MINUTES OF THE SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS	
The meeting was called to order by Senator Edward F. Reilly, Jr. at Chairperson	
11:0 0 a.m./pxxxxon April 10, 1985 in room254-E of the Capitol.	
All members were present except: Senator Hoferer was excused.	

Approved \_\_\_\_\_\_\_

Committee staff present:

Arden Ensley, Revisor of Statutes
Fred Carman, Assistant Revisor of Statutes
Russell Mills, Legislative Research
Emalene Correll, Legislative Research
June Windscheffel, Committee Secretary
Conferees appearing before the committee:

Richard W. Ryan, Director, Legislative Research Department Ed Ahrens, Chief Legislative Fiscal Analyst, Legislative Research Department Senator Jack Steineger The Reverend Richard W. Taylor, Kansasns for Life at Its Best

Minutes of the Meetings of March 6, March 20, March 21, March 22, March 25 and April 3, 1985, were distributed for consideration by the Committee. Senator Strick moved that the Minutes be approved. 2d by Senator Anderson. Motion carried.

The Chairman called the Committee's attention to a proposed Senate Concurrent Resolution, 5 RS 1432, which is Attachment #1. The Resolution concerns a proposition to amend the constitution of the state of Kansas, relating to constitutional officers of the executive department of the state. Senator Strick moved that the proposed resolution, which includes making the state insurance commissioner and state treasurer officers of the executive department of the state, be introduced, and that it be referred to the Committee of the Whole, and not be referred back to Committee. 2d by Senator Anderson. Motion carried.

The Chairman introduced Richard W. Ryan, Director of Legislative Research, and Ed Ahrens, Chief Legislative Fiscal Analyst. The Chairman said he had asked them to discuss the fiscal condition and posture of the state at this moment, and they have prepared handouts they would like to give to the Committee. Mr. Ryan's handout on the State General Fund is Attachment #2. Mr. Ahrens' handout on State General Fund Projections is Attachment #3. Mr. Ryan and Mr. Ahrens each explained the handouts and answered questions from the Committee.

The Chairman called upon Russell Mills to make a presentation concerning state lotteries. Mr. Mills distributed copies of a packet he had prepared which included information about starting a state lottery, copies of newspaper articles and magazine articles concerning lotteries and his memorandum on projected lottery income. Mills' packet is part of these Minutes as <a href="Attachment(s) #4">Attachment(s) #4</a>. He also distributed copies of <a href="What It Costs Your State">What It Costs Your State</a> by Not <a href="Joining the Lottery Majority">Joining the Lottery Majority</a>, Attachment #5.

SCR1609 - Authorizing state-owned and operated lottery.

The Chairman called the Committee's attention to SCR1609. Senator Jack Steineger, one of the authors of the bill, spoke as a proponent of the Resolution. The Reverend Richard W. Taylor appeared as an opponent of the Resolution. A copy of Mr. Taylor's handout is Attachment #6. Following their testimony the Chairman asked if there were other conferees. There were none. Senator Strick moved that SCR1609 be recommended favorably. 2d by Senator Anderson. Motion carried. Senator Daniels asked to be recorded as voting "no."

The Chairman called the Committee's attention to SB364 relating to cigarettes and tobacco products and prohibiting the sale on credit or exchange of certain goods and services. No action was taken by the Committee. The meeting was adjourned.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

Attachment #1
5 RS 1432

A PROPOSITION to amend sections 1 and 11 of article 1 of the constitution of the state of Kansas, relating to constitutional officers of the executive department of the state.

Be it resolved by the Legislature of the State of Kansas,

two-thirds of the members elected (or appointed) and

qualified to the Senate and two-thirds of the members

elected (or appointed) and qualified to the House of

Representatives concurring therein:

Section 1. The following proposition to amend the constitution of the state of Kansas shall be submitted to the qualified electors of the state for their approval or rejection: Sections 1 and 11 of article 1 of the constitution of the state of Kansas are amended to read as follows:

The selection; terms. s l. Executive officers; constitutional officers of the executive department shall be governor, lieutenant governor, secretary of state, treasurer, commissioner of insurance and attorney general, who shall have such qualifications as are provided by law. Such officers shall be chosen by the electors of this state at the time of voting for members of the legislature in the year 1974 1986 and every four years thereafter, and such officers elected -- in -- 1974 -- and thereafter shall have terms of four years which shall begin on the second Monday of January next after their election, and until their successors are elected and qualified. In the year 1974 and thereafter, at all elections of governor and lieutenant governor the candidates for such offices shall be nominated and elected jointly in such manner as is prescribed by law so that a single vote shall be cast for a candidate for governor and a candidate for lieutenant governor running together, and if such candidates

are nominated by petition or convention each petition signature and each convention vote shall be made for a candidate for governor and a candidate for lieutenant governor running together. No person may be elected to more than two successive terms as governor nor to more than two successive terms as lieutenant governor.

§ 11. Vacancies in executive offices. When the office of governor is vacant, the lieutenant governor shall governor. In the event of the disability of the governor, the lieutenant governor shall assume the powers and duties of governor until the disability is removed. The legislature shall provide by law for the succession to the office of governor should the offices of governor and lieutenant governor be vacant, and for the assumption of the powers and duties of governor during the disability of the governor, should the office of lieutenant governor be vacant or the lieutenant governor be disabled. When the office of secretary of state, treasurer, commissioner of insurance or attorney general is vacant, the governor shall fill the vacancy by appointment for the remainder of the term. If the secretary of state, treasurer, commissioner of insurance or attorney general is disabled, the governor shall name a person to assume the powers and duties of the office until disability is removed. The procedure for determining the disability and the removal thereof shall be provided by law.

Sec. 2. The following statement shall be printed on the ballot with the amendment as a whole:

"Explanatory statement. This amendment would make the offices of state treasurer and commissioner of insurance constitutional offices of the state.

"A vote for the proposition would establish the offices of state treasurer and commissioner of insurance as constitutional offices of the state. A vote against the proposition would continue the offices as established by legislative enactment."

Sec. 3. This resolution, if approved by two-thirds of the

members elected (or appointed) and qualified to the senate and two-thirds of the members elected (or appointed) and qualified to the house of representatives, shall be entered on the journals, together with the yeas and nays. The secretary of state shall cause this resolution to be published as provided by law and shall cause the proposed amendment to be submitted to the electors of the state at the general election in the year 1986 unless a special election is called at a sooner date by concurrent resolution of the legislature, in which case it shall be submitted to the electors of the state at such special election.

Attachment #2

Kansas Legislative Research Department

April 9, 1985

## STATE GENERAL FUND

## (In Millions)

	FY 1985	FY 1986
Beginning Balance	\$ 95.6	\$ 136.8
Consensus Estimate of Receipts Reco. Transfers Accelerate Insurance Premiums Tax Cigarette Tax (effective 10/1/85)    Adjusted Receipts Shawnee Mission USD Refund Transfer from State Emergency Fund Transfer from Motor Pool Reserves Transfer from Crippled Children Fund Transfer to Tort Claims Fund Transfer to Waste Cleanup Fund Encumbrance Lapses (Through February)    Adjusted Receipts	1,657.1 (.4) 23.2 —— 1,679.9 1.8 .2 —— —— —— —— —— —— —— 1,682.3	1,722.9 .4 3.7 (17.0) 1,710.0 - 2.5 .1 .5 .2 - 1,713.3
Governor's Original Recommendations Budget Amendment No. 1 Budget Amendment No. 2 Budget Amendment No. 3 Legislative Changes, Appropriations (4/7) KPERS Contributions as Adjusted by H.B. 2218 Adjusted Expenditures	1,646.7 (.2) 12.4 <sup>a</sup> (17.8) <sup>b</sup>	$   \begin{array}{c}     1,798.3 \\                                    $
Adjusted Ending Balance	136.8	119.4
Further Adjustments to Balance as a Result of Conference Committee Recommendations: S.B. 78 KPERS - Department of Revenue S.B. 29 Judicial Agencies S.B. 86 General Government H.B. 2102 Health and Env./Public Welfare		(.6) .2 (.1) 1.1
Ending Balance Adjusted for Conference Committees	\$ 136.8	\$ 120.0

a) Includes \$12.0 million for nursing home settlement.

b) Includes deletion of nursing home settlement pending legislative action.

