Kilometers
0 10 20 30 40 50 Miles
N
U.S. Department of Commerce
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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[2]. This tourist influx is large in the sense of its total volume, 776,600 projected for CY 86[3], 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[4], 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.

---

[2] 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."

[3] Alaska Department of Commerce and Economic Development, Division of Tourism.

[4] 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[4]). 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)[5] 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.

Population Base	Number		Factor		Total
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	=	3,000
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	x $17.01
Estimated Alaska Net Revenue (low)	$12,419,851
2. Alaska Total Effective Population	730,150
National '83-'85 Average Per Capita Profit	x $26.07
Estimated Alaska Net Revenue (high)	$19,035,011

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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[5] 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 mosts 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.

Research 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 proportion 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.[1]

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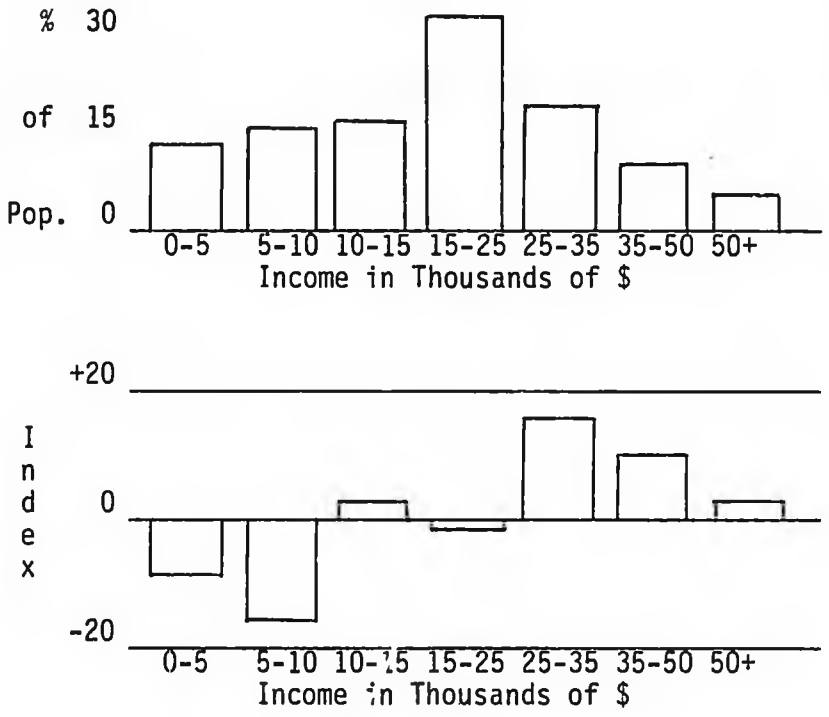
[1] Chart reproduced from "Colorado Lottery Facts", Oct. 1983, included in the Report to the Colorado Legislature by the Lottery, dated Dec. 6, 1983.

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..."[2]

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."[3]

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.[4]

Illinois; People with incomes below $11,000 only participated in lotteries about 75-78% of their percentage of the population.[5]

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."[6]

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."[7]

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[2] "Colorado Lottery Fact Sheet", Oct. 1983, p.8, included in Report, op. cit. fn. 1.

[3] "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.

[4] Report by Dr. Keiser, University of Delaware, College of Business and Economics, 1979.

[5] Public Gaming Magazine, Jan. 1982, p.33, Table II.

[6] "Analysis," op.cit., fn. 3.

[7] "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.[8]

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."[9]

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."[10]

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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8 Washington State Lottery 1983 Annual Report.

9 Final Joint Lottery Subcommittee Report, Louisiana Legislature, April 5, 1983, p. 27.

10 "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.[11]

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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[11] "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 or less playing at an index rate of 56, the lowest of any category.[12]

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.[13]

Pennsylvania contracted with Opinion Research Corporation to use the "low, average and heavy play" analysis 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.[14]

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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[12] Washington State Lottery, 1983 Annual Report

[13] "Using Demographics to Increase Lottery Sales", G.E. Shippee, D.J. Schwartzman, K. Renolds, Public Gaming Magazine, Feb. 1983.

[14] 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.[15]

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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15 "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."[16]

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[16] "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% said media treatment of their good luck had been fair and courteous.[17]

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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[17] "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	283	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	62,175*		
(Frbnks., Eielson, College, No. Pole, & Fox)			
Subtotal		306,004	58.50
Palmer-Wasilla	25,791*		
Juneau Bourough	23,729*		
Kenai-Soldotna	23,371*		
Subtotal		378,895	72.45
Kodiak Area	11,024*		
(Kodiak & Kodiak C.G.B.)			
Ketchikan Area	10,422*		
(Ketch., No. Tongas Hwy. & Saxman)			
Subtotal		400,341	76.54
Sitka Borough	7,611		
Subtotal		407,952	78.00
Delta Jct. Area	4,850*		
(Delta Jct., Big Delta & Ft. Greely)			
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	70,286		
(262 places of less than 2000)			
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. Per Capita Profit	x 26.07	x 26.07	x 26.07
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%)	- 24,473,585	- 2,184,941	- 1,416,528
	$29,912,160	$2,670,484	$1,573,920
	$29,912,160	$2,670,484	$1,573,920
Less Commissions (5%)	- 2,719,287	- 242.771	- 157,392
$ Leaving Communities	$27,192,873	$2,427,713	$1,573,930
	$27,192,873	$2,427,713	$1,573,930
Less Admin. Costs (15%)	- 8,157,862	- 728,314	- 472,176
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% x $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 (max.) = $130,592 (low); or a 5.38% gain;

$2,558,305 - $1,573,920 (min.) = $984,385 (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 likelyhood, 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.[1]

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[1] "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 aformentioned 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 that occurrence happening with great ease and a good deal of leadway.[3]

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[3] 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 repaid within 6 - 8 months of the effective date of the lottery law.[4]

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[4] 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 boundries...

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.[5]

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