

Legislative History for Connecticut Act

SB 54	PA 212	1996
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Senate

Monday, May 6, 1996 004259

The motion before us is an appeal of the ruling of the Chair. A yes vote or a green vote would indicate that you support the appeal. A red vote supports the Chair's ruling. Members please vote.

I'm sorry, Senator Eads, your district is still locked into the machine up here. Have all members voted? The machine will be locked. The Clerk please take a tally.

THE CLERK:

Total number voting, 36; necessary for passage, 19. Those voting "yea", 18; those voting "nay", 18.

THE CHAIR:

The motion fails.

THE CLERK:

Page 4, Calendar 428, Substitute for SB54, File 616, An Act Establishing the Connecticut Lottery Corporation. Favorable Report of Committee on Finance. The Clerk has four amendments.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Madam President. I move acceptance of the Joint Committee's Favorable Report and passage of the bill.

THE CHAIR:

The question is on passage.

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SEN. NICKERSON:

Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

I would ask the Clerk to call LCO --

THE CHAIR:

Just a moment, Senator Nickerson. Ladies and gentlemen, could the Chamber please come to order. Members and guests take your conversations out into the hallway. We have a lot of business before us this evening. Senator Nickerson.

SEN. NICKERSON:

Thank you, Madam President. I would ask the Clerk to call LC05771 please with my name on it.

THE CLERK:

Senate Amendment Schedule "A", LC05771 offered by
Senator Nickerson and Senator Rennie.

SEN. NICKERSON:

Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

I would move the amendment, seek leave to summarize, and ask that the vote be taken by roll.

THE CHAIR:

I'm sorry, did you move for adoption?

SEN. NICKERSON:

I moved adoption of the amendment, seek leave to summarize and asked that the vote be taken by roll.

THE CHAIR:

The question is on adoption. Please proceed.

SEN. NICKERSON:

Madam President, if I may, I'm going to take some extra time on this amendment because it is a strike everything amendment and becomes the bill, and thus it is key that the members understand this amendment to the same extent as they would the bill.

Ladies and gentlemen of the circle, I suggest to you that the process by which this amendment comes before us is the legislative process at its very best. We've had a hearing in this bill, extensive testimony, extensive negotiation between the House and Senate, bipartisan negotiation between the counsels on Republicans and Democrats, management and labor.

A very wide spectrum of input has been sought on this bill and every attempt has been made to accommodate the goals of all the parties and I believe that has produced an outstanding piece of legislation before us.

Let me move through the key goals of this bill if I may. First and foremost, the purpose of this bill is to create a quasi-public corporation which will operate the present business of the Lottery now operated by the Department of Special Services. It will be freed from the vendor and budgeting restrictions and encouraged to operate as an entrepreneurial venture, making decisions on a return on capital basis.

Let me return a moment to the budget. At present, the Department of Special Revenue operates the Lottery system. Its expenses are on the appropriations side of our general fund ledger. Its revenue is on the revenue side. There is no policy connection between those two. By placing the entire enterprise under a single roof, the managers of this corporation will have the ability to make budgeting decisions, to spend money or not spend money as they deem in the best interests of the revenue collection possibilities of the enterprise.

And that is as it should be, because unique to my knowledge of any department of government, this is effectively a business. A retail marketing business with hundreds of thousands of customers, with employees, with assets, and with effectively, we don't call it that, a profit motive in the sense of a revenue motive. No other department that I'm aware of has that

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motivation and it's appropriate we place that in an entrepreneurship mode.

I mention revenue and you can clearly see from the fiscal note of this amendment, how significant the potential revenue increases are from this quasi-public corporation. And this continues, I might add, a long trend of some 22 years of operating a Lottery in this state whereby there has been a constant increase in revenue, this marks a significant potential for further increases.

A third key feature is improved regulation. That alone would make this bill worth doing because we now have the anomaly whereby the Department of Special Revenue both operates the Lottery system and regulates it. And while that has worked reasonably well, I would submit to you and I think you would all agree that a separation of operation into a quasi-public corporation and regulation in the Department of Special Revenue is desirable.

Fourth, this maintains legislative control. There will be no expansion of Lottery games currently allowed. And here let me pause with some real emphasis and place in legislative intent, a statement which I'm about to make that is not made lightly. It's made after consultation with the Governor's office and his

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counsel, with the Office of Policy and Management and their counsel, with members of the House and Senate, Republicans and Democrats. And the statement is as follows: It is the legislative intent of this Body that the legislation before us does not, does not, authorize on line Keno games, or the same game by a different name. That operation is not considered within the meaning of the word Lottery as used in this amendment and this amendment is not to be construed as authorizing an on-line Keno game or a replication thereof.

And further to the matter of legislative control, I would suggest to you that every word of this bill remains subject to further legislation, so that if down the road we feel that further refinements are needed, and they may be, as they often are, we have the authority to do that.

So I'm confident that we are not expanding the types of games that can be offered and we are retaining appropriate legislative control.

Fifth, privatization. We have an appropriate level of privatization mindful that the existing business already has a significant level of privatization. The sales agents that sell the tickets have a role that is recognized here and I might add

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that their commission is protected at a 5% floor as is now the case, that the computer system which operates to link this whole system together is in place and something that the operation has the ability to continue to do, that the vendors who sell tickets and other matters can be expected to continue.

We placed in the statute the term, management expertise, as something that the operators could contract for and it's our intent that this be broadly construed to include computer services, software, field support and other such matters, and similarly, we've included marketing expertise as contractible items as it were. And this would include advertising, telemarketing, and other features.

Now, I mention this next, not by accident. While recognizing the importance of privatization, we equally well recognize the importance of the collective bargaining status of the current employees. The current collective bargaining agreements are explicitly recognized and that concept has been agreed to as a result of extensive negotiations between management and labor.

So I feel confident that you will find this is supported by those who uphold the collective bargaining system in general and specifically those who are part

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of the collective bargaining units that are part of the special revenue department.

Seventh, let me make clear, perhaps you all realize, but let me double make clear, there is no sale authorized of any ownership of the Lottery. Moreover, there is a specific rejection of the board of directors' ability to sell any part of the Lottery or to create a partnership and that's important because a sale is only conceivable in a partnership mode. So we authorize no sale and we specifically preclude a sale.

Like other departments, this corporation will be subject to the strictures of the Ethics Commission, as it should be. Like other departments, it will be subject to the strictures of the freedom of information, as it should be. And finally, for those who are concerned about its expansion of casino gambling, there is additional dollars placed in this bill for compulsive gambling.