Attachment 3.3

#### STATE GENERAL FUND PROJECTIONS

#### In Millions

			777.04	•	<b>T</b>	TX 05	·,	Projection A		Pro	jection B	EV 00
	FY 1985	Amount	Ver FY 84 Percent	FY 1986	Amount	ver FY 85 Percent	FY 1987		ver FY 86 Percent	FY 1987	Amount	Percent
Beginning Balance	\$ 95.6			\$ 124.4			\$ 108	. 2		\$ 108.2		
Receipts Consensus Est. Gov. Rec. Transfers Ins. Prem. Tax Accel. Cigarette Tax Tort and Waste Transfers USD 512 Refund Motor Pool Trans. CC Fund Trans. Emergency Fund Trans. Total	1,657.1 (.4) 23.2 ——————————————————————————————————	\$110.2	7.1%	$ \begin{array}{c}                                     $	\$ 65.7	4.0%	1,816	.ó <u>102.7</u>	6.2ª	1,833.3.	120.0	<del>7.2</del> % <sup>8</sup>
Expenditures Gov. Rec. Legis. Changes Total	1,658.9 (5.8) 1,653.1	b 155.5 149.7	10.3	1,795.3 (65.8) 1,729.5	136.4 76.4	8.2	1,816	.0 86.5	5.0	1,833.3	103.8	6.0
Ending Balance	124.4			108.2			108	. 2		108.2		
				_		<del> </del>	' 	·		<u> </u>		
Beginning Balance	95.6			124.4			128	. 2		128.2		
Receipts Cigarette Tax Total	1,681.9			$\begin{array}{c} 1,713.3 \\ & 20.0 \\ \hline & 1,733.3 \end{array}$			1,816	82.7		1,833.3	100.0	
Expenditures	1,653.1 <sup>b</sup>	149.7	10.0	1,729.5	76.4	4.6	1,816	.0 86.5	5.0	1,833.3	103.8	6.0
Ending Balance	124.4			128.2			128	. 2		128.2		

a) Based on FY 1986 receipts excluding \$2.6 million of one-time transfers.

Note: This table does not reflect any reduction of receipts if legislation is enacted re agricultural production loans at reduced interest rates.

Kansas Legislative Research Department April 9, 1985

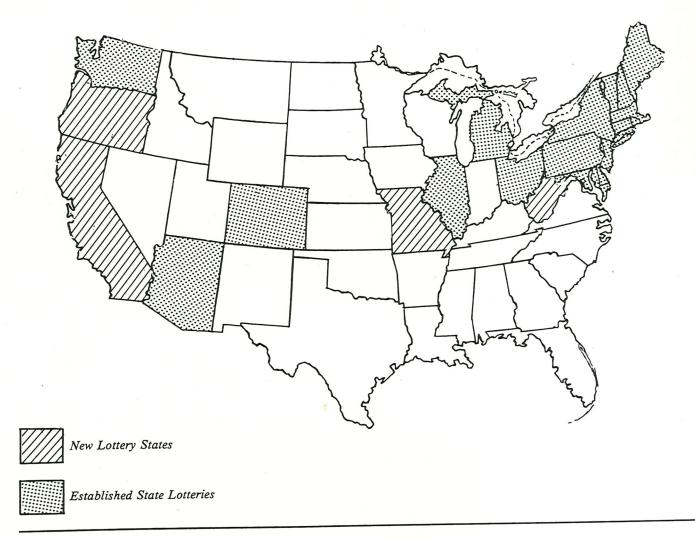
b) Assumes \$12 million expenditure in FY 1985 for settlement of the nursing home law suit, as recommended by the Governor.

c) 8 cent increase effective 7/1/85, assuming no reduction in federal tax rate and no refunds for property taxes on inventories; or the \$20 million could be raised from another source.

# Section 1: Attachment #4

## Starting A State Lottery

With America's heartland and the deep South still opposing lotteries, pro-lottery legislators look to the experience of established states for a starting point.



Your state needs more money. You don't want to raise taxes. You've just about run out of new ideas to raise revenues; you need a plausible way to feed your state's coffer without having it come at the expense of your constituents. What do you do?

For more and more state legislators these days, the answer seems obvious—start a lottery. But for many state law-makers, the idea of a lottery is still as foreign as it was in the early 1960s, before

any state passed lottery legislation. The mechanics of starting a state lottery might be something they simply never considered. Even the terminology–strange words like "lotto," "6/40," "Pick 3"–seems like Greek if,one is used to a non-lottery state.

The coming months offer a unique opportunity to witness how to start a lottery. Voters in four states approved the idea of a state lottery in the Nov. 6 general election, and coincidentally, one way to initiate a lottery-by legislation-was em-

ployed by two states and the other wayby initiative-was used by the other two.

All four new lottery states required amendments to their constitutions to allow a lottery. Lawmakers in Missouri and West Virginia passed bills by majority vote in the legislature to amend their state constitutions, which automatically put the question to the voters in referendum form. Since the voters approved the amendments (by a 66-34 percent margin in West Virginia and a 70-30 percent margin in



Bernard Gotfryd-Newsweel

Lottery tickets from Pennsylvania, Arizona and Washington, D.C., and a Washington promotional sticker: Wagers of sin?

## No Gamble for the States

With recession, declining tax revenues and cutbacks in federal assistance, the 50 states have long been on a losing streak. But last fall three of them hit the jackpot. Weeks had elapsed since a player had won the weekly state lotteries in New York, New Jersey and Pennsylvania; as purses built to near-record levels, lottery fever spread. "People stood in line for two or three hours to buy tickets," recalls Ray Schaefer of the Pennsylvania Lottery Commission. "Everywhere\_you went people were talking about what they were going to do with the money if they won." In just one week in December, the three states sold \$20 million worth of weekly lottery tickets. In the end, \$20 million was paid out to 10 lucky winners-and state coffers were enriched by \$14.3 million.

Lotteries have been around since Colonial days, when they were used to raise funds for some of America's first universities. But of late they have become big business: 17 states and the District of Columbia now stage such games (chart), and according to the Public Gaming Research Institute, 24 others are considering them. In the past 10 years, gross revenues from lotteries have risen almost tenfold to more than \$4 billion, becoming the fastest-growing source of state revenues nationwide.

Painless: While the gambling aspect of the lotteries has sparked controversy—some members of Congress were so disturbed by Washington's lottery, now nine months old, that they obtained a ban on ticket sales on Washington's Mall and in historic Georgetown—proponents say the games provide essential funds in a relatively painless way. "If we didn't have [lottery] revenues, our state sales tax would be at least a point higher," says Connecticut executive director of special revenue A. W. Oppenheimer. "People seem less annoyed at losing their hard-earned money on the lottery than losing it in the form of taxes."

The games have caught on for other reasons as well. Just as the recession increased states' needs for revenues, it kindled the desire to "bet 50 cents or a dollar on a dream," says New Jersey Lottery executive director Hazel Frank Gluck. So-called "instant" lottery games, with cards that can be

rubbed to expose a series of symbols-allowing players to collect winnings immediately—have drawn many to lotteries for the first time. Advancements in technology have made possible computer-generated numbers games patterned after the ones played illegally for decades. Many firms have sprung up to design and operate newly sophisticated lottery systems—and they are thinking up a host of new wrinkles. The most promising are "video game" lotteries, such as those designed by Scientific Games Development Corp., a subsidiary of the gaming company Bally Manufacturing. Unlike games such as Pac-Man and Donkey Kong, the video lotteries are games of chance, not skill-but because they use similar splashy graphics and exciting themes, manufacturers predict state lottery revenues could double once the machines are in operation.

So far, proposals to place the new video

## THE LOTTERY WINDFALL

For the states operating them, the lotteries are a welcome—and lucrative—alternative to sales and income taxes.

In millions of dollars, current fiscal or calendar year

In millions of dollars, current fiscal or calendar year				
State	Total Revenues	State's Share	State's Share as Percent of Total	
Arizona	\$114.0	\$ 38.0	33.0%	
Colorado*	122.0	42.7	35.0	
Connecticut	157.0	71.0	45.2	
Delaware	25.6	9.5	37.1	
District of Columbia*	55.1	15.6	28.3	
Illinois 🔑 👙 🙃	333.3	1429	42.9	
Maine:	11.9	3.4	28.6	
Maryland	455.2	189.2	41.6	
Massachusetts	279.7	92.5	~= <b>33.1</b>	
Michigan	527.4	219.0	41.5	
New Hampshire	12.5	3.6	28.8	
New Jersey	518.0	220.3	42.5	
New York	648.6	282.1	<b>43.5</b>	
Ohio	367.0	140.0	38.1	
Pennsylvania	562.0	230.0	40.9	
Rhode Island	37.0	13.7	- 37.0	
Vermont	4.1	1.5	36.6	
Washington*	155.0	62.0	40.0	

\*Lotterles in operation less than one year revenues to date. Source: Public Gaming Research Institute

Donald D. Garrido-Newsweek

lotteries in bars and liquor stores in states like New Jersey have been delayed—largely because many groups see them as being little different from slot machines. Others oppose any sort of lottery at all. Law-enforcement officials complain that, instead of drawing revenues away from illegal gambling schemes, lotteries have actually helped them. In Washington and New York, operators of illegal numbers games—frequently members of organized-crime familiessimply use the same daily digits, drawing customers with fatter payouts than the legal games provide. And while recent studies of lotteries in New York and New Jersey indicate that nearly three-fourths of all players were white, middle-aged males earning \$15,000 to \$18,000 and up, Michigan State University economist Daniel Suits contends that disproportionate numbers of poor people still play the long odds in hopes of winning big. As a result, Suits and others argue, lotteries often serve as little more than a regressive, if voluntary, tax on the underprivileged.

