

NATIONAL COUNCIL OF LEGISLATORS FROM GAMING STATES  
COMMITTEE ON LOTTERIES  
SANTA FE, NEW MEXICO  
JUNE 4, 2004  
DRAFT MINUTES

The Committee on Lotteries of the National Council of Legislators from Gaming States (NCLGS) met at the Santa Fe Hilton, in Santa Fe, New Mexico, on June 4, 2004, at 10:45 a.m.

Sen. Lana Oleen of Kansas, presided over the meeting in the absence of Committee Chair Talmadge Heflin of Texas.

Other members of the Committee present were:

Rep. Kevin Ryan, CT  
Sen. Steven Geller, FL  
Rep. Tim Solobay, PA

Other legislators present were:

Rep. James Buskey, AL  
Rep. Vincent Lofink, DE  
Rep. Charles Dean, FL  
Rep. David Hess, NH  
Sen. Rod Adair, NM  
Sen. Carlos Cisneros, NM  
Sen. Dianna Duran, NM  
Rep. Manny Herrera, NM  
Rep. Pauline Ponce, NM  
Rep. Henry Saavedra, NM  
Rep. Edward Sandoval, NM  
Sen. H. Diane Snyder, NM  
Rep. Jim Trujillo, NM  
Sen. Sue Wilson Beffort, NM  
Rep. Wayne Pettigrew, OK  
Rep. Tom Corrigan, PA  
Sen. J.P. Duniphan, SD  
Rep. Joseph Pickett, TX

Others present were:

Bob Mackin, Mackin & Company, NCLGS Executive Director  
Susan Nolan, Mackin & Company, NCLGS Deputy Executive Director  
Ann Henstrand, MultiState Associates, Inc.

## MINUTES

The Committee voted unanimously to accept, as submitted, the minutes of its January 9, 2004 meeting in Las Vegas, Nevada.

## NEW LOTTERY PRODUCT DESIGN

The Committee heard a presentation by Mr. Marc Groz, Chairman, TRANSIdea, Ltd.

Mr. Groz outlined his background as a financial engineer, risk management expert and Wall Street professional. He stated that he had come before the committee to describe two mechanisms which he had invented, which can be used by state lotteries to bring in larger revenues for states by enhancing the average player's outcome and by enticing new players to participate in lotteries.

He described the usefulness of the first invention, which he calls "NuLOTS", which would help lottery purchasers enhance their own personal savings, while increasing state lottery pools. He also briefly described a companion financial invention, called SCORES, which can be used by lotteries to offer much larger grand prizes

Mr. Groz described the personal experience he had had in a midtown Manhattan convenience store, witnessing a lottery player who had thrown a losing ticket on the floor. He said he wondered at that time whether or not a lottery could be structured in such a fashion so that a lottery ticket holder could have a small amount set aside from every ticket purchase – called a residual value – as a savings amount. He said the residual amounts could be used to purchase state bonds, which would have a face value upon the maturity of the state revenue bonds, set in relation to the residual values and interest rates in the market, after 20 years. Mr. Groz said that another version of his invention would allow a percentage of a ticket holder's purchase of "losing tickets" to be dedicated to an IRA-like retirement account.

Mr. Groz said his invention would:

- offer a dramatic improvement on lottery players' expected return
- provide lottery operators the means to offer to lottery players a return of their full ticket cost, after a suitable holding period
- give downside protection to habitual players who are also not investors or savers, by offering these players a savings vehicle built right into the game
- when combined with SCORES, allow lotteries to offer much bigger prizes, inviting more player participation

Senator Geller commented that anti-gambling people would likely question the idea of lottery tickets being sold as a retirement savings vehicle. He also asked whether or not the administrative costs and difficulties in record-keeping might outweigh any benefits to the invention.

Mr. Groz said tickets could be used as bearer documents – simply saved in people’s sock drawers.

Representative Pickett asked if tickets could be cashed out earlier for lesser values. Mr. Groz said that would depend on the state’s legislatures and lottery authorities.

Representative Wilson said it was an intriguing idea and asked if Mr. Groz could present a white paper to the Committee to help the Committee work out some of the more difficult administrative problems, with more defined information.

Mr. Groz agreed that the idea of tickets serving as “sock drawer” bearer documents was unwieldy, and that there would be better ways to structure such a scheme.