All of the features that I have mentioned have been extensively discussed. Input has been sought from many members of this Chamber, their staff and counsel, and I believe the bill is now one that comes as close as possible to achieving a consensus objection. A good bill and it ought to pass.

Thank you, Madam President.

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THE CHAIR:

Thank you, Senator. Will you remark further?

Senator Sullivan.

SEN. SULLIVAN:

Thank you, Madam President. Bobbie Rymers, who many years ago, not that many years ago, served here as a State Senator and who I knew when she was a staff person, had a favorite expression, and that expression was the mountain moved and out popped a mouse.

And so, compared to the mountain put before this Legislature, there is now a mouse before us, albeit a rather ugly one and one that might better represent another in the family rodentia.

It is certainly true that this amendment addresses many of the fundamental objections to the proposal put before the Legislature last year and again this year in the Governor's address to the Legislature touting the soon to be accomplished sale of some or all of Connecticut's prime Lottery asset.

To the extent that that is ostensibly, no I would agree, expressly no longer part of this bill, let us be clear that that proposal to sell some or all of the Lottery is as dead as dead can be with this vote today. And given the comments of my constituents, and I suspect all of our constituents, it is clear that that

result is very much what the people of the State of Connecticut have wanted for they have never understood as well they shouldn't for one moment, why the proposition to sell off part of the family silver and indeed, one of the finest pieces of the family silver was ever before the State of Connecticut in the first place, except of course they did understand its role in addressing the fundamental gaps in the budget adopted last year. And of course we have found a new gimmick to take care of that problem in the last few days.

What is before us now, and this invocation of consensus I suspect is a bit overstated. What is before us now? First, before us is a proposition that takes off budget a \$26 million portion of the state's enterprise and Senator Nielsen who is not with us at this moment, might think about what the consequences of removing an additional \$26 million off budget are when it comes time to compute next year's spending cap.

We lose the opportunity to control. We lose the opportunity to direct. This bill is certainly clear, this amendment, excuse me, is certainly clear in offering to the employees of the Lottery system, a guarantee of no layoff, positively clear. And instead, offering to other employees throughout state service, the certainty of a layoff when they are bounced out of

their job because what this bill says is, if you work for special revenue in the Lottery division and you don't want to work for the new Lottery corporation or there's no place for you in the new Lottery corporation, you have an unlimited, absolute and total right to take the job of any other state employee and bounce them out of state service.

That's not speculation. It is literally true. It is literally what's before us. And while I appreciate the effort to protect the employees of the Lottery division, I wonder if anybody had a care about the remainder of the state employees, who, through no fault of their own and through no layoff in their own division or own department, faced the prospects of being pushed out of work as we go about this bill.

Lord only knows, and I would ask, but I'm not sure I have time for the answer, how much money has been expended already, to bring us to this point in time. Expended in consultants' fees, expended in study fees, expended in accountant fees, expended in fees upon fees upon fees ever since this study was built into last year's budget.

Some would suggest that figure is now well in excess of a quarter of a million dollars. I believe that is accurate. That is a quarter of a million

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dollars to bring this piece of paper here today. A quarter of a million dollars that I think might better be spent elsewhere.

This bill talks about the consequences of an adverse revenue decision on the treatment of the new Lottery corporation. What that means is, the proponents don't know what the revenue treatment of the new Lottery corporation will be. Therefore, they have posed in the bill some alternatives. So we act today as we were acting throughout the debate on this earlier proposition, with no knowledge and no conclusion as to how this fits with IRS, as to how the necessary expanded advertising fits with FCC, nor, and the bill talks about this, the relationship of expanded gambling under this proposition and our present participation in power ball. So there's a missing piece.

What else does this bill do? Well, fundamentally it does one thing and it's appropriate that there's money authorized in here for gambling addiction, because I would respectfully suggest that this is a measure of the gambling addiction that we have been under in trying to balance the state budget for some time.

If there is anyone in this room who can honestly say this does not represent the prospect of a

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substantial, excuse me, the guarantee of a substantial expansion in petting gaming through the Instant Lottery in the State of Connecticut, then there is no credibility left in this Chamber because that is the fundamental premise upon which this expansion is premised, that there will be more games, more players, more disposable income put into Instant Lottery sales and other Lottery sales in order to balance the budget.

So what we have found in lieu of honest revenues of course, is excuse me, what was it, a system of voluntary taxation, another name for throwing money away on lotteries in the State of Connecticut.

So there are many people I know in this circle who have argued, Senator Nickerson, Senator Fleming and others, vociferously and fundamentally and principally about the evils of gaming and gambling in Connecticut. And they will come back and say, but we already do this. And of course the answer is, no, we don't. Because if we already did this, we wouldn't need legislation to authorize 12 new games. We wouldn't need the prospect of this new entity in order to maximize, read increase the revenue we take from gambling in the State of Connecticut because that's what this amendment and what the underlying bill were originally all about.

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Senator Nickerson tells us that as a matter of legislative record, we are to believe, and we believe him, but we worry about what a court will say in the future when there is no ambiguity in the bill, that somehow we are to read into this by dint of a statement, that Keno is off limits.

If Keno is off limits, and we will return to this in a moment, then we ought to say it's off limits unless and until the Legislature of the State of Connecticut decides otherwise and not some new entity which is one step removed from the people, one step removed from accountability to the Legislature and the population of the State of Connecticut.

So I do not see in all due respect, that we have come very far. Yes, we have driven a stake into the heart of the proposition of selling off the state Lottery, at least for today. We accept that the bill makes clear that this new entity cannot defease, cannot sell, cannot assign, cannot give partnership interest in, the state Lottery.

And that, I think, is an important part of this bill. But make no mistake. Those who advocate for this proposition, at least the original underlying one, have no intention of ceasing that advocacy.

Senator Nickerson speaks of privatization. He and

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I had an opportunity to debate this for the many viewers I'm sure, who wanted to tune in and watch the scintillating show that he and I taped together. And the question is now, given where we started, is there really any privatization at all here. If you oppose privatization, you will stand up and applaud. Because the answer is, other than the tiniest, thinnest, microscopic sliver of difference, the only privatization that exists in this amendment is the privatization that exists under current law.

So let us not pretend that somehow this a major step forward in privatizing a state agency or a state entity. It clearly is not that. What it is, is a new agency, a new bureaucracy, outside the state budget, outside most of the accountabilities that we expect, outside the purview largely of the Legislature, making decisions about how much more gambling we should have in the State of Connecticut. It's nothing more, and it's nothing less than that.