Worthy Ends: More libertarian lottery proponents contend that people should be free to calculate for themselves the wages of sin. "If a person puts \$10 into a state lottery, you assume that money is his risk capital, says Robert Schleck of the Tax Foundation, a Washington-based research organization. "The state government should not be expected to be the Sunday-school teacher who is supposed to monitor him." Game proceeds, lottery officials argue, are generally cycled back to bettors or targeted for other worthy ends: in Pennsylvania, for example, they make possible tax and rent rebates and free transportation to senior citizens, and legislators are debating whether to spend additional lottery revenues on loans to homeowners facing mortgage foreclosures. Still, the strongest case against lotteries may simply be that they are inefficient: 60 cents of every dollar raised through lotteries goes to prizes and administrative expenses, says Coy Privette, director of North Carolina's Christian Action League, versus the 1 cent on the dollar it costs to collect most taxes. But until paying taxes is as much fun as playing the numbers, lotteries seem certain to continue to be a growth industry.

SUSAN DENTZER with DIANE WEATHERS in Washington, MARILYN ACHIRON in New York and PATRICIA KING in Atlanta TO: Senator Edward Reilly

FROM: Kansas Legislative Research Department

RE: State Lottery

You have asked our office to prepare an estimate of the projected revenues which could be realized if a state lottery were established in Kansas. Such an estimate is extremely difficult to project since many of the variables concerning the proposed lottery have not been determined and could only be determined through the enabling legislation which would have to be enacted after approval of the constitutional amendment. Some of these variables include the type or types of lotteries, the amount of gross sales, the net proceeds retained by the state, and the distribution of the net proceeds.

A recent article in <u>State Legislatures</u> (March 1984) contains information on the lotteries conducted by the <u>17 lottery states</u>. A copy is enclosed. The article notes that per capita net proceeds from state lotteries range from Vermont's \$2 to Maryland's \$46, although the average net proceeds per capita for all lottery states is \$21.53 (FY 1983). The table below indicates possible projected revenues from a Kansas lottery assuming net proceeds per capita of \$10, \$15, or \$20.

Net Proceeds Per Capita	\$ 10	\$	15	\$	20
1980 Kansas Population	2,364,236	2,3	64,236	2,3	64,236
Net Proceeds (in millions)	\$ 23.6	\$	35.5	\$	47.3

### **Revenues Climb**

nue," Powers said. Powers noted that this ability to generate lottery growth through promotion solidified the industry by attracting more states to the lottery. "The addition of ten states and the District of Columbia since 1972 has given strength and vitality to the state lottery industry," he said.

#### **Lottery Growth**

The U.S. lotteries have shown a steady growth pattern since the 1970s in both gross revenues and net income for state coffers. The 1980s have thus far been, monetarily speaking, the decade of the lotteries. All 14 lotteries that have been in operation since the beginning of fiscal 1981 show a steady growth pattern in revenues.

#### **Industry Revenues-1984**

The combined revenues of the 18 lotteries in the U.S. for the fiscal year 1984 were approximately \$6.9 billion, a 29.6 percent increase over the previous year's \$5.3 billion. This makes average revenues for the state lotteries \$382.9 million, a 29.6 percent increase over fiscal 1983.

The increase netted state governments a total of \$2.8 billion in profits for their general funds and special programs, which represents a 32.5 percent increase over the previous year, and an average profit of \$156.8 million.

The Pennsylvania State Lottery led the nation in generated funds, with a record \$1.2 billion in gross revenue. This figure eclipses Pennsylvania's 1983 sales by 39.6 percent, and represents a net income of \$516.3 million for the state's various programs benefiting senior citizens.

Second behind Pennsylvania was Illinois, with an estimated \$911.9 million in gross revenues, a 95.3 percent increase; followed by New York, \$888.7 million; and New Jersey, \$847.8 million (charts next page).

1984's revenues produced a percapita lottery profit of \$29.40, or \$29.4 million for every million in population. This figure can be used to project possible profits for non-lottery states.

California, the nation's most populous state and one with a lottery referendum on the November ballot, has 23.7 million citizens.

Continued on page 58

## PROJECTED ANNUAL 1985 LOTTERY REVENUES FOR NON-LOTTERY STATES

Using 1984 per-capita gross revenue and net income for the lotteries as a base, the non-lottery states can expect to generate funds approximating the following figures.

STATE (all figures in	POPULATION* millions)	PROJECTED GROSS @ \$72.02/CAPITA	PR.NET @ \$29.40/CAPITA
Alabama	3.890	\$ 280.2	\$ 114.4
Alaska	0.400	. 28.8	11.8
Arkansas	2.286	164.6	67.2
California	23.669	1,704.6	695.8
Florida	9.740	701.5	286.4
Georgia	5.464	393.5	160.6
Hawaii	0.965	69.5	28.4
Idaho	0.944	68.0	27.8
Indiana	5.490	395.4	161.4
lowa	2.913	209.8	85.6
Kansas	2.363	170.2	69.5
Kentucky	3.661	263.7	107.6
Louisiana	4.204	302.8	123.6
Minnesota	4.077	293.6	119.9
Mississippi	2.521	181.6	74.1
Missouri	4.917	354.1	144.6
Montana	0.787	56.7	23.1
Nebraska	1.570	113.1	46.2
Nevada	0.799	57.5	23.5
New Mexico	1.300	93.6	38.2
N. Carolina	5.874	423.0	172.7
N. Dakota	0.653	47.0	19.2
Oklahoma	3.025	217.9	88.9
Oregon	2.633	189.6	77.4
S. Carolina	3.119	224.6	91.7
S. Dakota	0.690	49.7	20.3
Tennessee	4.591	330.6	135.0
Texas	14.228	1,024.7	418.3
Utah	1.461	105.2	43.0
Virginia	5.346	385.0	157.2
W. Virginia	1.950	140.4	57.3
Wisconcin	4.705	338.9	138.3
Wyoming	0.471	33.9	13.8
*According to	1980 census figu	res	

seed costs back within 30 days—while others simply waited until the end of the fiscal year. Lottery directors in states that waited to pay are quick to point out that their lotteries had the capacity to pay back within a few months, but waited for bookkeeping reasons. But when considering the lotteries as a whole, average payback time is 6.7 months.

#### Legislation: The First Step

For new lottery states West Virginia and Missouri, the time was obviously right for the introduction of legislation to legalize lotteries, and the pro-lottery arguments in the floor debate were solid enough for passage. Legislators contemplating lotteries in other states can now study the cases of West Virginia and Missouri as examples of successful lottery campaigns utilizing the legislative avenue.

#### West Virginia

For years, West Virginia lawmakers supporting a lottery have sat and watched neighboring Pennsylvania, Ohio and Maryland reap huge profits from their state-supported betting. At the same time, the lottery proponents could see the potential of tapping markets in their bordering non-lottery states—Virginia, Kentucky and Tennessee—as well as the state's own 2 million residents, who per-capita projections indicate will spend approximately \$140 million per year on a lottery (see "Lottery Revenues Continue to Climb," LJ, Oct. 1984).

According to State Senator J. Robert Rogers, who sponsored the resolution to amend West Virginia's constitution to allow a lottery, lottery legislation had been introduced for a number of years prior to its passage. Rogers said the measure had consistently passed the House, but was never taken up for consideration in the Senate because the leadership was opposed to lotteries.

Rogers said he decided the time was right to sponsor the legislation when the Senate leadership changed. When he felt the largest hurdle had been cleared-obtaining the required two-thirds vote in the Senate for passage of a constitutional amendment—the measure failed passage in the House by one vote in 1982. But in 1983, the measure passed both houses, placing the question on November's ballot. The voters approved the amendment by

## LOTTERY STARTUPS: HOW MUCH; HOW LONG?

State	Startup Time	Seed Money	State Repaid
Arizona	7months	\$1,400,000	12 months
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
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
New Hampshire	11 months*	\$ ,250,000	2 months
New Jersey	12 months	\$1,500,000	12 months
New York	5 months	Not avail.	Not avail.
Ohio	14 months	\$2,000,000	4 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	\$1,500,000	5 months
Average	7.8 months	\$1,400,000	6.7 months

<sup>\*</sup>The nation's first lottery was delayed waiting for a public vote after legislative approval.

Source: Interviews with state lottery officials.

nearly a 2-1 margin.

Legislation to enact the lottery, including how the lottery income will be distributed, still needs to pass the legislature in West Virginia, a process Rogers says he hopes to speed up by requesting funding for a subcommittee to meet before February 1985 to draft the bill.

#### Missouri

As with West Virginia, Missouri law-

makers witnessed a bordering state benefiting from an enormously successful lottery. Neighboring Illinois was setting records for sales transaction rates with its lotto jackpots, and a significant amount of the revenue was coming from its neighboring states without lotteries, including Missouri.

According to State Senator Edwin L. Dirck, who sponsored the measure to amend Missouri's constitution to permit a lottery and will sponsor the enabling

10 THE LOTTERY JOURNAL

NEW LOTTERIES are due in four states, but only one is imminent.

