ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672
4688 HJUD HB 236

260

Arizona: An independent study concluded that "the poor are dramatically under-represented among lottery players." (Time, May 28, 1984, p.42)

Illinois: People with incomes below $11,000 only participated in lotteries about 75-78% of their percentage of the population. (Public Gaming Magazine, Jan. 1982)

Maine: Studies "conclusively demonstrate that it is the middle income segment of the population that is the primary market for lotteries . . . the poor are extremely under-represented among lottery players." ("Analysis of Sales Data of Lotteries", July, 1983, compiled by Scientific Games, Inc., cited by Public Gaming Magazine, Dec., 1983)

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. (Washington State Lottery 1983 Annual Report)

Louisiana: 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." (Final Joint Lottery Subcommittee Report, Louisiana Legislature, April, 1983)

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." ("The Myth of the Poor Buying Lottery Tickets", Public Gaming Magazine, Jan., 1982)

Minnesota: Similar conclusions have been admitted by lottery critics. The Berean League of Minnesota stated in a 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). . . nothing has surfaced to question the accuracy of the studies that the poor play the lottery . . . less than other segments of the population." ("The Proposed Minnesota Lottery", Report by the Berean League of Minnesota, 1984)

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.

The Washington State Lottery found that residents with 1-3 years of college were over-represented in lottery play to a degree significantly exceeding that of any other educational group. Conversely, those with eight years of education or less were severely underrepresented. The Arizona Lottery also surveyed for educational levels of its players. The median educational level of players exceeded that of Arizona adult residents overall.

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.

retired compared to 39% of the winners 65 and older. Overall, I found a strong commitment to work among the winners, and this was especially evident when I looked at a person's occupation, income and job tenure. The higher the occupational level, the more interesting the kind of work they were doing, the longer they had been working in their jobs, and the more they earned before winning, the lower the number quits and retires."

"Nearly twice as many winners who won under $10,000 annual installments kept working as winners who received $30,000 annually. Obviously, the greater the winnings, the more security people had and the easier it was for them to leave the labor force."

Kaplan on marriages; "While there have been some cases of divorce and disruption, winning the money has made most of their (winners) marriages stronger than ever. Once the financial burden has been lifted, an important source of stress and strain goes with it. People are now freer to enjoy life and to do the things they always wanted."

"Generally, people who are extroverted, easy-going and gregarious take the winning in stride and seem to enjoy themselves, while introverted, shy and suspicious people tend to have their level of anxiety heightened..."

DATA COLLECTED FROM OVER 23 YEARS OF STATE LOTTERY OPERATIONS CONCLUDES:

STATE-OPERATED LOTTERIES DO NOT PREY ON THE POOR OR LESS EDUCATED SEGMENTS OF THE POPULATION!

THERE IS NO CAUSE-AND-EFFECT RELATIONSHIP BETWEEN STATE-OPERATED LOTTERIES AND COMPULSIVE GAMBLING!

WHEN LARGE PRIZE WINNER'S LIVES ARE AFFECTED BY THEIR WINNINGS, THE CHANGES ARE MOST OFTEN FOR THE POSITIVE!

alaska lottery coalition

P.O. Box 22204 • Juneau, Alaska 99802 • (907) 463-3044

HOW DO LOTTERIES AFFECT THE INCIDENCE OF COMPULSIVE GAMBLING?

Studies have concluded 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, is the recognized expert on the incidence and treatment of compulsive gamblers. 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., 80% fall into one of four different categories; addiction to horse race betting; casino 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. "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. Custers concludes that no data exists supporting the contention that lotteries increase compulsive gambling.

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. Carlton's results show that lotteries simply don't offer enough "action" to satisfy the needs of a compulsive gambler.

A totally different environment exists for playing a lottery, as opposed to other types of gaming; 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 is generally an impulse purchase while conducting additional shopping.

DOES WINNING CHANGE THE LIVES OF WINNERS OF LARGE PRIZES?

Yes, in a variety of positive ways; that's the reason people buy lottery tickets.

H. R. Kaplan, Ph.D., Florida Institute of Technology, provides the most comprehensive data about lottery winners, and some of the most interesting reading in this field. Kaplan started collecting data on thousands of lottery winners, in the U.S. and Canada, 17 years ago in his study of people's commitment to work. For decades social scientists have asked the question, "If you could live comfortably without having to work would you continue to work?" Lotteries have finally provided a basis for addressing this question from a real versus hypothetical perspective.

Kaplan summarized his data in a presentation at the North American Association of State and Provincial Lotteries Conference, June, 1986 with, "I never met an[illegible] who wanted to give the money back."

Kaplan on work; "While million dollar lottery winners were more likely to quit their jobs in the first year after they won than smaller winners, overall only about a fourth of the winners and their spouses quit or retired."

