

NATIONAL COUNCIL OF LEGISLATORS FROM GAMING STATES
COMMITTEE ON LOTTERIES
DUCK KEY, FLORIDA
FRIDAY, JANUARY 12, 2007
DRAFT MINUTES

The Committee on Lotteries of the National Council of Legislators from Gaming States (NCLGS) met at the Hawk's Cay Resort in Duck Key, Florida, on Friday, January 12, 2007, at 8:00 a.m.

Representative Kevin Ryan from Connecticut, Acting Chair of the Committee, presided.

Other members of the Committee present were:

Rep. Helene Keeley, DE
Rep. Pamela Thornburg, DE
Sen. Steven Geller, FL
Sen. Richard Lerblance, OK
Rep. John Evans, PA
Rep. Christopher Sainato, PA
Rep. Tim Solobay, PA

Other legislators present were:

Rep. Vincent Lofink, DE
Rep. Joseph Miro, DE
Rep. Bill Oberle, DE
Rep. Charles Dean, FL
Sen. Ann Rest, MN

Others present were:

Susan Nolan, Nolan Associates, NCLGS Executive Director
Nicholas Brozean, Nolan Associates, NCLGS Assistant Legislative Coordinator

MINUTES

The Committee voted unanimously to accept, as submitted, the minutes of its June 2, 2006, meeting in Boston, Massachusetts.

LOTTERY INITIATIVES IN THE STATES

Mr. Clint Harris, President of the North American Association of State and Provincial Lotteries (NASPL), said new lottery initiatives include raffles, second chance promotions, premium priced tickets, players clubs and responsible gaming.

Mr. Harris said many lotteries are finding success in raffles. He said today 14 US lotteries have offered 16 raffle games, which have accounted for over \$130 million in revenue. He said there are generally a limited number of tickets that have fixed selling periods and deliver million dollar prizes. He said raffles comprise over \$200 million in prizes, with \$500 million in claims overall.

Mr. Harris said second chance promotions provide value to non-winning tickets. He said second chance promotions have been around for awhile, but have recently been used for market promotions, such as sports teams and events. He said prizes not only include cash, but merchandise and trips to shows or sporting events. Mr. Harris said these new methods have been able to capture different individuals in society that usually do not bet on the lottery.

Mr. Harris said premium priced instant tickets allow higher prizes. He said tickets are sold between \$10 and \$30 each, and allow for prizes of \$1 million or more. He said scratch-off tickets make up many different games, including Texas Holdem and Monopoly.

Mr. Harris said online lottery player clubs are becoming popular tools to keep lotteries in touch with the interest of players that lobby lotteries. He said these players are offered the option of a one-on-one communication for marketing, promotions, information, and research. He said membership range from 10,000 to 100,000 members depending on the popularity of a club.

Mr. Harris said gamblers are not commonly addicted to lotteries. He said the number of lottery problem gamblers remains low, but it is not zero. He said lotteries need to realize their responsibilities toward lottery addiction and become part of the solution. He said lobbyists throughout the country are working with national problem gambling organizations to raise awareness of this disease.

FLORIDA LOTTERY

Mr. Dennis Harmon, Deputy Secretary of the Florida Lottery, said over the past few years the Florida lottery has been working on:

- research-driven product development
- broader approach to responsible play
- return-on-investment approach to game and promotion decisions including costs, game evaluations and advertising
- effective use of new variable prize/transfer legislation
- effective use of licensed properties
- a larger network of full-service retailers

Mr. Harmon said the Florida Lottery enlisted help of a research firm, Battelle Memorial, to understand the importance of advertising expenditure. He said, they determined, for every \$1 spent on advertising the lottery yields \$2 to the Florida Educational Enhancement Funding. He said 15 states similar to the Florida Lottery concluded \$1 yields an average of \$5 to their own educational enhancement funds.

Mr. Harmon said a lottery can only collect so much revenue before it must pay out prizes or it will lose sales. He said in 2002 the Florida Lottery had a 58 percent prize payout for scratch-off games, which was the lowest in the US and ranked 24 in per capita sales.

Mr. Harmon said the Florida legislature granted the lottery authority to vary prize payouts and fund transfer rates for scratch-offs and online games to benefit education.