Senator Oleen suggested that Mr. Groz speak with some specific state lotteries or with NASPL for more input to his idea. She added that the idea was intriguing and she believed there would be interest by NCLGS in the idea.

Mr. Jack Short of Media Notes, noted from the audience that in the past, lotteries had allowed tickets to be saved and then redeemed.

Dr. Guy Clark, Chairman of the National Coalition Against Legalized Gambling (NCALG), asked whether or not Mr. Groz had calculated the additional personal savings that a lottery ticket buyer might realize if he or she refrained from buying lottery tickets but instead invested the entire dollar in savings.

Senator Oleen thanked Mr. Groz for his time. Senator Geller offered that the white paper the Committee had requested from Mr. Groz could be posted on the NCLGS website when it was complete.

#### STATE LOTTERY LEGISLATION

Mr. Bob Nave, Chief of Staff for the Florida Lottery described legislative issues that have been discussed in Florida, noting that many of these issues were also being confronted in other states.

He stated that one of the main issues under discussion – the establishment of video lottery terminals in pari-mutuel facilities—was the topic of one of the meeting’s general sessions.

He said that another issue in Florida, also common in other states, was the issue of unclaimed prize money. Mr. Nave said that every year in Florida, \$30 to \$40 million dollars in prize money goes unclaimed. He said that as is common with about two-thirds of lotteries, prize money is used to enhance the prize pools for scratch-off products. He said that the logic is that the more people win, the more they play – a relationship that has

been well-documented in the lottery industry. Mr. Nave said that there is a misperception, however, that the unclaimed monies should be taken back and invested for educational purposes to which the lottery is dedicated. He said, however, the lottery industry believes that there is an ultimately higher amount of revenue available for educational funding if the unclaimed prize monies are reinvested into the product.

Mr. Nave said that prior to the 2002 legislative session, there was a requirement in Florida state law that at least 38 percent of lottery proceeds go to support public education. He said that left the lottery with approximately 50 percent for prize payouts – the lowest of any lottery in the country. He said that the lottery boosted the payout with unclaimed prizes, and saw an increase in ticket sales. He said that the 2002 legislature took a creative look at this situation and (1) struck the requirement to use 38 percent toward improvements to education and (2) gave the Secretary of the lottery the ability to use unclaimed prize money to set the prize payout level at whatever was the right level to maximize the money generated for education. Mr. Nave said the amount of money available grew as game participation increased. For example, he said, during the first year after that legislation passed, total sales of Florida scratch-off product grew from about \$600 million to a little over a \$1 billion per year and that sales are continuing to trend upward. So, Mr. Nave said, the bill is working exactly as the legislature hoped it would work.

Mr. Nave said that legislation recently introduced would give the lottery the same discretion in its online games, but did not pass before the close of the session.

Mr. Nave said that the Florida Legislature had discussed other issues concerning multi-state games and state lottery mergers. He said the Florida Lottery believes that legislation would not be necessary to do multi-state lotteries. He said, moreover, the Florida Lottery believes that such multi-state games are not necessary, given the its mission.

Representative Pickett asked if the change in the scratch-off prize levels was accompanied by a rise in the marketing budget. Mr. Nave responded that the advertising budget has stayed fairly constant over the last several years. He added that the scratch-off players are pretty sophisticated and it doesn't take much for them to realize when the opportunity to win more money is at hand.

#### OTHER ISSUES

Senator Oleen pointed out to the Committee that NCLGS had looked at a study on advertising, and that states had discovered that temporary advertising budget cutbacks cost the state more than they saved in eventual loss of lottery revenues.

Senator Oleen also noted that NCLGS had done a report on unclaimed prize money in coordination with NASPL demonstrating the principal that Mr. Nave had described. She said the study was available on the NCLGS website.

Senator Oleen raised a question about on-line availability of multi-state lotteries. She thought that the committee might be interested in learning more about the on-line Powerball experiment.

Lynn Schuyler, former Counsel to the Nebraska lottery, which participates in the Powerball multi-state lottery, said that the group which operates Powerball had done a study on whether or not it would be possible to offer Powerball via the internet, but had shelved the issue for now, given the complexities of internet interstate activities and gaming.

#### ADJOURNMENT

There being no further business, the meeting adjourned at 11:30 a.m.

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