"People's decisions about work, after winning large prizes (over $1,000,000), depend on two primary factors, the winners age and the amount of their prize. The older the winner, the more likely they were to retire. Only two people less than 50 years of age

P.O. Box 22204 • Juneau, Alaska 99802 • (907) 463-3044

INFORMATION BRIEF NO. 4: SOCIAL IMPACTS OF LOTTERIES

WHAT AFFECT DO STATE-OPERATED LOTTERIES HAVE ON THE "POOR?"

WHAT AFFECT DO STATE-OPERATED LOTTERIES HAVE ON THE "LESS EDUCATED?"

HOW DO LOTTERIES AFFECT THE INCIDENCE OF COMPULSIVE GAMBLING?

DOES WINNING DISRUPT THE LIVES OF WINNERS OF LARGE CASH PRIZES?

These questions, even when not verbalized, often come to mind when discussions about state-operated lotteries occur. In recent years, as more people have experienced state lotteries, concerns related to the above questions appear to be declining. Statistics compiled from extensive data collected by states with lotteries provide us with convincing and comforting answers.

THE "POOR" AND "LESS EDUCATED" DO BUY LOTTERY PRODUCTS, BUT TO A LESSER DEGREE THAN THEIR PERCENTAGE OF THE POPULATION.

SOCIOLOGISTS CONCLUDE THAT COMPULSIVE PERSONALITIES WHO RELY ON GAMBLING FOR STIMULATION ARE NOT INTERESTED IN LOTTERIES.

LARGE CASH PRIZES DO CHANGE THE LIVES OF SOME WINNERS, THESE CHANGES ARE CONSIDERED POSITIVE FOR THE VAST MAJORITY.

Government entities administrating lotteries collect demographic data from their prize winners. Winners are selected completely a random from all who purchase lottery chances. Therefore, the data collected is a near perfect cross-section of those who play. This data is collected for two reasons; to provide the governing body with information to assure that this revenue producing arm of the state does not prey on any segment of the population; and to provide the marketing division of the lottery with information to best utilize advertising budgets.

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)

Arizona: An independent study concluded that "the poor are dramatically underrepresented among lottery players." (Time, May 28, 1984, p.42)

Illinois: People with incomes below $11,000 only participated in lotteries about 75-78% of their percentage of the population. (Public Gaming Magazine, Jan. 1982)

Maine: Studies "conclusively demonstrate that it is the middle income segment of the population that is the primary market for lotteries . . . the poor are extremely underrepresented among lottery players." ("Analysis of Sales Data of Lotteries", July, 1983, compiled by Scientific Games, Inc., cited by Public Gaming Magazine, Dec., 1983)

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. (Washington State Lottery 1983 Annual Report)

Louisiana: 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." (Final Joint Lottery Subcommittee Report, Louisiana Legislature, April, 1983)

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." ("The Myth of the Poor Buying Lottery Tickets", Public Gaming Magazine, Jan., 1982)

Minnesota: Similar conclusions have been admitted by lottery critics. The Berean League of Minnesota stated in a 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). . . nothing has surfaced to question the accuracy of the studies that the poor play the lottery . . . less than other segments of the population." ("The Proposed Minnesota Lottery", Report by the Berean League of Minnesota, 1984)

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.

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. Conversely, those with eight years of education or less were severely underrepresented. The Arizona Lottery also surveyed for educational levels of its players. The median educational level of players exceeded that of Arizona adult residents overall.

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 undereducated. 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.

HOW DO LOTTERIES AFFECT THE INCIDENCE OF COMPULSIVE GAMBLING?

Studies have concluded 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, is the recognized expert on the incidence and treatment of compulsive gamblers. 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., 80% fall into one of four different categories; addiction to horse race betting; casino 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. "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. Custers concludes that no data exists supporting the contention that lotteries increase compulsive gambling.

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. Carlton's results show that lotteries simply don't offer enough "action" to satisfy the needs of a compulsive gambler.

A totally different environment exists for playing a lottery, as opposed to other types of gaming; 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 is generally an impulse purchase while conducting additional shopping.

DOES WINNING CHANGE THE LIVES OF WINNERS OF LARGE PRIZES?

Yes, in a variety of positive ways; that's the reason people buy lottery tickets.

H. R. Kaplan, Ph.D., Florida Institute of Technology, provides the most comprehensive data about lottery winners, and some of the most interesting reading in this field. Kaplan started collecting data on thousands of lottery winners, in the U.S. and Canada, 17 years ago in his study of people's commitment to work. For decades social scientists have asked the question, "If you could live comfortably without having to work would you continue to work?" Lotteries have finally provided a basis for addressing this question from a real versus hypothetical perspective.

Kaplan summarized his data in a presentation at the North American Association of State and Provincial Lotteries Conference, June, 1986 with, "I never met anyone who wanted to give the money back."

Kaplan on work; "While million dollar lottery winners were more likely to quit their jobs in the first year after they won than smaller winners, overall only about a fourth of the winners and their spouses quit or retired."