And in order to deal with that in two respects, I would at this time, ask that the Clerk please call LCO6519. I'm sorry, we're in bid amendment. We will adopt the amendment and then I will go to the amendment I want to call. I'm sorry, Senator Nickerson. We will dispose of this matter first.

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And let me close on the amendment by saying that this is an improvement, and I comment the folks who worked on it this weekend, including representatives of our staff, and we thank Senator Nickerson and others that have had the opportunity to have input at least to that conversation.

It is an improvement. I would certainly hope that nothing worse than this leaves this Chamber tonight, but I would say we are still walking down a path that Connecticut ought not walk down.

THE CHAIR:

The question before us is Senate Amendment "A". Will you remark further? Senator Nickerson.

SEN. NICKERSON:

Thank you, Madam President. I certainly wouldn't put the circle through the well, I won't put an adjective to the experience. As you know, Senator Sullivan and I have debated this extensively on air, so I won't go over all of that.

I will just mention two points that my good and generally careful friend, Senator Sullivan, mentioned. One was employee bumping. In a single sentence, it is crystal clear under this amendment and state rules, there's absolutely no employee bumping out of a job. That is to say, those employees who do not choose to

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work at the quasi-public corporation, or those who are asked not to work there, and who under this statute, this amendment, are given another position in a state agency, they bump no one. No one is bumped out of a job that just couldn't be clearer.

And secondly, there was brief mention of the so-called FCC problem. The FCC problem if there was one, was an advertising stricture that applied, or would have applied should there be an effort to sell a partial ownership of the Lottery. Since this amendment has nothing to do with the sale of the Lottery or any portion thereof, I would submit there is no FCC problem. Thank you, Madam President.

THE CHAIR:

Thank you, Senator. Senator Jepsen.

SEN. JEPSEN:

Thank you, Madam President. Through you, if you will, to the proponent of the amendment.

THE CHAIR:

Please proceed.

SEN. JEPSEN:

It's just a clarification on some of the rights and powers that are being defined or created. In line 360, you mentioned some of the attributes that are associated with management expertise. I just wanted to

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flush it out.

You mentioned computer services, software services and agency services. Would you also be talking about things such as you know, warehousing, distribution of tickets, communications, field staff support, hiring and firing of field staff support services, things of that nature?

SEN. NICKERSON:

Through you, Madam President, yes. All of those would be examples --

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

-- not exclusive examples of the ability to contract for management expertise.

SEN. JEPSEN:

Right, including but not limited to.

THE CHAIR:

Senator Jepsen.

SEN. JEPSEN:

And then in the same line, marketing expertise, you mentioned telemarketing, I think. But you're talking about general advertising coordination as well, not limited to, but including.

THE CHAIR:

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Senator Nickerson.

SEN. NICKERSON:

Yes, that's right. I would agree with you. Those are the examples of, those would be nonexclusive examples, but valid examples of the extent of contracting for marketing expertise.

SEN. JEPSEN:

Thank you.

THE CHAIR:

Senator Jepsen.

SEN. JEPSEN:

Briefly, I rise in opposition to this amendment. Actually, I think I should feel relieved it's being offered in this form. I mean, when I look back at last May and the virtues of privatization were being announced and how we would get \$200 million and a lot of us thought it was unrealistic, it was a bad idea, it would result in radical expansion of ticket sales, selling off of a valuable state asset. We were kind of scoffed at.

And then last December or January when the Governor put forth his proposal, more explicitly laying out how those things would happen, a lot of said they were bad ideas and once again we were scoffed at.

But when I listened to Senator Nickerson's very

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capable and I'd like to comment Senator Nickerson and all those who put a lot of work into what is a highly technical and complex bill, including the staff from both sides of the aisle.

One of the incredible things that you find is that some of the things that are being touted as the great achievements of this kind of legislation, outright privatization or strong levels of privatization, possible sale of the asset, enhancement of the Lottery, which is nothing more than a euphemism for radical expansion of gaming, control of marketing which to me is another euphemism for loss of control of advertising. These were the things that were heralded as the outstanding achievements of the proposed budget balancing gimmick, or the proposed budget balancing plan.

And yet, these are the very things that in Senator Nickerson's exposition of the bill, are according to him, being very tightly brought into rein. He's very clear that absolutely nothing under no circumstances is to be sold contrary to what was said a mere few months ago.

He's clear. He said in one sentence that the state would retain substantial control through the appointed officials over the management of the new

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enterprise, control over other aspects as well.

So I'm very pleased that those of us who opposed this concept last May and again in January, have seen our doubts crystalized by the public and in this legislation, but I'm afraid that what we're left with is still, if it's on a significantly diminished basis, something which I cannot support. Because what we're left with in actuality, is yet another expansion of gambling in this state.

It's nothing more, if on a more limited basis, of an attempt to balance the budget on the backs of those most likely to buy tickets, which is to say, most likely those in the poorer half of our society, a fact that Senator Sullivan has pointed out is dramatically brought home by the fact that written into the legislation is open, frank acknowledgment of the gambling addiction problems that will arise from this.

So, I think that if we took a hard look at this legislation, we would conclude that the social costs associated with the added gambling, outweigh the benefits and that we'd be better off in making honest spending cuts if we want to balance the budget that way, or carving into tax cuts to balance it in another. I think that either would be intellectually honest and would avoid the unfortunate aspects of expansion of

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gambling.

I know that some will say, but we already have a Lottery and it's true that we do. I think that a limited Lottery can be justified on social policy grounds. I'm enough of a realist to know that if you didn't have a Lottery, you would have an active numbers racket in the cities and so I think that on that basis, some measure of a state controlled Lottery solves a lot more problems than it creates in taking it out of the hands of the street criminal the, what is we know for a fact will go on.

The question becomes, at what point is enough enough. And I think that we reached that point in Connecticut's Lottery, and for that reason I oppose further expansion of it. Thank you. I urge rejection of the amendment.

THE CHAIR:

Thank you, Senator. Senator Peters.

SEN. PETERS:

Thank you, Madam President. After following Senator Sullivan and Senator Jepsen, there's very little left to say. But through you, I have a question to Senator Nickerson.

THE CHAIR:

Please proceed.