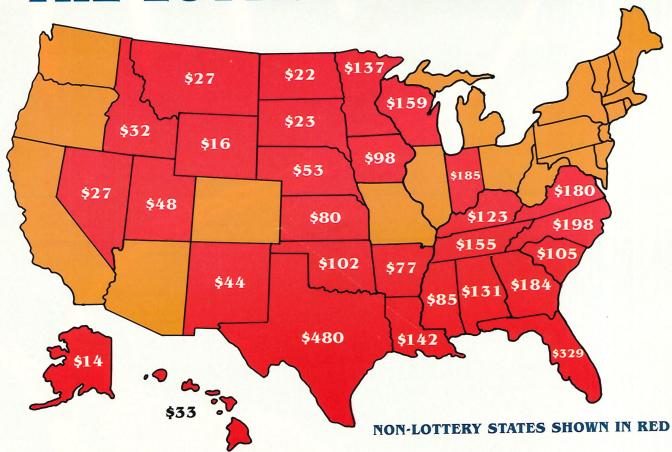
Oregon's is expected to start up on schedule, April 25, after initial expenses of \$1.8 million. The projected first-year payoff: net proceeds of \$40 million, on \$110 million in gross sales. California will miss what was a March 22 target date for starting ticket sales. The state, which has budgeted \$16.5 million to start the lottery and looks for annual gross sales of \$1.7 billion, now looks for a start before 1986. In West Virginia, one analyst expects a lottery bill in July, an actual lottery in October or so. The state expects to spend \$10 million, mostly for computer terminals. Finally, a Missouri legislator looks for a lottery bill and start-up by next January.

As those actions suggest, lotteries are thriving. By the estimate of Public Gaming-Research Institute, a publishing company in Rockville, Md., 18 lotteries had \$8.1 billion in gross sales last year and will top that by 50% this year.

New York reserves its lottery net proceeds for education. This fiscal year's expected amount: over \$600 million.

Well St. Journal

# WHAT IT COSTS YOUR STATE BY NOT JOINING THE LOTTERY MAJORITY



A well-run state-operated lottery can generate significant new voluntary revenues to meet the revenue needs of state governments. In 1984, the 17 established state lotteries and the District of Columbia Lottery generated \$8,075,000,000 in gross revenues (\$84.28 per person per year) and yielded approximately \$3,230,000,000 in net revenues (\$33.71 per person per year). Similar performance by the non-lottery states would generate about \$8,223,000,000 in annual gross revenues and about \$3,289,000,000 in annual net revenues (40%). The annual net revenues in millions of dollars for each of the non-lottery states is shown above.

As a result of the November 1984 elections, a majority of the people in the United States now live in lottery states. State-operated

lotteries were approved in the November 1984 elections in Oregon, California, Missouri, and West Virginia. In Missouri 70% approved and in West Virginia 66% approved.

Scientific Games will be pleased to provide state officials with detailed information, revenue projections, expert testimony, and model legislative bills for state-operated lotteries.

Scientific Games is proud to have been selected as lottery start-up consultant and ticket supplier for all 7 of the new state lotteries started up in the United States in the last 10 years. The new Oregon State Lottery is scheduled to start sales by April 25, 1985—87 days after the contract award.

Contact Robert L. Mote, General Counsel for more information.

## Scientific Games, Inc. The Full Service Lottery Company

a subsidiary of Bally Manufacturing Corporation 135 Technology Parkway, Norcross, Georgia 30092 Telephone (404) 446-0666 Telex: 543646 Scigames Cable: Games

Associate Member, North-American Association of State Lotteries

Associate Member, International Association of State Lotteries

Attackment # 6

Levely Copy

News item: Some congressmen want to start a national lottery



## State Lottery: Suckers Beware

EVER give a sucker an even break," should be the rallying cry of legislators proposing a state lottery this session. Such a form of "revenue enhancement" would indeed raise money — but at what price?

Lottery mania has been sweeping the nation in recent years; 17 states currently operate lotteries — and four more, including Missouri, approved lottery initiatives on Nov. 6. State lotteries have proved a lucrative source of revenue, raising more than \$5 billion in 1983.

But the question is whether gambling is a proper pursuit of government, even for worthy causes such as raising revenues. We don't think so. Wouldn't it look odd for Kansas to be running a numbers game while pledging to protect the public morals? How do you explain to kids the value of hard work when the state tells them betting is a great way to make money?

Granted, state lottery purses are very large, but they are financed by very many dreamers, whose earnings go to a very few, highly-publicized winners. Indeed, the odds of winning anything in a lottery make betting on horses look positively lucrative.

A state lottery, say its supporters, is a painless way to raise money, a "voluntary tax" paid by people who freely part with their money. But parting people from their money is not painless for those who lose. Lotteries are hidden taxes, regressive because they are played mainly by those who have everything to lose — the poor, the desperate. The state is supposed to protect and serve these citizens, not fleece them.

If the state really wants to raise taxes, why doesn't it just raise taxes? This would be cheaper to implement and a lot fairer to everyone. Lotteries may look like easy money, but they are painless only to those counting the cash.

Htch. 6 4/10/85 On roll call, the vote was: Yeas 28, nays 12; present and passing 0; absent or not voting 0.

Yeas: Allen, Anderson, <u>Bogina</u>, <u>Burke</u>, <u>Feleciano</u>, <u>Gaines</u>, Gannon, Hayden, <u>Hoferer</u>, Johnston, F. Kerr, <u>Langworthy</u>, <u>Martin, Montgomery</u>, Morris, <u>Mulich, Norvell</u>, Parrish, Reilly, <u>Salisbury</u>, <u>Steineger</u>, <u>Strick</u>, <u>Talkington</u>, Vidricksen, <u>Walker</u>, Werts, Winter, Yost.

Nays: Arasmith, Daniels, Doyen, Ehrlich, Francisco, Frey, Gordon, Harder, Karr, D. Kerr, Thiessen, Warren.

A  $^2$   $_3$  constitutional majority having voted in favor of the resolution, SCR 1605 was adopted, as amended.

I say, trust the people; let them speak and honor their decision. Leave us not build hypocracy, on hypocracy, by denying again and again their participation. Let the *PEOPLE SPEAK*, let the will of the majority prevail and lets be done with this matter.—JACK STEINEGER

erer, Johnston, Karr, D. Kerr, F. Kerr, Morris, Parrish, Reilly, Salisbury, Talkington, Thiessen, Vidricksen, Werts, Winter, Yost.

Nays: Bogina, Burke, Daniels, Doyen, Feleciano, Frey, Gaines, Gordon, Harder, Langworthy, Martin, Montgomery, Mulich, Norvell, Steineger, Strick, Walker, Warren.

 $A^{2/3}$  constitutional majority having failed to vote in favor of the resolution, SCR 1616 was not adopted.

MR. PRESIDENT: I desire to explain my vote on SCR 1616.

This resolution eliminates 30% of the tax base in Wyandotte County by removing machinery and equipment and inventories from taxation. This escaped property eliminates approximately 100 million dollars of County valuation which means a rate increase for all other property in the County; approximately a 12% increase for homeowners, and a greater increase for small business. I vote "No" on SCR 1616.—JACK STEINEGER

Twelve Senators who vote YES on SCR 1605 and later vote NO on SCR 1616 prove that lawmakers vote on the merits of the proposed constitutional change. That is precisely what they are supposed to do.

According to Article 14, if the Legislature shall approve a proposition for the amendment of our Constitution, such proposition to amend shall be submitted to the electors for their approval or rejection.

According to the Kansas Supreme Court, the relationship of the Senate and House on legislative change is like the relationship of the Legislature and people on Constitutional change.

Senator Steineger is strongly in favor of the right of the people to vote on public liquor by the drink but he is strongly opposed to the right of the people to vote on this property tax classification amendment. Why? He trusts the people to vote on what he wants them to pass but he does not trust their wisdom to reject what he wants rejected. Those who want the change can not lose with a vote of the people, they can only win.

On March 14, 1985, Governor John Carlin speaking to the Downtown Topeka Rotary Club concerning a property tax classification amendment said, "We've got to get a 2/3rds vote to change the Constitution." If lawmakers vote to change the Constitution, the Secretary of State shall submit it to the people.

Speaking to the Downtown Rotary Club in Topeka on October 2, 1980, Governor Carlin told of his desire to protect the reappraisal of urban and rural real estate by passing a Constitutional amendment. He did not say the people have the right to vote on his classification amendment. He said, "It requires a two-thirds vote of the Legislature to win approval of something that is truly good for Kansas." If the Legislature believes public liquor by the drink is truly good for Kansas, the Secretary of State shall submit it to the voters.

Speaking at an Eggs & Issue Breakfast on February 4, 1969, concerning another Constitutional amendment, Senator Bennett who later became Governor said, "We do not vote to submit that which we do not want passed." Lawmakers who want the people to pass parimutuel gambling will vote YES.

Senators who vote YES want to change the Constitution, they believe the change is truly good for Kansas, they want the people to pass the proposed change. Other Senators vote NO.