"People's decisions about work, after winning large prizes (over $1,000,000), depend on two primary factors, the winners age and the amount of their prize. The older the winner, the more likely they were to retire. Only two people less than 50 years of age

retired compared to 39% of the winners 65 and older. Overall, I found a strong commitment to work among the winners, and this was especially evident when I looked at a person's occupation, income and job tenure. The higher the occupational level, the more interesting the kind of work they were doing, the longer they had been working in their jobs, and the more they earned before winning, the lower the number quits and retires."

"Nearly twice as many winners who won under $10,000 annual installments kept working as winners who received $30,000 annually. Obviously, the greater the winnings, the more security people had and the easier it was for them to leave the labor force."

Kaplan on marriages; "While there have been some cases of divorce and disruption, winning the money has made most of their (winners) marriages stronger than ever. Once the financial burden has been lifted, an important source of stress and strain goes with it. People are now freer to enjoy life and to do the things they always wanted."

"Generally, people who are extroverted, easy-going and gregarious take the winning in stride and seem to enjoy themselves, while introverted, shy and suspicious people tend to have their level of anxiety heightened..."

DATA COLLECTED FROM OVER 23 YEARS OF STATE LOTTERY OPERATIONS CONCLUDES:

STATE-OPERATED LOTTERIES DO NOT PREY ON THE POOR OR LESS EDUCATED SEGMENTS OF THE POPULATION!

THERE IS NO CAUSE-AND-EFFECT RELATIONSHIP BETWEEN STATE-OPERATED LOTTERIES AND COMPULSIVE GAMBLING!

WHEN LARGE PRIZE WINNER'S LIVES ARE AFFECTED BY THEIR WINNINGS, THE CHANGES ARE MOST OFTEN FOR THE POSITIVE!

alaska lottery coalition
PO Box 22204 • Juneau, Alaska 99802 • (907) 463-3044

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.

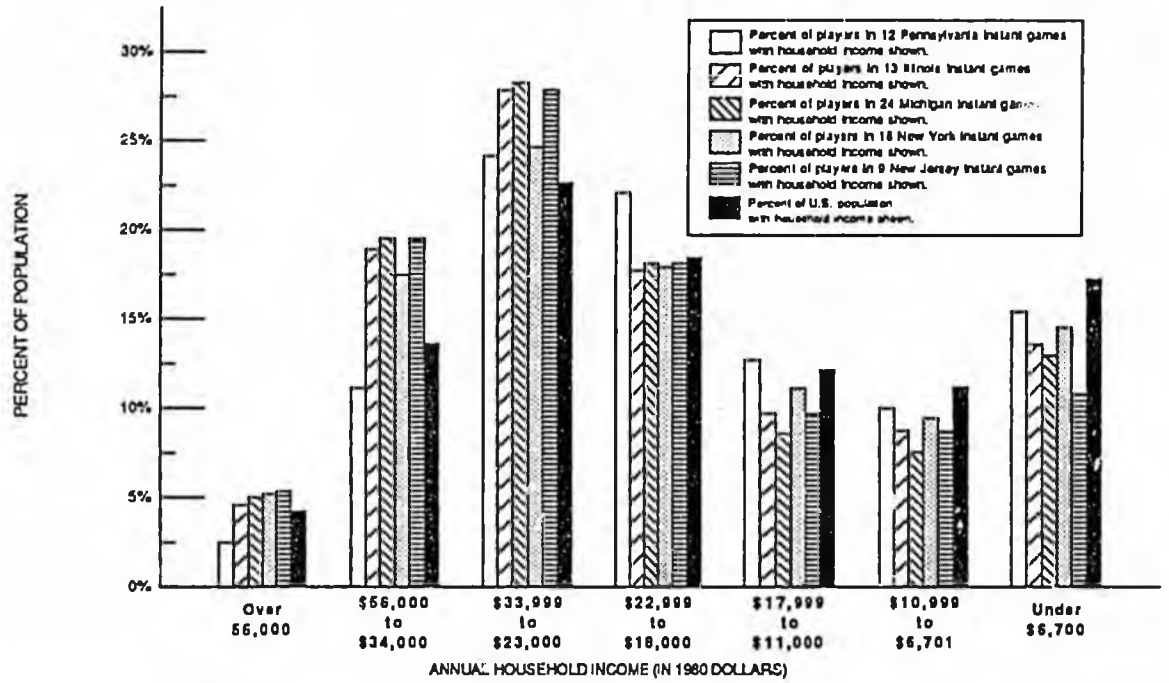
Conversely, in none of the five states is the participation by persons with household incomes below $6,700 above the national average. This is also the case for the $6,701 to $10,999 income category. In fact, it is not until the above average income category of $23,000 to $33,000 that the participation 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.