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SEN. PETERS:

Thank you, Madam President. Senator Nickerson, under Section 7, b4, on page 10 of the amendment it talks about the powers of the corporation shall be to determine distribution channels for the sale of Lottery tickets, etc., etc. And my question is, is this an unlimited expansion, or a carte blanche to just set up Lottery stations wherever there might be a place for them?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Thank you, Madam President. The purpose here is to take advantage of advances in the technology of sales, as have other states in terms of the mechanical and electronic means by which Lottery tickets would be sold and the decision would be made by a board, a board as which I've said the state is in control of. Thank you.

SEN. PETERS:

Through you, Madam President.

THE CHAIR:

Senator Peters.

SEN. PETERS:

Thank you. Senator Nickerson, is there anything

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in this bill that prohibits these machines from being in any gas station, candy store, men's bathroom, I don't know, use your imagination. Is there anything in this bill that would prohibit the placement of such machines and games in any particular place in the state?

THE CHAIR:

Senator Nickerson, do you care to respond?

SEN. NICKERSON:

Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

The answer to your question is there is no change in the existing statutory ability of the Department of Special Revenue in terms of the methods and places by which they market Lottery games.

The section to which you advert, particularly the latter part of it, beginning in Section 342 refers rather to the technological and the electronic means by which tickets would be distributed.

But to answer your question, that isn't an expansion of the existing right because there is no, because the existing right already allows the Department of Revenue Services to exercise its own

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discretion as to where and how tickets are marketed.

THE CHAIR:

Senator Peters.

SEN. PETERS:

Thank you. Does that existing right have General Assembly oversight as we currently have that right before us?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Well, if you mean would it require a change in the existing law for the Department of Special Services to expand the means by which they market the Lottery tickets, no it would not.

If you mean, do we have the legislative right to reach out our hand by statute and limit that right, yes, we do have that right under the current Department of Special Services system and we would also have that right under the new system.

So, I can give you as complete an answer as possible. Whatever rights that obtain in the Department of Special Services as to marketing would apply to this new corporation. Whatever statutory limits the Legislature wants to impose on the Department of Special Services it could also impose on

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the new corporation.

THE CHAIR:

Senator Peters.

SEN. PETERS:

Thank you, Madam President. Through you to Senator Nickerson. In your remarks you commented on this new entrepreneurial venture, and that there will be revenue increases. Would you care to elaborate on that with respect to expansion of new Lottery games?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

I'm sure you have the fiscal note which indicates, as your question refers to, there has been a regular, let me back up.

There has been a regular expansion of sales with or without this bill of Lottery tickets and a regular expansion of net revenue to the general fund with or without this bill. So when we refer to an expansion of sale, and an expansion of net revenue, that will occur with or without this bill. Okay, let's start from that premise.

It is quite correct, as your question assumes, that we expect an increase in the rate of expansion of sale and revenue and an increase in the rate of sale in

general fund revenue.

And the reason that is expected to take place is that the new corporation will have the ability to move more rapidly to deal with market tastes. The current authority provided to the Department of Special Revenue allows them to expand in the sense that they frequently initiate and terminate Lottery games.

For example, within the category of Instant Lottery, there are today 24 games. There are 24 Instant Lottery games. The Department of Special Revenue has the authority to create more of those instant games, create less of them, so the ability to create games in the sense of subcategory of instant games is already there and would continue under the legislation.

The difference is that the board of directors, because they allocate their own funds from their own revenue, could do that on a more entrepreneurial basis, could move rapidly to take advantage of perceived market advantages to exit games which had market disadvantages, as has often been the case and would not have to rumble through the slowly grinding budget machinery of the state to accomplish that.

THE CHAIR:

Senator Peters.

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SEN. PETERS:

Thank you, Madam President. Thank you, Senator Nickerson. As I try to understand this amendment before me, it appears to me that it is an expansion of gaming in this state, one that I have been consistently opposed to since I've been here. And I know that there are members in the circle that have been consistently opposed to the same on both sides of the aisle.

I think that by kidding ourselves into thinking that we have a Lottery system and this is just tightening up the administrative practices of that system is turning a blind eye to what this really does.

And I would ask those members that have consistently and historically opposed the expansion of gambling in this state, to stick to their guns, to put their money where their mouth is, and oppose this amendment. Thank you.

THE CHAIR:

Senator Gaffey.

SEN. GAFFEY:

Thank you, Madam President. Madam President, through you to Senator Nickerson.

THE CHAIR:

Please proceed.

SEN. GAFFEY:

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Thank you, Madam President. Senator Nickerson, I'm trying to go through this amendment very quickly. Can you tell me, is the Chairman and President of the new corporation, are those positions, Sir, required to go through the Executive Nominations and then the General Assembly for confirmation?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Madam President, you mentioned two positions. Chairman as a member of the board, would, I believe, go through the Executive Nomination process. The President is an operating position, elected by the board and thus not subject to the Executive Noms process.

THE CHAIR:

Senator Gaffey.

SEN. GAFFEY:

Thank you, Madam President. One other question, one or two other questions, through you, Madam President, to Senator Nickerson.

Senator Nickerson, I noticed on Page 5 that I finally did locate, it states that the corporation not the executive branch, shall have the power to determine whether an individual is qualified to fill a vacancy at

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the corporation. Is not the executive branch, though, in control of the corporation since the executive branch has the appointing authority of the majority of members of the corporation?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Madam President, the, let me answer your question this way. The analogy would be very precisely to a private corporation with, as we all know, three tiers of government. Stockholders, a board and managers. The stockholder in effect, in this case, would be the State of Connecticut. It owns all the stock. There is no stock, but you know what I mean. So that it would have, it, the state has the authority to appoint the board. That is its authority.

The board in turn, as with a private board, has the authority to determine the selection of those it employs to manage the company. In other words, the board at General Motors determines who the President would be, and that's the sentence you referred to on line 152. The board of this corporation would have the ability to set the qualifications of the terms of the individuals it employs to run the corporation.

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Senator Gaffey.

SEN. GAFFEY:

Thank you, Madam President. But in essence, though, since the corporation, the board of the corporation, the majority of the members therein, are appointed by the executive branch, namely, the Governor. Doesn't the executive branch retain control of the board? Through you, Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Yes. The answer is yes.

SEN. GAFFEY:

Thank you.

THE CHAIR:

Senator Gaffey.

SEN. GAFFEY:

Thank you, Madam President. And one other question, Senator Nickerson. You mentioned that the sale or a sale of the Lottery is only conceivable in a partnership mode in your remarks. I understood this amendment to disallow any sale of the Lottery or portion thereof in any mode. Is that correct? Through you, Madam President.

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Senator Nickerson.