Mr. Harmon said raising prize payout percentage from 58 to 70 resulted in big sales gains, which are obtained from \$10 and \$20 scratch-off games. He said scratch-off games have resulted in a tripling of sales in the past four years, a \$157 million gain in educational funding, and a per capita scratch-off sales rank of 12. Mr. Harmon added that online games variable prize payouts have only recently been modified, but have increased educational funding by more than \$38 million.

Mr. Harmon said promotionally licensed \$5 scratch-off ticket sales have sold significantly better than regular \$5 scratch-off tickets. He said licensing fees are very minimal compared to revenue they generate. Mr. Harmon said on average these games sell 15 to 35 percent better than comparable games.

Mr. Harmon said between 2004 and 2005 the Florida Lottery went through a gaming system conversion and since, in January 2005, has increased full-service retailers from 9,600 to 12,900. He said first year impacts have included a gain in sales from between \$150 to \$175 million and a gain of between \$45 and \$50 million in educational funding.

NASPL STANDARD DEVELOPMENT

Mr. Harris said four NASPL standard initiatives (NSI) best practices that began in 2002 are:

- Quality Assurance of Product Development
- Instant Ticket Barcode Technical Standard
- Standard for XML Retailer Accounting
- Web Based Retailer Applications

He said a global best practice for RFP process initiative is expected to be approved in January 2007.

Mr. Harris said a best practice and or technical standard has a record of success in providing significant advantages for an organization in lowering costs, scheduling, quality, integrity, performance, safety, and environment. He said NSI's purpose is to develop business by increasing technology.

Mr. Harris said creating best practices will allow lotteries to move towards implementation, making it easier for their retailers to sell lottery tickets. He said by implementing better business and technology, industry will have more time for development and to create new products leading to increased revenue.

Mr. Harris said the focus of the NSI is to leverage existing technology standards to allow lotteries to take advantage of tried and true approaches and to establish consistency with room for specialization.

LOTTERY SCAMS AND NASPL MITIGATION EFFORTS

Mr. Harris said legitimate lotteries and vendors need to protect their integrity. He said lotteries need to maintain an image free of corruption and fraud. He said lotteries must work hard to educate citizens about scams.

Mr. Harris said lotteries create perfect fronts for scammers because advertising and high jackpots often provide “credibility.” He said annual losses from scams are estimated at \$300 million a year.

Mr. Harris said scammers develop highly profitable organizations and can afford equipment and supplies. He said scammers can remain anonymous, which makes scams easy to carry out. He said these organized crime scams are typically established in Africa, Russia, Asia, and the Middle East.

Mr. Harris said if it sounds too good to be true, it probably isn't true. He said many people are fooled by these scams. He said key warning signs are:

- up-front payment required for “processing fees,” international taxes, etc.
- handwritten letters from Canada Post (high percentage coming from Toronto area)
- urgency to complete fund transfers quickly and keep transactions a “secret”
- cashiers checks from unusual banks, credit unions or businesses
- requests that transfers be made through Western Union or Money Gram (RCMP believes over half of funds sent to Western Union in Quebec are fraud-related)

Mr. Harris said the only way to stop these scams is to educate the public on these issues and report them when they occur. He said information should be provided by governments and organizations at all levels.

NCLGS-NASPL LOTTERY ADVERTISING SURVEY

Ms. Susan Nolan, Executive Director of NCLGS, said over six months ago NCLGS requested that NASPL aid in a survey and research on the correlation between lottery advertising budgets and effect on sales.

Ms. Nolan said that though lotteries were naturally reluctant to release sales numbers, the NASPL survey of lottery statistics provided four-years more information than the actual statistics.

Ms. Nolan said that the NASPL/NCLGS lottery advertising survey comments noted that just like a Coke, a Hershey bar, a McDonald's hamburger, or a can or soup the overall consumer sales of lottery products benefits from advertising. She said the comments revealed that advertising increases consumer awareness, which is critical in the impulse product market.

Ms. Nolan said comments noted it is extremely difficult to make “apples-to-apples” comparisons using advertising budgets from state to state.

Ms. Nolan said the comments also stated that advertising to a great degree is a subjective science and that its impact on sales is determined by a combination of creative concept and execution, media placement, games that are offered, new game introductions, prize payouts, jackpot sizes, the economy, etc.