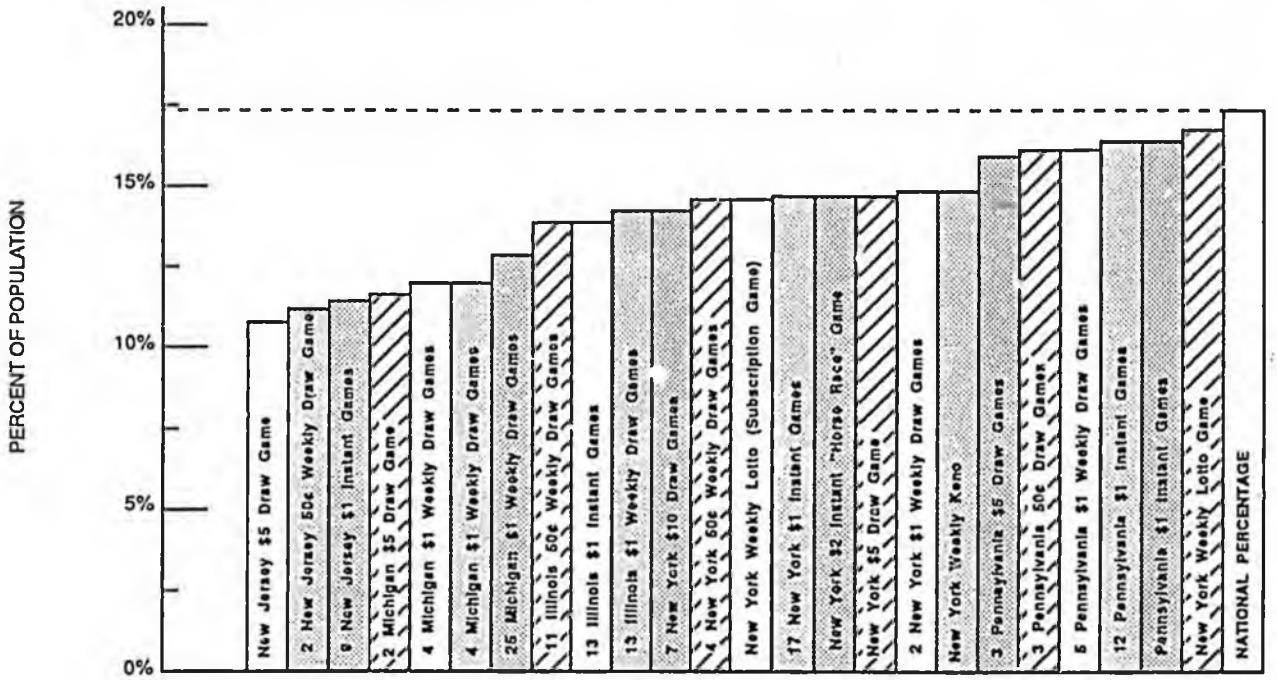
The next type of lottery game in Table II is the 50-cent weekly draw-type lottery game. Here again, as with the $1 instant, the poor participate proportionately less than their portion of the population. The same conclusion applies to the $1 weekly draw-type games (which were mostly the so-called 'overlay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

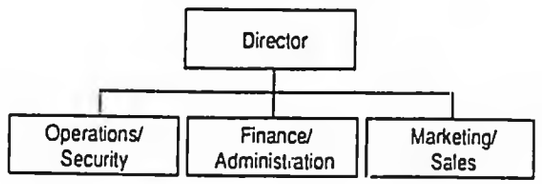
DIRECTOR: Otho Brown

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:

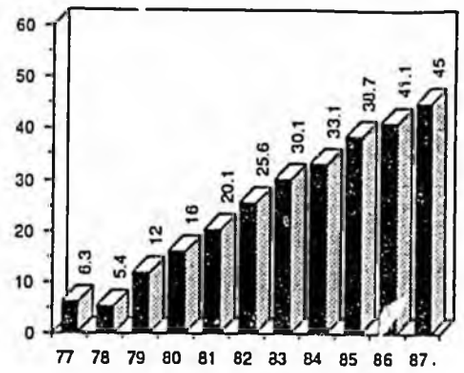
GOVERNING DEPT: Division of Dept. of Finance

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

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

SALES HISTORY CHART:

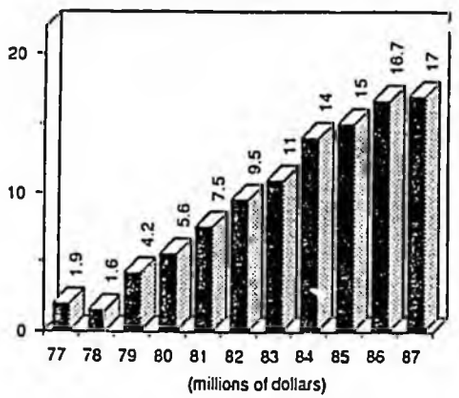
FY Gross Sales: Delaware



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)

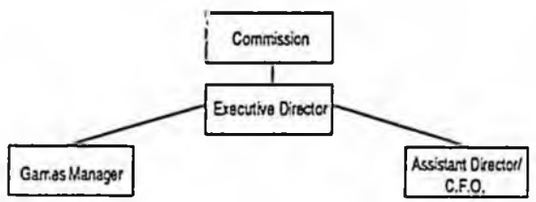
DIRECTOR: George C. Jones

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:

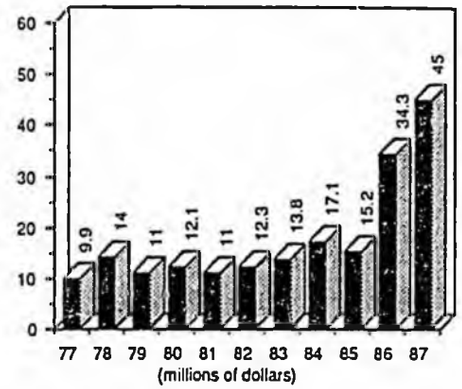
GOVERNING DEPT: Independent agency.

DIRECTOR REPORTS TO: Commissioners, then Governor

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

SALES HISTORY CHART:

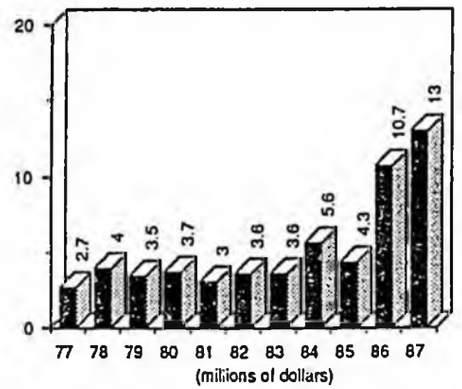
FY Gross Sales: New Hampshire



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

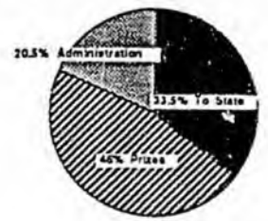
PROJECTIONS FOR FY87:

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

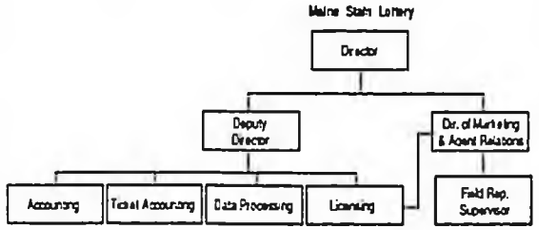
GOVERNOR: John McKernan (R)

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

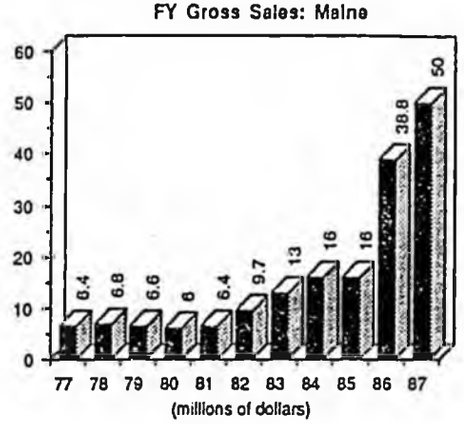
GOVERNMENT STRUCTURE:

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

DIRECTOR REPORTS TO: Governor

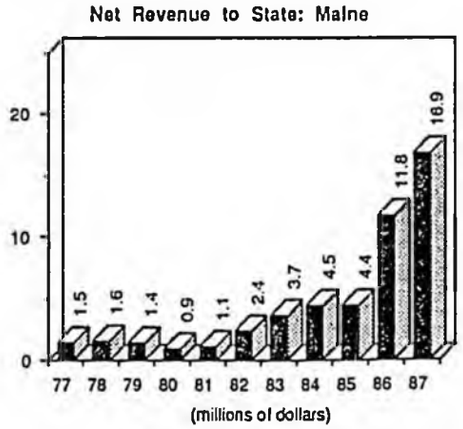
GOVERNMENTAL RELATIONSHIP: Director appointed by governor; 5-member commission appointed by governor, approved by legislature & director.

SALES HISTORY CHART:



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

REVENUE HISTORY CHART:



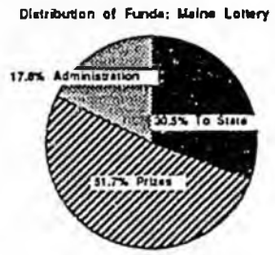
FY 75: $1.19m	FY 81: $1.093m
FY 76: $2.610m	FY 82: $2.385m
FY 77: $1.491m	FY 83: $3.694m
FY 78: $1.593m	FY 84: $4.516m
FY 79: $1.379m	FY 85: $4.442m
FY 80: $.896m	FY 86: $11.845m

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.