SEN. NICKERSON:

Yes, that's absolutely correct. And I refer you to line 466 which specifically and flatly excludes from the corporation's power, the power to sell and transfer. I did mention the partnership, but I mentioned it only to reaffirm and, I'm sorry.

I mentioned the exclusion of the partnership mode, only to reaffirm and to support the basic sale prohibition which is in line 466 and following.

THE CHAIR:

Senator Gaffey.

SEN. GAFFEY:

Thank you, Madam President. I thank you for the clarification, Sir. Thank you, Madam President.

THE CHAIR:

Thank you, Sir. Will you remark further? Senator Ciotto.

SEN. CIOTTO:

Thank you, Madam President. To the proponent. First off, my congratulations, Senator Nickerson on a fine job. I wish I could go along with you but I can't. I respect your ability to put together a financial package like this but I personally have serious doubts as to the need of the State of

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Connecticut for this particular type of quasi-public agency legislation as it pertains to our Lotto.

A question. Did we or did we not take in about \$250 million in a profit form as a result of Lotto sales during the past year?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Madam President, the net revenue to the general fund from 1996 fiscal year operations which are about to close in a couple of months is estimated to be \$244 million.

THE CHAIR:

Senator Ciotto.

SEN. CIOTTO:

Close enough. May I ask, how much more in revenue is projected as a result of the formation of this "quasi-public agency".

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Yes, Madam President. Well, I would refer you to the OFA fiscal note which is attached to this amendment.

THE CHAIR:

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Senator Ciotto.

SEN. CIOTTO:

I don't have the fiscal note, Sir, that's why I'm asking the question, Senator. Through you, Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Just to provide the numbers quickly, current law fiscal 96 would be \$244 million. Fiscal 97, \$248 million. Assuming we adopt this corporation as in the legislation before you, in that new form, fiscal 97 would be \$271 million. Fiscal 98 would be \$291 million, Fiscal 99 would be \$306 million and some further increases beyond that.

THE CHAIR:

Senator Ciotto.

SEN. CIOTTO:

I have to ask a simple question. Why do we need this type of legislation? We're already gaining almost \$250 million. You're going to go up to 270, 290. Where do they project this money is going to come from. Who do they estimate will be purchasing these tickets? Through you, Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Well, let's see. You've asked a lot of questions there, Senator Ciotto. Let me see if I can piece them apart and answer them.

THE CHAIR:

Senator Ciotto.

SEN. CIOTTO:

You can handle it, Senator, I'm sure, Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

As they say on the ball field, I'll give it my best shot. As I mentioned first of all in my response to Senator Peters, it is true that with or without this legislation, there will be increases in the revenue. And I mentioned that the prediction is that the increase from fiscal 96 to fiscal 97 without this law, would be about \$4 million. That is to say, from \$244 million to \$248 million.

However, if you adopt this law and move in the entrepreneurial, more nimble, more active form of management, the estimation is that from fiscal 96, \$244 million will go to fiscal 97, \$271 million, namely

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about \$27 million.

Now, as to who it will go to, one would expect that, I'm sorry, who will be the customers, one would logically expect the customers will be the same as those who currently play Lotto and I have that data broken down by income and a number of other ways if you need that.

But suffice it to say, that basically the Lotto players, the bulk of them are in the middle income category from a salary range of \$15,000 to \$50,000.

THE CHAIR:

Senator Ciotto.

SEN. CIOTTO:

Well, it's more for clarification. I didn't quite get those last two figures. The \$50,000, was that the max? Through you, Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Well, your question as I interpreted was, where will this revenue come from and my answer was, the new revenue will come from the same characterization of players as the old revenue comes from and the 1994 Lotto survey indicates that the bulk of the players are in the middle income category. So one would expect

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that to continue.

THE CHAIR:

Senator Ciotto.

SEN. CIOTTO:

In other words, the people that least afford it will be the people who are buying the most tickets. Is that safe to say? Through you, Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

You know, I have to tell you, Senator Ciotto, there was a time when I believed that. But frankly, the research has shown, contrary to popular opinion, that is not the case.

The lowest segment of participation in the Lotto is in fact the lowest income bracket, \$15,000 and under. The bulk of the Lotto tickets are bought by people in the \$15,000 to \$30,000 bracket and the \$30,000 to \$50,000 bracket. It starts to decline in the \$50,000 to \$75,000 and from there on it declines rapidly. So the least active income participants in the Lotto are lower income and the very highest income. The bulk of participants are in middle income.

THE CHAIR:

Senator Ciotto.

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SEN. CIOTTO:

Well, I'd say thank God for that, Madam President, the least lower income up to \$15,000 are not buying as many tickets as I suspected they were. But it does trouble me that those in the \$15,000 to \$50,000 are buying more and in the future with the projection that I just heard, will be buying more.

Now, may I ask another question, through you, Madam President. Was the public hearing ever held on this quasi-public agency amendment, Sir?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Thank you, yes. A very extensive public hearing was held on the Lottery concept before the Finance, Revenue and Bonding Committee. In fact, as I think both Senator Sullivan and Jepsen have referenced the bill as to which a hearing was held was a broader bill which did contemplate a sale. So the bill that you have today was the bill that got much broader support at the Committee level as a result of the bill and is closely modeled on the Georgia model which has a quasi-public corporation wholly owned by the State of Georgia. That is the bill before us.

So the answer to your question is yes, we had a

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very extensive public hearing. It went on for about three hours.

THE CHAIR:

Senator Ciotto.

SEN. CIOTTO:

Through you, Madam President. I was of the impression that that public hearing was held basically to make this strictly a private sale, that initially this whole project started out being, earlier in this session.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

With all due respect, Senator, that would not be correct. There was an aspect of the hearing which dealt with the sale. But there was a great deal of testimony, I would say the bulk of the testimony at the public hearing dealt with the quasi-public corporation structure.

THE CHAIR:

Senator Ciotto.

SEN. CIOTTO:

Is it safe to say that polls and so forth show that 80% of the public oppose this type of sale or disposal of formation of a quasi-public agency?

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THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Well, Senator Ciotto, again, you've bundled a number of questions. Let me piece them apart. I know of no poll and I would be happy to learn from you if you have a poll, that deals with this bill. This bill has nothing to do with sale.

So I know of no poll that would provide anyone with the information that would allow them to make the judgment that you just made, that the public would oppose this bill. There may be information with regard to the sale, but I would suggest to you that that is not relevant to this bill.

THE CHAIR:

Senator Ciotto.