It's sad to see our States returning to a medieval method of financing. (The first money lottery was established in Italy during the Middle Ages.) It's discouraging to see tax experts, who do know better, defending the lottery as a harmless money-raiser. It was late in the 19th century that Congress outlawed the lottery in the U.S. An "enlightened" nation is reviving the discredited institution.

-STATE LOTTERIES ARE A TAX by Sylvia Porter Wichita Eagle, February 22, 1973

If you must gamble, your best bet is to gamble informally with friends - play poker, place a friendly bet on a basketball game, toss a coin, or whatever. Such private bets among friends pay to the winners 100 cents for every dollar wagered. The winnings exactly balance the losses. That's not the case with. . .state lotteries.

-STATE LOTTERIES: A LEGAL SUCKER BET Consumer Reports, February, 1974

As states and cities find themselves strapped for cash and unable to raise taxes readily, they are yielding to the temptations of legalized gambling to fill their empty coffers. Economists. . .believe that state-run gambling is a big mistake. . . Legalized gambling is an <u>inefficient</u> and <u>inequitable</u> way to raise revenues. Economists regard the money taken by a state from bettors and not returned to them in winnings as no more nor less than a tax - and a high tax at that. In lotteries, it ranges from 45% to 50% of each bet.

-THE ECONOMIC CASE AGAINST STATE-RUN GAMBLING Business Week, August 4, 1975

Gov. Harry Hughes has decided to scrap Maryland's instant lottery, criticized as a game that attracts the poor. . .The game's main appeal is that ticket buyers find out immediately if they are winners by rubbing a covering off part of their ticket. "He's cutting off the worst of the lottery, for sure," said Clarence A. Canary, a lobbyist for United Christian Citizens. "The instant lottery takes more of the poor people's money than the other lottery games."

-MARYLAND DUMPING INSTANT LOTTERY
Sacramento California Union, January 10, 1982

Lotteries - one of the oldest forms of gambling - are spreading anew across recession-squeezed America. . .This, despite warnings from lottery foes like Arnold Wexler of Parlin, N. J., that the benefits in revenues are outweighed by the social problems lotteries create. The outspoken vice-president of the New York City based National Council on Compulsive Gambling charges "We are breeding a society of gamblers - and some of them are going to be compulsive gamblers," and blames the growth of this legalized gaming activity on "media publicity given to the big winners, who are portrayed as heroes."... Moves to set up state lotteries to help ease budget problems are particularly strong in Florida... .Gov. Bob Graham strongly opposes the idea because "it creates false hopes and false promises."

-PINCHED STATES TRY LOTTERIES; HIDDEN COSTS MAY CANCEL GAINS The Christian Science Monitor, January 7, 1983

Recently Charles Hardwick, a New Jersey assemblyman, talked with a woman who tearfully described buying one ticket a week in the beginning and then gradually increasing her purchases to 15 tickets a day. Eventually, she couldn't go out at night without first seeing the daily number being drawn on television. . .such concerns helped kill a lottery bill in Virginia this month. . ."A lot of people get their unemployment or welfare checks and come down here and try their luck," says Cynthia Harris, who sells lottery tickets at the Whitman Card & Tobacco shop in Camden. "Everybody has hopes and dreams, no matter how much money they have." Critics charge that states advertise their lotteries in flashy television commercials, that rarely mention the miniscule odds of winning. "The state's commercials are as skillful and enticing as the ones used to sell sexy perfume," state Sen. Hardy Williams of Pennsylvania complains.

-STATE LOTTERY CRAZE IS SPREADING, BUT SOME FEAR IT HURTS THE POOR The Wall Street Journal, February 24, 1983

## State Lotteries: The Only Legal Swindle

By HERBERT L. KAHN

Before 1969, finance companies and other lenders played some deceptive games with interest rates. The company would lend you, say, \$1,000 to be repaid in 12 monthly installments of \$91.67 each for a total of \$1,100. The interest on the \$1,000 loan was thus \$100, or a "low low" 10%.

Everybody was happy. The customer was happy to get such a low rate. The lender was even happier, since he was actually getting a "high high" 18%. After six months, the customer would already have paid back \$550, which could then be lent out again.

"Where ignorance is bliss, 'tis folly to be wise," wrote Thomas Gray. Congress did not agree, and in 1969 ended the bliss by enacting the Truth-in-Lending Law, which greatly reduced the ability of lenders to misstate their interest rates. (Only a a little leeway is left—credit-card companies still pretend that 1.5% per month is 18% a year, while it's really 19.6%.) Now you're protected. No one can legally swindle you except your State Lottery.

Such lotteries were common during the past century, but then fell into disrepute and died out. They were not reintroduced until 1963, starting with New Hampshire. Today, at least 17 states and most Canadian provinces have official lotteries.

Proponents say that lotteries represent the most voluntary tax imaginable, because nobody is forced to bet. Moreover, they say, the chance of a big win brings excitement into otherwise drab lives.

Opponents argue that gambling is immoral, and that government should not encourage immorality. They also say that

lotteries are a highly regressive form of taxation, because the heaviest betters will be those who can least afford it. Lotteries, they say, are a form of revenue sharing to benefit the rich.

One argument that has often carried the day is that people will gamble anyway. All that a lottery does, this argument goes, is to transfer the profits from Organized Crime to Organized Government.

Not true. Experience shows that soon after it begins, the state lottery is no longer content to sell only to betters defecting from Organized Crime, but conducts an expensive and sophisticated campaign to woo new ones. Organized Crime does not do this. You don't see the Cosa Nostra running press conferences, newspaper ads and TV commercials. Such hype does work: Recently a mania possessed otherwise sane residents of New York state as they bought more than \$24 million worth of lottery tickets.

One reason why such promotion is needed is that the payout of most state lotteries is far stingler than that of other forms of gambling. In the Massachusetts Megabucks Game, for example, the bettor must guess six different numbers between 01 and 36 to win the jackpot. The odds against success are about 1.95 million to 1. The value of the prize can vary—if nobody wins in a given week, the money is added to next week's pool—but the state claims that about 50% of the money that is bet is returned in the form of prizes.

A 50% payout is little enough; in Atlantic City, N.J., or Nevada the payout in roulette is about 94%. Even worse, however, is that the claim is deliberately deceptive. A top prize of \$50,000 a year for 20 years is

not the same as \$1 million. To pay out \$50,000 a year, the state must put an appropriate sum into the bank, where it collects interest. The amount is calculated to run out at the end of the 20-year period. The higher the interest rate, the less the state needs to put in the bank. Even at low interest rates, however, the state doesn't spend close to \$1 million. Some computed figures, at different interest rates, are shown below:

Interest rate	True payoff
5%	\$654,266
10%	468,246
12%	418,289
15%	359,912
20%	292,175

To put it another way, if you receive \$50,000 a year and spend it, after 20 years you will have nothing left. If, on the other hand, you receive a true million, you can buy tax-free municipal bonds at 10% interest, spend the interest—\$100,000 a year, not \$50,000—and at the end of 20 years you will still have your million!

At an interest rate of 10%, the state pays out less than 25 cents per dollar received, not 50% as claimed. (And this is before federal income taxes.)

In order to attract financially unsophisticated people to the lottery, the state misrepresents the winnings in almost exactly the same way finance companies used to do before the Truth-in-Lending Law. It is ironic that today not even the sleaziest moneylender is permitted to do things that state lotteries do as a matter of routine.

Mr. Kahn is president of a marketing company in Weston, Mass.

## Demolishing Some Lottery Myths

uring a visit to St. Petersburg last summer, Florida Attorney General Jim Smith rather casually remarked that he was "taking another look at the lottery question," a statement which spread consternation through the ranks of lottery opponents, who had considered Smith an ally.

It looked as if he might be trying to start a gradual move to the other side. Exactly what he had in mind we may never know, but it is a fact that he did take "another look" (or had his staff do it for him) and earlier this month issued a white paper which makes a devastating case against state lotteries.

He demolishes some of the arguments commonly made in support of lotteries.

☐ PEOPLE ARE GOING TO GAMBLE, ANYWAY.

True, and few opponents argue against lotteries on the ground that gambling is immoral and that we must shun all contact with it.

But, that is no reason to encourage it. And encouragement, through advertising and publicity, is required to have a successful lottery, . Smith found. A report prepared for the California Senate pointed to evidence that lotteries can increase compulsive gambling by as much as ten percent.

Misleading lottery marketing exaggerates the chances of winning. A Wall Street Journal article noted, "In order to attract financially unsophisticated people to the lottery, the state misrepresents the winnings in almost the same way finance companies used to before the Truthin-Lending Law. It is ironic that today not even the sleaziest money lender is permitted to do things that state lotteries do as as a matter of routine."

☐ STATE-RUN LOTTERIES WILL DISCOURAGE ILLEGAL GAMBLING.

False. Says a U.S. Department of Justice official, "Anyone who



look out for 1986

makes the argument that the reason to legalize the numbers business is that it will put organized crime out of business is being disingenuous at best. It just isn't going to happen."