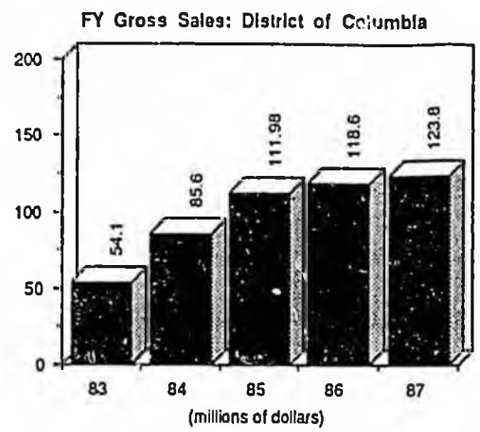
GOVERNMENT STRUCTURE:

GOVERNING DEPT: Under Committee On Finance & Revenue

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

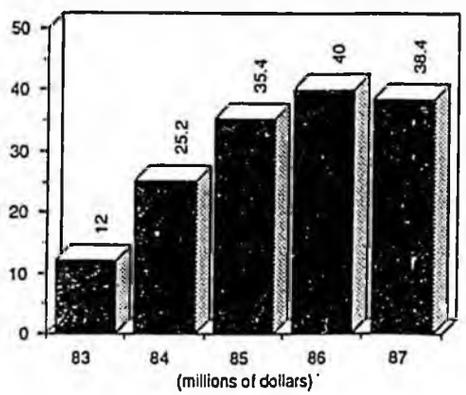
GOVERNMENTAL RELATIONSHIP: Mayor appoints 5 members of D.C. Lottery Board; board reports to Mayor who presents budget, legislation to city council, then to Hill; Chairman of Finance & Revenue Committee oversees lottery; Granted independent personnel authority 2/87. Charitable Games Division is responsible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

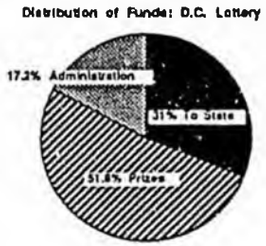


FY 83: $12.0m
FY 84: $25.2m
FY 85: $35.4m
FY 86: $40.0m

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)

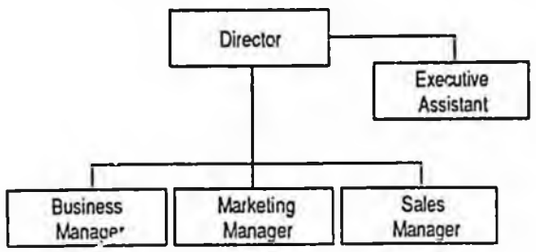
DIRECTOR: James M. Bolton

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:

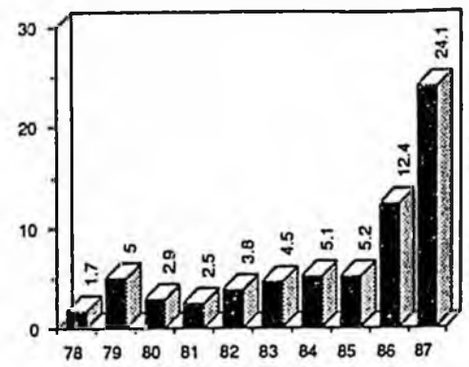
GOVERNING DEPT: State of Vermont

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:

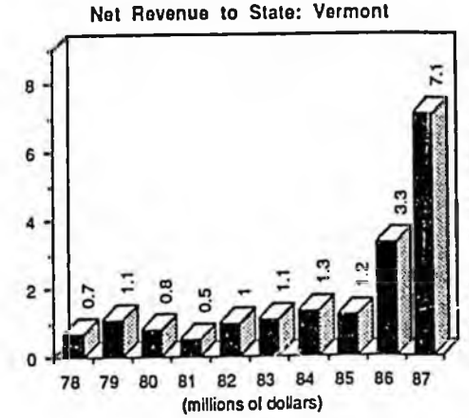
FY Gross Sales: Vermont



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	4,805	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

6

(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%	45.9%	46.1%	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%
Dslaware	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