SEN. CIOTTO:

Thank you, Madam President. Also in this proposal, there is an amount of \$250,000 to be awarded or given or appropriated to the compulsive addicted gamblers corporation or fund which is under the regulation or authority of the Department of Mental Health, I believe.

Now, obviously, somebody's thinking in putting this whole package together, show that there's going to

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be a need. Currently I think we're giving them about \$100,000, Madam President. Was any discussion, any serious consideration given to the destruction of our family values by awarding or picking up more money via the gambling room. Has Connecticut come down that far, that this is going to make such a difference?

Again, I question, why do we need this? Through you, Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Thank you, Madam President. Well, Senator Ciotto, there always has been a need and there will continue to be a need with or without this bill, to address the issue of chronic gambling. That is a social problem which it would be irresponsible for us not to address.

However, it's important to keep in perspective the scope of that problem. With or without this bill, we will have revenues, gross revenues of about \$735 million and net profits of about \$248 million, with or without this bill, from the Lottery. Those are big numbers. And I've never heard anyone in the Legislature in the 10 years I've been here say, we should get out of the Lottery business.

We're already in the Lottery business. We have

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one of the largest corporations in all of Connecticut right now. So there's nothing new about the Lottery. There's nothing new about the level of revenues and there's nothing new about the number of people that are participating in it.

So in answer to your question, I would say there's nothing new about a problem of compulsive gambling. We have addressed it, perhaps not fully in the past. We will continue to address it but the extent to which this bill will affect that will be imperceptible in light of the state's prior commitment to the Lottery business.

THE CHAIR:

Senator Ciotto.

SEN. CIOTTO:

Through you, Madam President. I'm not suggesting we get out of the Lottery. The Lottery is here to stay. I'm merely suggesting that I have great doubts about the need and the necessity for this quasi-public agency being created.

And I also feel, with the Lotto, with the 24 games, I suppose we'll see a great expansion via advertising in the papers, in the media. Some of the strings that are attached now will be untied and whoever the powers that be operate and maintain and

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mandate these things will be right there pumping the hucksters. We'll be getting more than we ever needed in that area.

I also know, that as long as there are people alive, there will be gambling. My main concern here, is for the people that can least afford it, we're going to make it that much more easier, obviously, entrepreneurial use of modern technology and electronic devices and so forth.

I just would like to register my opposition and I thank you very much. And thank you, Senator Nickerson for responding to those questions. Thank you.

THE CHAIR:

You're very welcome, Sir. Will you remark further? Senator Sullivan.

SEN. SULLIVAN:

Thank you, Madam President. For the second time on the amendment. First, let me offer a correction to one of the comments that I made earlier and I think that one of those days when we all can be wrong, and this is one of those occasions where I was.

It is clear in this amendment that not only the person, but the position will be assigned out of Special Revenue to a state agency and therefore the effect of that is to create a new position in that

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state agency, not to bump someone out of the existing position. So, so much for correcting my earlier comment.

Let me also however, correct a more recent statistic offered in response to Senator Ciotto by Senator Nickerson, and that has to do with who buys the tickets.

The statistics are clear that the majority of individuals purchasing Lottery tickets do not fall in the lower range of the economy. And that simply stands to reason, since the majority of people in the State of Connecticut, fortunately, do not fall in the lower range of the economy.

However, the statistics are equally clear, and I think this was Senator Ciotto's point, that as a proportion of disposable income, it is abundantly obvious that there is in that sense, more play by the poorest among us in this state. So that those who have the least to spend are essentially spending the most of what little they have on this kind of petty gaming.

And so, let's make both those points clear. I was wrong. Senator Nickerson is right in the spin, but not right in the response that Senator Ciotto was really asking for and that is that the burden of the Lottery as a so-called voluntary tax clearly falls

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disproportionately on those who should least be squandering their precious resources on putting gambling dollars into the coffers of the State of Connecticut, let alone the coffers of this new quasi-public, quasi-something agency that we are about to create.

THE CHAIR:

Will you remark further? Senator Williams.

SEN. WILLIAMS:

Thank you, Madam President. Through you a question to the proponent.

THE CHAIR:

Please proceed.

SEN. WILLIAMS:

Through you, Madam President, I'm taking a look at the fiscal note and I'm wondering if I'm reading this correctly, that the sales in the current year, fiscal year 96 are \$721 million and the projected sales under current law for fiscal year 97 would be \$735 million, or a difference of \$14 million?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Yes, you are reading correctly. I would only caution of course, those are projections rather than

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facts, but those are the projections.

THE CHAIR:

Senator Williams.

SEN. WILLIAMS:

Thank you. And through you, Madam President, the projection for fiscal year 97 under this amendment would be not \$735 million but \$829 million? Through you, Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Yes, again, as a projection, that's correct.

THE CHAIR:

Senator Williams.

SEN. WILLIAMS:

So then, through you, Madam President, the difference between the current law which would result in an estimated increase of \$14 million and the amendment would be an increase of approximately \$94.8 million, or approximately seven times the projected increase. Through you, Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

I'm not sure I followed the mathematics on the

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seven times the, oh, I get it, you're multiplying the increase from 96 to 97 by a multiple. Normally, an increase would be taken as a percentage of the base, rather than doing it that fashion. You're of course reading the numbers correctly.

I would observe, of course, that the winnings also go up. The winnings you'll see from fiscal 97 would go from \$423 million to \$482 million, so it's very important to keep separate in our minds sales from net revenue. The net revenue increase is \$248 million to \$271 million. So basically, you're reading the sales correctly. I don't argue. I just want you to be sure to realize that more than half the sales are in fact returned to the customers as winnings.

THE CHAIR:

Senator Williams.

SEN. WILLIAMS:

Thank you. And through you, Madam President, I understand that we can gain certain efficiencies, perhaps, through a quasi-public corporation, but I'm intrigued at the ability to increase sales seven times, or to go from \$14 million in additional sales to approximately \$95 million in additional sales.

Through you, Madam President, how will this be achieved?

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THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Well, this will be achieved as I mentioned earlier, by freeing the corporation from the annual necessity of justifying each move on the expense side to the Appropriations Committee and the board of directors and the management will operate as a traditional entrepreneurial business does to move more nimbly, to take advantage of market preferences, to create incentive commissions for the salesmen and to act as an entrepreneurial endeavor would rather than as a bureaucratic endeavor.

THE CHAIR:

Senator Williams.

SEN. WILLIAMS:

Thank you. Madam President, I think that the projections of an additional \$95 million in sales as opposed to \$14 million goes directly to what are called Lottery enhancements. Additional advertising and promotion, additional games. Simply put, selling a lot more tickets to perhaps new people and to perhaps many of the people who are already buying tickets.