One reason it isn't going to happen is that the illegal game usually offers better odds of winning than the legal lottery. The illegal operator will accept bets on credit. Winnings generally are not shared with the Internal Revenue Service.

Honest consumer advice to the determined gambler would be "Patronize your local numbers game. You will get a better return on your money." (That statement is mine, not the attorney general's.)

☐ BUT, NOBODY LOSES IN THE LOTTERY SINCE THE PROCEEDS GO TO THE STATE.

Well, somebody has to meet the very sizable payroll for the thousands of people required to run a lottery in a large state. Many of the people on the payroll will be friends or relatives of officials who helped get the lottery established.

There will be heavy outlays for advertising, public relations, all the things that go into "marketing," and which, in one state, amount to 27 percent of operating expenses.

Manufacturers of lottery tickets do very well, also. A company which spent \$200,000 to help pass the Arizona lottery later sold (through competitive bidding) \$5.5 million in lottery tickets to the state.

☐ A LOTTERY IS A PAINLESS WAY TO RAISE MONEY WITH-OUT RAISING TAXES.

Painless, yes, if by that you mean that the losers don't complain. But, certainly costly, and weighing most heavily on those who can least afford it.

A lottery is a very inefficient mechanism for raising money. The cost of raising one dollar by a lottery ranges from 58 to 75 cents. Poor families contribute more than their proportionate share. Ticket outlets are intentionally placed in low-income neighborhoods. One study found that, in Connecticut, families with annual incomes of less than \$5,000 account for 1.3 per cent of personal income, but purchase 5.3 percent of the lottery tickets. Nationally, in 1974, poor people bought 280 percent as many lottery tickets as would be in proportion to their share of the national income.

If you consider a lottery solely as a revenue source, it is, in the opinion of experts, two to three times as regressive as the sales tax.

☐ YOU CAN EARMARK LOTTERY PROCEEDS TO BE SURE THEY GO TO EDUCATION OR MEDICAL CARE FOR THE ELDERLY.

Right. And our state legislators, being of somewhat more than average intelligence, will see that state spending is balanced according to their sense of what is fit. All they need do is appropriate less from general revenue for the programs benefiting from the lottery. That is exactly what has happened in states which have earmarked lottery funds.

mith concludes, "As attorney general, I am very uncomfortable over the prospect of an immutable commitment to state-promoted gambling and the eternal necessity for the government of Florida to induce its citizens to bet."

That's good news. The pro-lottery forces will almost surely make another try to amend the state constitution in 1986. Smith will almost as surely be one of the leading candidates for governor. He may be able to exercise some degree of beneficent influence on the outcome of the lottery vote.

# FROM WASHINGTON

### YOUR NUMBER IS UP

On Channel 7, a fellow has been rushed to the hospital with a stupid grin frozen on his face. Doctors tell his wife he's suffering from "smilitis" as a result of winning the Maryland lottery, and "He'll be smiling for the rest of his life." Meanwhile, over on Channel 4, a demographically sound collection of morons (black man, rich white lady with poodle, and so on) extols the District of Columbia lottery in verse. A man dressed as a messenger boy shrieks,

Oye, don't panic! I've got the luck of the Hispanic!

Local Hispanics found his couplet demeaning, and that particular commercial was taken off the air. Really, though, the whole state lottery business demeans all of us.

Seventeen states and D.C. now run these things, which generate over \$6 billion a year in revenue. They started in the 1960s on the theory that some people were going to gamble anyway, and the state might as well get the money instead of the mob. Now, all the genius of American marketing is applied to tempting previously sane citizens into wasting their money. In Maryland the average adult now spends \$3.80 a week on the lottery.

There are three basic types of game. One is a direct imitation of the illegal numbers racket, in which the player bets fifty cents or a dollar on a three-digit number between 1 and 999. The winning number is picked daily. One reason this game has failed to wipe out the illegal number is that the mob pays better odds: 550 or 600 to 1 for a winning ticket, compared with 500 from the state. And the illegal winnings are, er,

tax-free. The state number may even have helped the illegal numbers business by reducing the stigma of playing. In Maryland the mob runs a convenient "night number" game, using the state's own winning number—which the state is kind enough to publicize on the evening news.

Then there's the "instant lottery," in which you buy a card for a dollar and scratch off a plastic coating to see if you've won. Scientific Games, Inc., the company that manufactures instant lottery tickets for most states, has developed a variety of gimmicks for creating a phony sense of excitement out of what is basically a yes-or-no proposition. For example, you might have to scratch off three numbers, to see if they add up to either seven or eleven or twenty-one. Losing cards will tend to miss by one point: "Heartstoppers," they're called. To sell the most tickets with the smallest payout, the trick is to have one big prize for saliva and publicity value and lots of trivial payoffs to string people along.

The newest and sickest game is Lotto, in which the player, for a dollar, picks five or six numbers between one and forty. There's a weekly drawing, and the "pool" (minus the state's cut) grows until there's a winner. This is the game that's been producing all the recent QUEENS GRANDMOTHER WINS \$10 MILLION headlines. Obviously the prizes in Lotto are so big because the chance of winning is so small—1 in 658,008 in the D.C. Lotto, which starts this month. But the ads don't dwell on that.

Indeed, lottery ads usually don't mention the odds at all, or misrepresent them: your odds of "winning," which means winning as little as a free ticket, but not your odds of winning a big prize. The ads also don't mention how much of your ticket money is being skimmed off by the state. Usually it's over half. The pitch is simply: "You Can Win!" Or, as one state slogan insidiously puts it, in an almost perfect inversion of the truth: "You can't win if you don't play."

This kind of deceptive promotion would be flatly illegal if state governments weren't exempt from federal trade regulations. So would the practice of advertising "million-dollar" prizes which turn out to mean \$50,000 a year for twenty years, which is more like \$400,000 in current value—or, after taxes, more like a quarter of a million. What would the F.T.C. say to a private

company that instructed its dealers: "Tell customers how many high-tier [big-prize] tickets remain in the game," but not how many worthless tickets remain? Here are some more "simple tips" from "Lot-Letter," a D.C. Lottery Board newsletter:

"[E]mphasize winning tickets purchased at your business. Encourage ALL of your customers to buy . . . tickets, saying something like 'You could be the next Instant Millionaire.' Personalize your sales pitch by telling anecdotes about winners . . . or by courting your regular customers' special interest ('If you win, you could buy that new car you've been talking about!')."

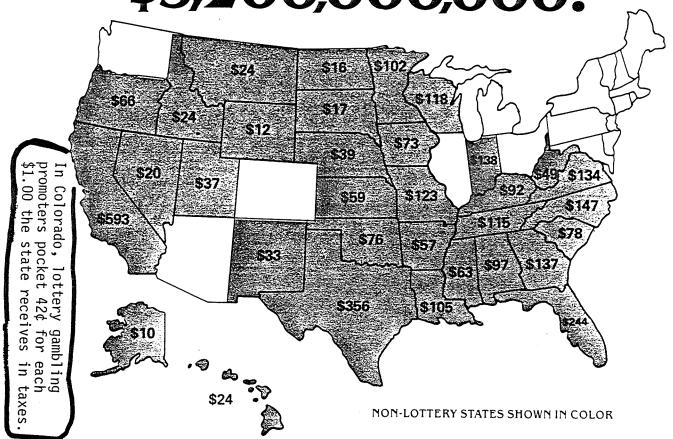
Not all of the lottery revenues siphoned off from the players benefit the taxpayers. Lotteries have turned into another civic gravy train. The D.C. Lottery took in \$54 million last year, returned \$26 million to the suckers, spent \$15 million on administration, and deposited only \$12 million in the city treasury. Firms like Scientific Games (a division of Bally, the national gambling conglomerate) get a piece of the action. In D.C. at least, another piece goes to local minority firms, which the national companies must team up with if they want the business. Sales agents get another piece. And there's plenty left over for "consultants" like a prominent D.C. politico, who got \$24,000 from the Lottery Board recently for "determining marketing concepts" and another \$2,500 for arranging a "retreat" for Board members at a Maryland resort.

This is embarrassing. You needn't share the Tory enthusiasms of a George Will, who believes government has the duty to instill virtue in the citizenry, to be appalled at the spectacle of government promoting vice like a carnival barker. And you needn't share Ralph Nader's enthusiasm for government-asnanny, protecting people at every turn from the wiles of others and their own bad judgment, to be distressed about government itself duping people and encouraging stupidity for profit.

But for believers in active government, what's most offensive about state lotteries is their cruelty. This is clearest in the games with astronomical odds and huge payoffs, which tend to blossom in uncertain economic times. With these games, government holds out false hope to people, while shirking its duty to provide real hope. In state lotteries, government profits from its own failure.