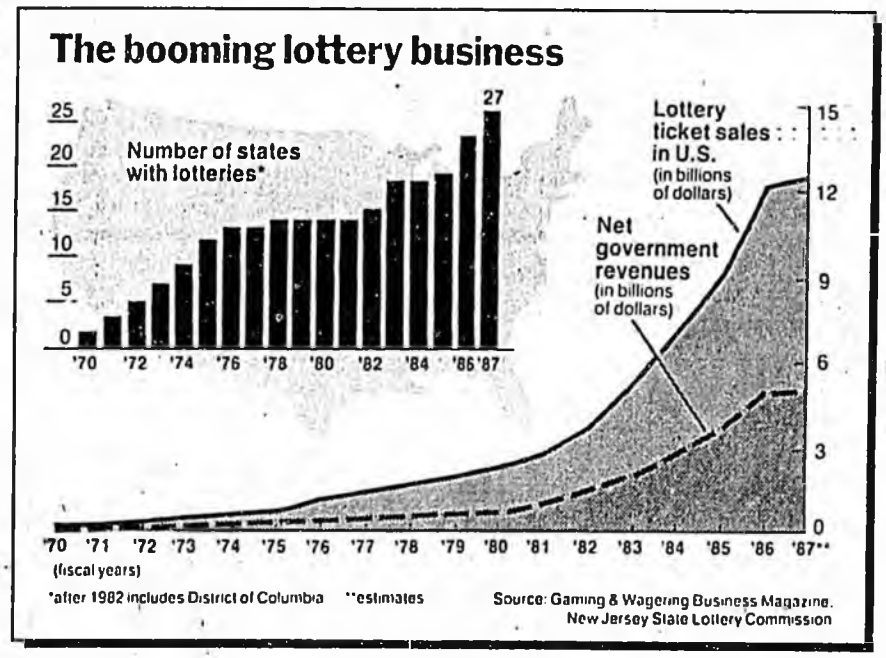
TRENTON

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 b. 11.
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?

PROCUREMENT PROCEDURES WAIVER

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

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

Commended for study and reflection by the following Alaskans:

John J. Shaffer, pastor
United Methodist Church
1660 Patterson Street
Anchorage, Alaska 99504-2773

George C. Harris, Bishop
Episcopal Diocese of Alaska

Dr. John H. Allen
Executive Director
Alaska Baptist Convention
Anchorage, AK 99516

Oscar Youngquist
The Salvation Army

Calvin D. McConnell, Bishop
Alaska Missionary Conference
United Methodist Church

Neil Munro
Associate Synod Executive Synod of Alaska
Northwest, The Presbyterian Church (USA)

James K. Ward
Pastor, First Christian Church

Francis E. Mueller, S. J.

Benj. O. Walters, Jr.
Lay Leader, Turnagain
United Methodist Church

Mildred C. Knapp
Lay member, St. Mark Lutheran

Dr. Harold H. Hime, Pastor
First Baptist Church
Anchorage, AK 99501

Jon F. Langenwalter, Pastor
United Methodist Church

Alaska Christian Conference
Executive Board 11/7/85

Milton S. Hunt, President
Alaska Christian Conference

Paul W. Daniel
Clergy delegate, Alaska Conference
of the North Pacific District of
the American Lutheran Church

Stella Martin
Lay Member Salvation Army

Jim R. Patton
Presby. Church (U.S.A.) Pastor

C. Thomas Kangas
Pastor, St. Mark Lutheran Church
3230 Lake Otis Pkwy
Anchorage, Ak. 99508

Theodore E. Zembal, S. J.
Providence Hospital

Mary Jane Landstrom, lay member
Immanuel Presbyterian Church

Board of Managers, Anchorage Unit
Church Women United:
Helene Harvey
Mildred Mantle
Mae A. Peterson
Annette R. Cole
Dorcas Jackson
Marjorie Wooster
Virginia W. Banks
Ursula J. Veatch
Huldah Samuelson
Maxine W. Johnson
Mary Lou Lawhorn, President

TABLE OF CONTENTS

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.

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.