And I would like to echo Senator Sullivan's comments in terms of who's purchasing these tickets.

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In northeastern Connecticut when I go into a convenience store to buy a quart of milk, I usually have to stand in line and sometimes a rather long line of people waiting to purchase tickets.

The convenience store owners that I've talked to in recent months tell me that the system has never been better run and that the sale of the Lottery tickets is beginning to interfere with the rest of their business because people like myself and many others have to wait in long lines, waiting for people to purchase their Lottery tickets.

You know, I think if we think for a minute about who those folks are. In northeastern Connecticut there aren't many making \$50,000 waiting in line to purchase the Lottery tickets. Actually, new data in an article that I'm quoting from Business Week shows that increasingly, workers at the bottom are staying there. Only 17% of poor American families moved at least 20% above the poverty line within a year.

Hourly pay for a man in the bottom fifth, trailed inflation by more than 5% from 1989 to 1994. I'm afraid that increasingly, the promotions that we put forth for gaming, for the Lottery, promotes the idea that the only way you're going to get ahead is to strike it rich. And unfortunately, the economic data

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would seem to confirm that.

Therefore, even though I'm extremely glad that the idea of selling the Lottery outright has perished for this session, I still have deep reservations about moving forward with this proposal where \$95 million in additional sales, or again, approximately seven times the amount of projected sales under current law is going to have to be made up, and made up in one way. By getting more people in my district and all the districts, to line up at the convenience stores and part with their money.

Therefore, I would oppose this. Thank you, Madam President.

THE CHAIR:

Thank you, Sir. Will you remark further? Senator Nickerson.

SEN. NICKERSON:

Yes, I would just observe that the observation that the Lottery expansion is going to take place under this bill really cuts too far. We have been expanding the Lottery for 22 years. Twenty-two years ago when we went into the Lottery business, revenue was zero and, I'm sorry, sales was zero and net general fund revenue were zero. So over a 22 year period, we've come with or without this bill, from zero sales to roughly \$750

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million, call it three quarters of a billion sales, already. And in the 10 years I've been here, I've never heard a word of complaint.

We've come from zero impact on the general fund because that's where we were 22 years ago, to a quarter of a billion, or \$250 million and I never heard any complaint.

Suddenly, we now are concerned about expanding the Lottery. Where have those people been who are concerned about expanding the Lottery for the last 22 years? We have one of the largest corporations in Connecticut right now in the Lottery, right now.

And I can understand, I certainly can understand the intellectual rigor of those who say we shouldn't expand the Lottery and we should disband it. But I have a great concern of those who say, well, we should expand the Lottery and we have been expanding it and that's great, we rely on it but let's stop today. I don't understand that. Thank you, Madam President.

THE CHAIR:

Senator DiBella.

SEN. DIBELLA:

Thank you, Madam President. Through you to Senator Nickerson. What percentage of the total sales are sold to Connecticut residents?

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THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Madam President, I don't have a number on that and I don't know that, I don't have a number on that and I don't know if the Department of Special Revenue does. My guess is that I'm sure you would probably share this, that the overwhelming bulk of sales are to Connecticut citizens.

THE CHAIR:

Senator DiBella.

SEN. DIBELLA:

Through you, Madam President, you're telling me that the Division of Special Revenue has no number as to the percentage of sales that are generated from Connecticut residents?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

That is what they just told me and I don't know how they would. If you walk into a grocery store, you don't declare what country you're from or what state you live in. You just buy the ticket.

THE CHAIR:

Senator DiBella.

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SEN. DIBELLA:

Through you, Madam President, I think that Rothchild in their assessment of those people that will play the Lottery not only broke it down to Connecticut residents, but broke it down into economic levels of Connecticut residents. I would assume with that sophistication that they can come within five or ten percentage points as to the bulk of play that takes place in the State of Connecticut.

When they do gaming projections for the casino, they could give you a relatively close perspective with respect to the percentage of people that would gamble in the State of Connecticut and those people from the surrounding states that would participate in that process.

I can't believe that Rothchild with its sophistication and understanding of the Lottery and the proposal to sell the Lottery couldn't come up with a number and Special Revenue who has been in this business for how many years doesn't have a fairly decent handle on where their sales are generated and at least within a relative degree of sensitivity the percentage of sales that occur in Connecticut.

THE CHAIR:

Senator Nickerson.

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SEN. NICKERSON:

Yes, Madam President. For the third time, not to repeat. There is neither a Rothchild survey nor a Department of Special Revenue survey which would provide the home state of residents of ticket buyers of the Lottery.

People wander into a grocery store, they buy a Lottery. Now you refer to the casino. That's an entirely different matter. All the states around us have Lotteries and therefore one would not normally expect that there would be a lot of cross border purchases. That's of course not true with the Lottery and I'm sorry, that's not true of course with the casino and that gets into an entirely different world of interstate commerce where the importance of understanding one's market is very clear.

New York does not have any casinos. Massachusetts is about to have an Indian one. We debated the interstate aspect of casinos very much. I have never heard, any issue of the interstate competition of a state Lottery, so I don't have any answer to your question and neither does the Department of Special Revenue, nor does Rothchild.

THE CHAIR:

Senator DiBella.

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SEN. DIBELLA:

Thank you, Madam President. I'm getting a sense of dismay with respect to the type of people that are running Special Revenue that can't determine within a reasonable percentage, the marketplace in which they operate, especially the number of Connecticut residents that deal in this area.

I would speculate to say, though, it's got to be in the high 80% or 90% of the number of people that purchase Lottery tickets that are Connecticut residents. I say that because one of the most significant issues here and as you take very lightly, or as is taken very lightly, the issue of expansion of the Lottery. It becomes more an issue that is more basic than that.

It is the issue of expanding a gaming opportunity that provides, provides the vast majority of that expansion on disposable income within the State of Connecticut.

I supported the casino bill and I supported it for several reasons. Economic development, job creation, things of that nature that created jobs for entry level people.

This does none of those things. All it does is feed off disposable income in the State of Connecticut

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that traditionally if not going to the Lottery, would go to other things as restaurants, movie theaters and things of that nature.

So what we are doing is encouraging, and the word entrepreneurialism, or to be entrepreneurial by virtue of this new corporation means what we are going to do is expand the games, expand the advertising and you will see the distasteful advertising that forced this General Assembly in years past to correct. The type of advertising that preys on people with respect to take a shot, win big, this is your chance to get your pot of gold. Totally different than that what a casino gaming requirement would create.