Ms. Nolan said providing a direct correlation between advertising and sales is nearly impossible since there are simply too many other variables that impact sales. She said comments cited that a

reduction in advertising expenditures as demonstrated in some lottery jurisdictions has definitely been proven to show a negative impact on sales and revenues.

Ms. Nolan said comments revealed other examples of lotteries that have faced reduced advertising budgets, yet managed to increase their sales and stated that during those years, factors other than advertising have not remained static and there are certainly other factors that have influenced the sales increases.

Ms. Nolan said, reading from comments, a synopsis of the advertising is used with the short and long term goals of maintaining top-of-mind awareness with consumers. Increases in gaming competition, gasoline prices, and competition for discretionary dollars make it a necessity for lotteries to advertise in order to compete in the retail environment.

Ms. Nolan said the bottom line, as stated in survey comments, is that all lotteries operate under the mandate to maximize their revenue transfers to their state beneficiaries, coupled with the expectation that this transfer will continually grow from year to year. She further quoted that “additionally there are the caveats placed on the lottery that they are continually in the public eye and must be cautious of their advertising content and audience, continually promote responsible play, and always maintain their integrity. It becomes evident that lotteries face a difficult challenge.”

Ms. Nolan said the survey includes quotes from various lotteries, although it does not depict which states lotteries made each comment. She said the survey document contained an informative chart from the 21 surveyed US lotteries, illustrating a correlation between advertising and sales.

IMPACT OF VLT HANDLE ON LOTTERY TICKET SALES

Mr. Charles Vickery, Research Director of Racing Industry Research and Economics Analysis, said New York’s VLTs have contributed \$500 million to education since January 2004. He said a relationship between VLTs and lottery ticket sales in New York has not been proven.

Mr. Vickery said the preliminary numbers indicate that VLTs may negatively impact lottery ticket sales. He said relationships similar to those discussed here have been reported in other states.

Mr. Vickery said New York lottery ticket sales rose 57 percent between 2000 and 2005, from \$4.05 billion in 2000 to \$6.35 billion in 2005. He said in 2006, New York VLT net revenue was \$424 million or 6.7 percent of New York Lottery sales in 2005. Mr. Vickery said VLT net revenue is money left after paying out winners.

Mr. Vickery said New York introduced its first racetrack casino during January, 2004, in Saratoga. He said growth in lottery ticket sales within casino market areas once mirrored statewide growth, but now within 50 miles of race track casinos the growth in lottery ticket sales is below growth outside these market areas. He said a negative impact on lottery ticket sales could be 15 percent of VLT net revenue.

Mr. Wayne Lemons, Director of the Delaware Lottery, said Delaware VLTs have been running for about 12 years and initially the Delaware Lottery thought revenue would decrease. He said the Delaware Lottery had never seen a decrease in revenue from VLTs. He said research has not been able to indicate the impact VLTs have had on the Delaware state lottery. He said West Virginia has drawn the same conclusion.

Mr. Vickery said a negative impact on lottery sales from VLTs does not exist in New York. He said the New York lottery is experiencing growth in revenue. He said surrounding areas around VLTs in New York show a slight decrease in lottery ticket sales.

IMPACT OF FEDERAL INTERNET GAMING LEGISLATION ON LOTTERIES

Mr. Dale McDonnell, Assistant Director and General Counsel for the Minnesota Lottery, said last October, Congress passed legislation prohibiting internet gambling. He said the Unlawful Internet Gambling Enforcement Act prohibits credit cards, electronic funds or transfers relating to internet betting in the US. He said wagers within a state are excluded.

Mr. McDonnell said the internet wagering act does not modify or amend existing Federal legislation, such as the Federal Wire Act. He said the Wire Act permits transferring money between states using wire communications for betting. He said some courts have interpreted that the Wire Act applies only to sports betting. He said the Department of Justice has always taken the Wire Act to include prohibition of all interstate internet gambling.

Mr. McDonnell said, at present the recent federal legislation will have no impact on lotteries. He said interstate sales of lottery tickets are not prohibited, but it does not make them legal. He said since the act did not amend previous legislation, confusion still exists over lottery regulation.

ADJOURNMENT

There being no further business, the meeting adjourned at 8:45 a.m.