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

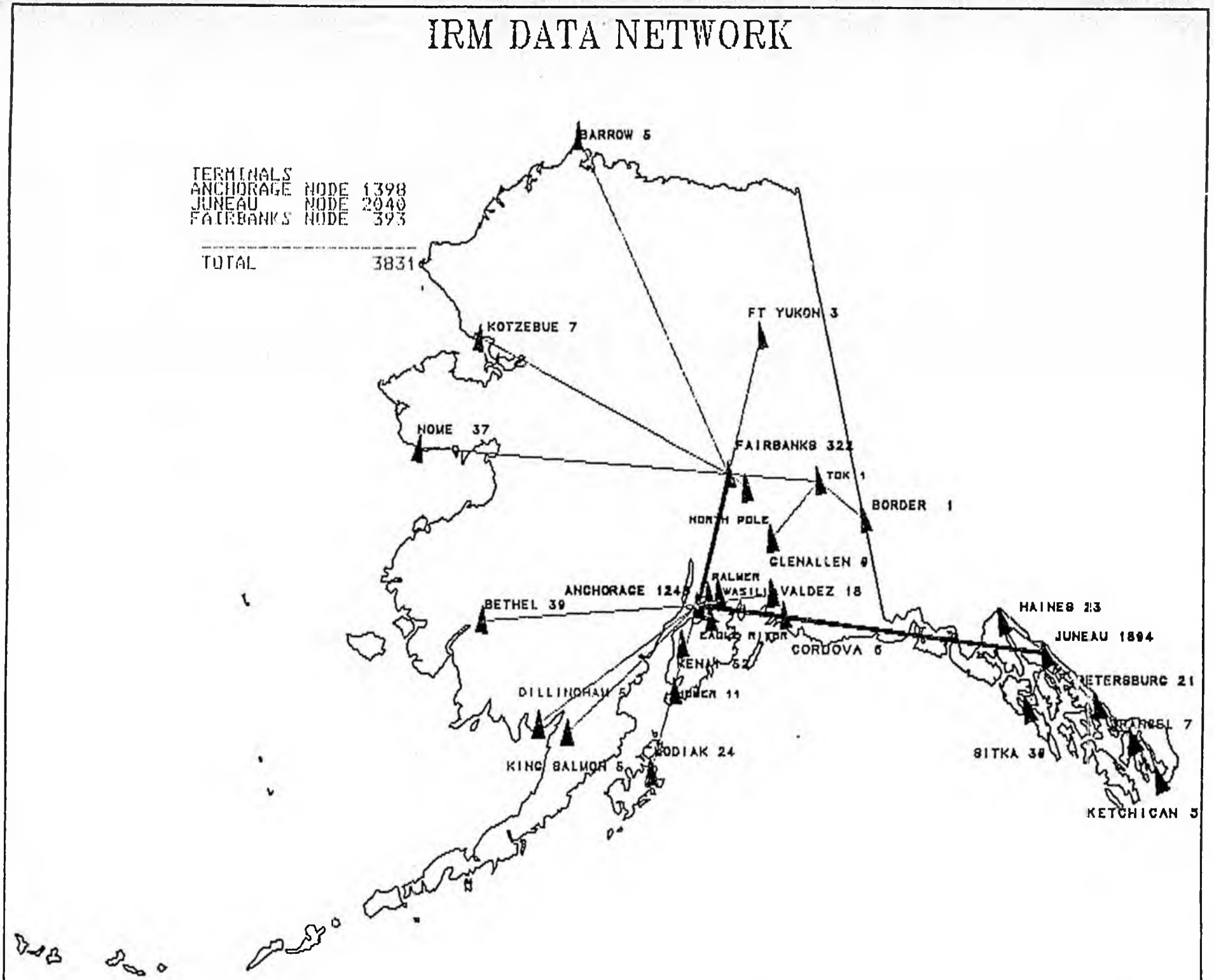


Table 3-III

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.

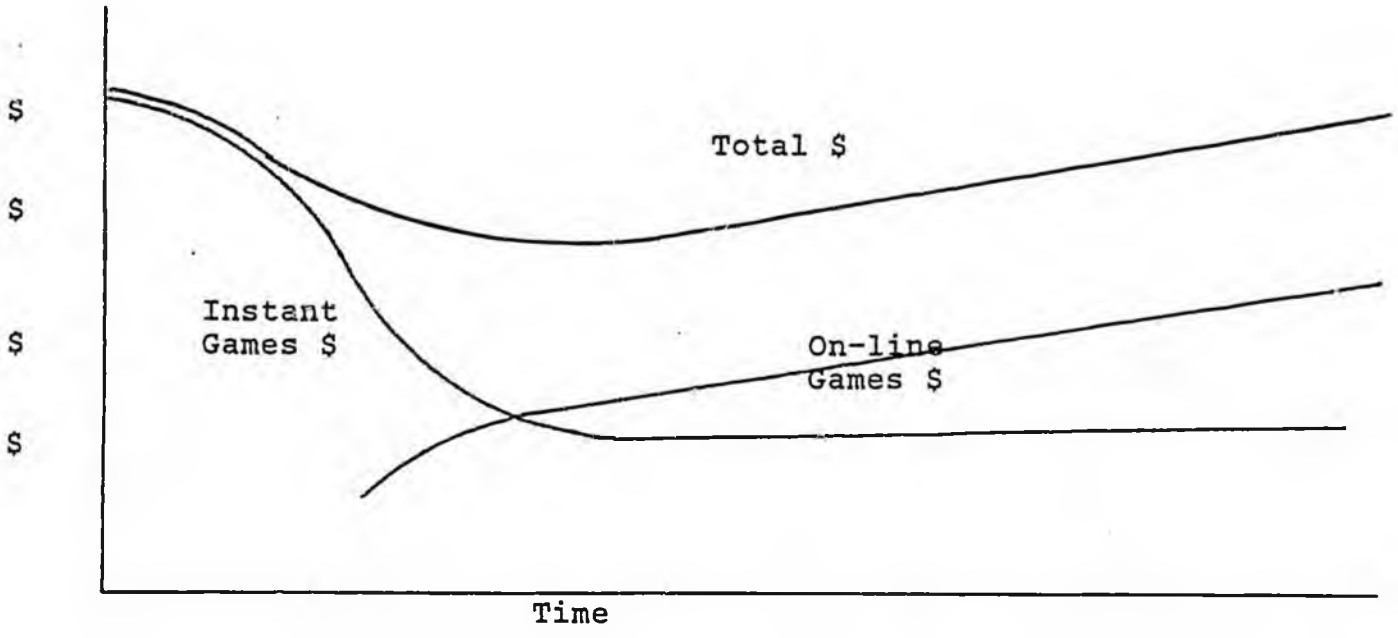
WHAT KIND OF LOTTERY GAMES WOULD BE LIKELY FOR AN ALASKA LOTTERY?

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