(April 30, 1984, THE NEW REPUBLIC, A Weekly Journal, Founded 1914)

**LS YOUR STATE LOSING ITS SHARE OF** \$3,200,000,000?



A well-run state-controlled and state-operated Lottery can generate significant new voluntary revenues to meet the revenue needs of state governments. In 1983, the 18 established lotteries (including the District of Columbia) generated over \$6,000,000,000 in gross revenues (\$62.63 per capita) and approximately \$2,400,000,000 in net revenues for their 95,800,000 citizens. Similar performance by the 33 non-lottery states would generate approximately \$8,092,000,000 in annual gross revenues and \$3,237,000,000 in annual net revenues (40%). The annual net revenues for each of the 33 non-lottery states is shown above in

millions of dollars.

Scientific Games will be pleased to provide state officials with detailed information, revenue projections, expert testimony, and model legislative bills for state-operated lotteries.

Scientific Games is proud to have been selected as lottery start-up consultant and ticket supplier for all 6 of the new state lotteries started up in the United States since 1976.

Contact Robert L. Mote, General Counsel.

As a result, Missourians will vote No



SCIENTIFIC GAMES, INC.

a subsidiary of Bally Manufacturing Co. 135 Technology Parkway, Norcross, Georgia 30092

Telephone (404) 446-0666 Telex: 543646 Scigames Cable: Games

Associate Member, National Association of State Lotteries Associate Member, International Association of State Lotteries

(<u>March 1984 – back</u> page)

National Conference of State Legislatures 1125 Seventeenth Street, Suite 1500 Denver, Colorado 80202

Those who get rich operating lottery gambling paid for this expensive full page advertisement in a magazine sent to all state legislators, legislative staff directors, governors, and members of Congress. Missouri will vote November 6, 1984, on a lottery.

tails of implementing the lottery when it souri Legislature will work out the ple majority of voters approve, broad guidelines for operating it. If a sim that allows a State lottery and establishes rember 6 on a constitutional amendment

Jefferson City, was one of reconvenes next January. ompany Scientific Games, Inc., Secretary of State's office. In ; 16-tolottery that lobbied for an election officer in the the equipment the major do-Colorado, lottery in ac

maneuvering, Sen. sponsored pass the Missouri Senate on the Ann) . . . with a lobbying assist from a ast day of its 1984 session by a narrow After almost four months of politica ote Is November manufacturer of gaming equip-. . saw the lottery legislation he Edwin Dirck (D-St.

7705 Killarney Court Wichita, Kansas 67206 August 2, 1983

Rev. Richard Taylor KANSANS FOR LIFE AT ITS BEST! Box 888 Topeka, Kansas 66601

Dear Rev. Taylor:

Enclosed is an additional gift to KANSANS FOR LIFE AT ITS BEST! It is inspired by an experience I had while on vacation in Baltimore, Maryland last month.

My husband and I are physicians who had gone to Baltimore to attend meetings at Johns Hopkins Hospital, where we had spent four years on the house staff and faculty. While in Baltimore, we took the car into a garage to have some work done on it. The garage is located near the hospital in a very poor section of town. As we had lived at the hospital, this is where we had always taken the car. The car was later being finished than I had been told, and I was in a hurry to get to another meeting. As I stood in line to pay the bill (\$112.00), I waited behind several people who had come to place their bets for the Maryland State Lottery. I watched as thread bare people read number after number to the attendant and then turned over cash to him. When I reached the front of the line, I was told that I would have to wait until all of the patrons behind me in line had placed their bets, as it was almost time for the lottery to close.

As I waited impatiently in line, I resolved that when I returned to Wichita, I would write you this tale of woe, send you an extra contribution, and pray that we can keep a similar situation from developing in Kansas. I thank you for having available an outlet for my impatience, a channel for the pity I felt for the people in those circumstances, and a chance to help poor people in Kansas from being victimized by the allure of gambling.

Sincerely yours,

Martha S. Housholder, M. D.

Martha S. Hrusholder, M.D.

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UTE PASS COURIER-Thursday, November 24, 1983-Page 11

## Colorado Lottery finding money game a gamble

## Commission may will be spent to promote the lottery this year. That's right, I try numbers game used by Mafia

By SEN. JOEL HEFLEY

The bloom is off the rose, or at least it's fading fast! The Colorado lottery is not exactly in trouble, but there are storm clouds on the horizon.

Response to the lottery is slowing down. We knew it would happen. All the predictions pointed toward an initial flurry followed by stagnation.

This was hard to think of. however, in the spring of 1983, when lottery revenues were rolling in at the rate of \$1 million a day. We thought we had discovered the secret of the Midas touch! This abundance of "found money" was greatly coveted for all kinds of purposes and did play a substanial role in solving the state's fiscal crisis.

Mostly, the government's share of these revenues went to parks, recreation, and capital construction. While there was some concern that these monies were simply replacing existing allocations and were not adding much new money to these vital areas of need, still much was being done that could not have been done otherwise.

Now, with eleven months of experience, we can look back and see that state and local government has received millions of dollars of new money. We can also take some pride in the fact that there has been no hint of scandal surrounding the lottery.

The downside is, however, that interest in the lottery is dropping off. Understandably, this has caused the Lottery Commission to begin scrambling for ways to restimulate interest. Recently, two approaches have surfaced.

First, it's the intent of the Lottery Commission to continue and, perhaps, even increase the promotion of the lottery. The budget figure that I have seen most often is \$42 million, which

said \$42 MILLION to encourage the people of Colorado to put their money into a "get-richquick'' gambling scheme, rather than into other goods, services, investments, or savings! There is something that doesn't seem quite right about ; that, and I'm afraid that many of the voters who approved the lottery at the ballot box would not have done so if they had understood that it would take such a monumental effort to keep it alive.

Secondly, the Lottery Commission if looking for more exotic ways of enticing us to give them our money. At present, they seem to be This is better known to the eastern Mafia as "numbers." In this, each player would select By RAY FLACK six numbers between 1 and 36. The sales clerk at a retail outlet would enter these numbers into print a ticket for the player. A public drawing would be held sales to a relative trickle. approximately once each week, for new equipment to establish Started Jan. 24, 1983. this new game!

running numbers and sent to could be as high as \$60 million. jail. If the state does it, it's ! next step? Presumably, people launch of any state lottery. will get tired of this game, also, state-owned casinoes? wrong for private enterprises to three. get into these businesses, but the state can do no wrong would go for good purposes.

<u>The Denver Post, Sunday, January 15, 1984</u>

## State lottery goes from sales torrent present, they seem to be leaning toward establishing what they call a "Lotto" game. To relative trickle

Denver Post Staff Writer

The first year of the Colorado a computer which would then lottery has been one of going from riches to rags, from huge daily

That dilemma dims the fact the and prizes awarded. It would lottery has sold more than \$206 milcost approximately \$25 million lion of instant-game tickets since it

Before the first ticket was sold, Now, come on! If the Mafia officials confidently predicted that does it, we arrest them for sales during the first 12 months

To everyone's surprise, during okay. What kind of distorted the first 45 days of the lottery, a sense of morality are we playing total of \$48.9 million tickets were with here? And, what is the sold. This was the most successful

The fever-pitch sales of more so why not state-owned slot than \$1 million a day continued machines? Or, perhaps, even through the second game, then be-It's gan gradually to slow with game

Fifty million tickets were sold in game four, but it took more than because some of the money 100 days. And now, the latest game, which began Oct. 31 has talfied sales of only \$18.5 million in 75

Lottery Director Owen Hickey warned last week that sales will not meet projections of \$140 million for this fiscal year, which ends

June 30. He said they may be as much as \$20 million behind the projection.

If Hickey's prediction holds true, it will mean each Colorado municipality will have to revise its budget for parks and recreation improvements by a minus 7.5 percent.

The lottery hopes to boost sales by starting a numbers game, which would require installation of small computers in retail outlets. The player would select a series of numbers, which would be punched into the computer and return him a printed ticket. A daily or weekly drawing would determine the winning numbers and the amount of the prize.

The lottery proposal for a numbers game faces a stiff battle in the Legislature. Last Monday, the Joint Budget Committee approved an appropriation of \$420,000 that would be used as a starter for the game.

The appropriation, which represents only one-third of the total amount the lottery has sought, must be approved by the full assembly. If approval is given, lottery officials say they will begin preparations for the numbers game.

## THE DENVER POST

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# Expanded state lottery would be a sucker bet

OLORADO politicians, blinded by the promise of "easy money" to fuel their spending programs, seem eager to turn what has so far been a fairly harmless state lottery into a "wide-open" game intruding into every nook and cranny of Colorado. With the honorable exception of State Rep. Gerald Kopel, few state officials so far have worried about whether such wide-open games would invite organized crime to Colorado and pave the way toward legalized casino gambling.

Now the man who actually spends the lottery's profits, State Treasurer Roy Romer, has shown rare political courage by asking whether the state 'should put its great moral prestige behind a costly crusade to persuade citizens to gamble. In a press conference today, Romer will urge a grass-roots effort to block the lottery's expansion into the "numbers game" and, later, into "on-line" computerized gambling.

Romer's leadership is both timely and welcome. Colorado seems poised on an ominous threshold — about to enter what G. Robert Blakey of the Cornell Institute on Organized Crime calls the "third phase" of state lotteries. In a landmark study published in 1979 in the Journal of Social Issues, Blakey described that phase as one in which greedy states, no longer satisfied to cater to existing gamblers, "create markets for the lottery.

"The bureaucracies which administer and advertise the lotteries have a vested interest in their success. ... Raising money has become the paramount government concern with respect to lotteries. Patrons of illegal games apparently cannot be enticed in great numbers to

play the government's game, so the government must find customers who will. Now that the states have entered the lottery business, the vast power of the government is directed toward fashioning new bettors."

Quite clearly, that is what the Colorado lottery commission and its staff has in mind. It's not that the simple ticket game originally authorized by Colorado voters has failed. It was originally predicted to gross \$60 million its first year — and actually seems likely to nearly quadruple that, with \$218 million. Its existing revenues are more than ample to provide the parks and recreation projects which were waved before voters to entice them to approve the lottery.

But the state has increasingly sought to divert lottery funds for uses other than parks — and to swell lottery profits with no regard to the social consequences of increased gambling.

If the legislature ratifies the plans already approved by the Lottery Commission, the next phase will bring "online" video terminals at groceries, convenience stores and all the other lottery outlets. It will mean an incredible \$42 million promotional budget in the next five years urging people to gamble. It will mean an outlay of \$25 million for gambling equipment. The games themselves will be indistinguishable to average voters from video slots and other illegal gambling apparatus, except for the smiling exhortations from state politicians - urging citizens that it is not only legal to play these games, but almost their patriotic duty to make money for the state by doing so.

Worst of all, the three-digit numbers

game now weighed by the Lottery Commission is exactly the same as the illegal "numbers racket" on the East Coast. Running it in Colorado would invite illegal operators to set up parallel games here, basing their racket on the very numbers announced nightly by the state on TV. The existence of such illegal games, piggybacked on the state-operated games, is well-documented in other states.

Ultimately, the threat of another petition drive to open the state to casino gambling cannot be overlooked, either. How can voters be told convincingly that casino gambling is wrong, when its only real difference from the state-run games is that casinos give players much better odds — while opening the door to organized crime?

- Gambling advocates already have accused Romer of trying to "legislate morality." But the moral issue isn't whether the state permits gambling, but whether it actively promotes it. For example, it isn't against the law to commit adultery in Colorado. But the state doesn't spend \$42 million urging people to commit adultery and running "hot-sheet" motels to swell the state treasury. Likewise, the state taxes the sale of cigarettes and liquor in Colorado, but the state doesn't buy television time, newspaper space and bill-board signs to promote the products.

Wide-open gambling — whether in lotteries or casinos — is a sucker bet. We hope other politicians have the courage to follow the lead of Romer and Kopel and flatly refuse to expand the lottery beyond its present realm — which is handsomely profitable as is.

by: John Workman

There's one point, at least, on which we agree with those who would change the state constitution to legalize casino gambling in Garland County: That it's "time for Arkansans to look at gambling in a new way," as suggested by one of the proposal's sponsors.

The "new look" we propose, however, is something other than what proponents of state-approved gambling have in mind.

That new look involves at least two elements: An honest assessment of what's happening to the numerous states (16 currently) that have given legal status to various forms of gambling, and an evaluation of what's happening to American society because of the proliferation of the something-fornothing mania that has reached almost epidemic proportions.

It is, indeed, time to look at gambling in a new way.

One of the most noteworthy evaluations of the proliferation of state-operated lotteries and casinos is a study by Ross Wilheim, professor of business economics at the University of Michigan and a former proponent of state-sponsored gam-Obling. As reported in USA Today, Wilhelm said he was On "completely wrong and naive" in that position and has reversed his stand. Some of Wilhelm's observations are note-

\*That legalized gambling has been a "poor source" of revenue for state governments - to the extent that such collections have been "trivial."

\*That contrary to proponents' claims, state-authorized gambling has had "no impact upon illegal gambling" and rackets. "Indeed," Wilheim said, "the existence of such state-sanctioned gambling may have contributed to expanding the market for illegal gambling."

\*That state-sponsored lotteries and other forms of gambling

are "rip-offs."

"The visciousness of the state-run games is compounded beyond belief," Wilheim says, "by the fact that the state governments actively advertise and promote the games and the winners. The rip-off involved in state-run gambling operations is far worse, from the consumer's viewpoint, than anything that can be found in business." He calls the trend to legalize gambling "a bad change in public policy."

In addition to all the above, and more significant many would say, are the moral arguments against gambling. The something-for-nothing compulsion strikes at the root of society's most important foundations. It undercuts personal responsibility, weakens the work ethic, promotes a "free lunch" mentality and preys on those least able to afford its costs. It is unavoidably associated with such undesirable elements as organized crime, prostitution and drugs.

## THE DAY THE STATE LINED UP

#### An Editorial from the Camden NJ Courier Post

"Only in New Jersey," a clerk at a local delicatessen muttered last Thursday as she surveyed the line of customers that had snaked its way up one aisle of groceries and down another. They weren't there to buy cold cuts.

The New Jersey Lottery Commission sold 10,475,527 tickets for its "Pick-6" lottery last week-pretty brisk sales in a state of 7.5 million people.

The lottery "fever" produced some strange sights, even for the Garden State. Lines formed at gas stations, not at the pumps, but outside grimy little offices. Lines stretched across liquor store parking lots, as if a beer shortage

was in the offing. Lines spread down sidewalks in front of candy stores and news stands.

Everywhere, it seemed, was a line, because everyone, it seemed, wanted a chance to win \$10 million (\$9.5 million, as it turned out, split between 13 winners.) "Lotto-mania." the newspapers dubbed it.

If people had gone crazy, at least they did it good-naturedly. We heard no reports of frayed nerves or short tempers, the plague of other long waits - at the inspection station, during the energy crisis. Hope apparently soothes, and hope is the essential ingredient in the lottery's

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success.

The odds, which are awesome, don't seem to matter so long as there is a chance - any chance - on winning the big prize. For a dollar, people get to dream their financial worries are over. Even if it never comes true, at least they had a dream. Or so the lottery's supporters say.

Some of us still remember when gambling was frowned upon by at least part of the population. Now nearly everyone's lined up to play the lottery or off to Atlantic City to feed the

Watch people wait two hours in line to spend \$10, \$20 and \$50 on lottery tickets, it occurred to us that maybe the old-timers who saw gambling as a vice and used the law to repress knew something about human nature. Gambling has always been with us,

legal or not, but, since the state decided not just to allow it but promote it, it is pervasive. In those long lines, a lot of lost time and diverted ambition was on display along with those fervent hopes.

Losing may discourage bridge players or golfers, but not gamblers. As soon as one Pick-6 lottery number is drawn, the quest for another begins. The Lottery Commission, like the casinos, has found a formula that works.

Lottery sales like casino profits. keep going up. State officials say that's great. More money for the elderly. more money for education.

Perhaps. But try finding a place for the elderly to retire by the sea in Atlantic City. Or ask a teenager what he has learned from watching his elders line up for easy money.

## **EDITORIALS**

## The Seattle Times

AN INDEPENDENT NEWSPAPER Founded August 10, 1896

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## TROUBLED NUMBERS GAME

## Let the lottery die an unmourned death

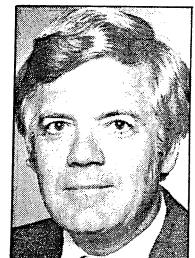
ITH the popularity of the state lottery on an unmistakable slide, the stage is being set for abandonment by the Legislature of an unwise venture that never should have been attempted.

At the moment, Sen. James McDermott, D-Seattle, chairman of the Senate Ways and Means Committee, is trying anew to kill the so-called on-line games, Lotto and Triple Choice, arguing rightly that they're "a bad source of revenue for the state. But McDermott's proposed legislation to phase out the games doesn't go far enough.

The Legislature should move now to declare its intention to

let the entire lottery operation die an unmourned death at its natural expiration date in mid-1987. All of the state's numbers games already have gone on long enough, but a two-year phase-out would permit an orderly conclusion of the project, including steps to replace revenues now coming from lottery patrons.

The case against the lottery has been strengthened in recent days by disclosures that operating deficits are rising even more steeply than had been predicted. Expenses during the present budget period are expected to exceed the formula by \$3 million, rather than the \$2



Sen. James McDermott

million estimated in late December. The net effect of the shortfall means the Legislature will have to "loan" the lottery money that otherwise would be deposited in the general treasury.

Meantime, the lottery has come in for criticism on grounds of false advertising. The promise of a \$1 million Lotto prize — featured prominently in sales pitches — does not, it turns out, mean that winnings will be that big. If more than one person picks the winning numbers, the prize is divided proportionately.

While many players continue to patronize Lotto, interest plainly is waning in the instant ticket games and in the on-line Triple Choice contest. Overall revenues may drop even more as neighboring Oregon gets its newly authorized numbers game under way.

Moving to end the lottery here would ease concerns among law-enforcement officials. And, in an era when many other states are operating lotteries, Washington could gain a touch of class by being one of the first to abandon a tacky and highly unreliable method for meeting budget responsibilities.