This is a situation where you're going out and you will prey on specific people in Connecticut that traditionally play Lotto for a whole lot of reasons. But what we will do is through the use of advanced advertising, deception and enticement, create more gambling and more disposable income to be evaporated from what it would have been directed towards. Those are Connecticut businesses, restaurants, movie theaters and things of that nature where people go to spend disposable income.

So in the end, we don't see a net gain, we see a net loss, because what it does is, it affects

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negatively, it affects negatively those businesses that normally would capture that portion of disposable income that will go to the sale of a Lottery ticket, which means you will not be enhancing the employment numbers. You won't be enhancing employment opportunity, you will be reducing employment opportunity.

So that the whole question of Lotto and the entrepreneurial nature of this new corporation will be to entice people into a different form of gaming, a different type of game, an expanded game, but again, it will be enticing people to use the disposable income that they would normally use in some different type of endeavor that would create jobs, the restaurant industry, the theater industry, things of that nature, sports, the Whalers and things of that nature. It means there's less disposable income for those types of things.

And to add to that, the vast majority of that money, and I would speculate, but I think very closely, that it's between 85% and 90% of the total revenue that's generated off the sale of Lottery tickets are those people that live in the State of Connecticut. And I'll bet you I'm not within four or five percentage points from that real number.

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But I'm also surprised that the Division of Special Revenue and Rothchild couldn't come up with a number using some mechanism to determine just about where that number rests with respect to Connecticut residents and their participation in the Connecticut Lottery.

I think that the arguments that have been made this evening very conclusively that the sale of the Lottery made no sense and the privatization issue is no more than verbiage and the ability to allow the Lottery to be taken out of the control of the General Assembly and ultimately the people of the State of Connecticut.

The gaming issue and the issue of utilization of advertising and other methods to create additional sales of revenue tickets has traditionally rested within the responsibility of the General Assembly, so that when distasteful advertising is used or things of that nature that the Legislature feels is improper, that can be reversed.

Instead, what we're talking about increasing efficiency by taking it out of the control of the General Assembly. I think it's a bad move. I think it's something as we go down the road in the next couple of years you'll see reversed by virtue of the actions of what they call a separate and distinct

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corporation to create an entrepreneurial environment and I think that is the issue that will come back to haunt this General Assembly and I think you'll see changes in this legislation in the years to come.

But again, there has been a proposal made and privatization seems to be the catch word here and we're going to privatize the prisons, the Lottery and everything else and because the recommendation was made to go this direction and we couldn't sell a bad idea, a fully bad idea to the General Assembly, we're going to sell half the idea, and that's so-called the privatization of the Lottery to create a more efficient environment.

I don't think that's the case. I think that the operation is fine where it exists and I think that given the imagination, I would hope, and the creativity of the people that run this Special Revenues, that they could create a more efficient Lottery internally, rather than having to expand the facility to those people who can least afford to see that disposable income be moved away from the traditional utilization of disposable income, that being your restaurants and other types of businesses that depend on disposable income for their success and for their survival.

So I would oppose this bill on that basis and I

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would concur with Senator Sullivan and the other Senators that have raised great skepticism about the proposal to so-call privatize the Lottery.

THE CHAIR:

Thank you, Senator. Senator Colapietro.

SEN. COLAPIETRO:

Thank you, Madam President. I just want to comment briefly on what Senator Nickerson was talking about, where have they been you know, last year and the year before and the year before that. And why now? Well, I think that's pretty obvious. Our Lottery has been probably the most successful in the country up until now.

And the reason we're questioning it now is because it's the first time I've ever heard of anything like this and I said it last night. You got a little problem, close your eyes and privatize. Just sell it. Another formal burning of the furniture in the fireplace to keep the house warm.

What we're doing here is creating a corporation. I mean, we're trying to help businesses survive but we're just going to create one of our own and knock some more state employees out of jobs. And we don't know what it will do.

I just want to ask, through the Chair, Madam

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President, before you leave, Mr. Nickerson. We're going to have another \$95 million coming in supposedly because of all this extra advertising and marketing and what not. With all those great ideas, why has not anyone questioned why we don't do the same thing? We own the Lottery. It's well under control. It's very successful. If we're so great in finding other people to figure out how to market, why can't we do that ourselves?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Madam President, this is the darndest debate I've been through. I cannot relate, I cannot relate the questions to the bill. I just can't do it.

THE CHAIR:

Senator Nickerson --

SEN. NICKERSON:

I don't umbrage lightly, but Senator DiBella used the term deceptive advertising. I think that was an unhappy choice of words. I think it was a particularly unhappy choice of words in light of Section 15 of this bill which says, and I'll read it to you.

The corporation shall include in its advertising, a prominent and clear statement of the average chances

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of winning per Lottery ticket.

We have gone to considerable lengths to be sure that there is no deceptive advertising. I really think that was an unfortunate choice of term. Very unfortunate.

Now, in response to Senator Colapietro's question. His premise is, let's found a corporation and throw people out of work. Three days we have negotiated on this bill to be sure that not one person was knocked out of work. Senator Sullivan was both correct, and gracious in correcting his earlier statement and referring to the bill's maintenance, not only of the collective bargaining agreement, not only of the engagement of state employees who may want to leave this department and go elsewhere, but the maintenance of their position in another state.

Not one employee will suffer one hour of lost wages, and there will be no deceptive advertising. Really, the debate is so far from this bill I wonder where we are.

Now, you ask, as I think four other Senators have asked, how will we do this? This is, I hate to say this, this last time I'll answer this question. We will expand the sales revenue from the Lottery as any board or business who were given the path the state has

been on for the last 22 years and running a business which has come from a zero revenue to \$235 million. From zero net to the general fund to \$248 million.

There will be efficiencies. There will be a marketing endeavor. There will be a freedom and a nimbleness to move the advertising dollars and the game dollars to satisfy the public need, as you would in any business and, as will occur with or without this bill.

And I'll just close on the note, Senator Colapietro, I hope you understand the projections that I think Senator Gaffey and I read. With or without this bill, Lottery revenues will increase. With or without this bill, the net impact to the general fund will increase. There's nothing new in the Lottery and there's nothing new in increasing the Lottery. We simply are doing it in a more entrepreneurial fashion.

But I hope you regret the term bumping people out of work and I hope Senator DiBella regrets the term deceptive advertising.

THE CHAIR:

Senator Colapietro.

SEN. COLAPIETRO:

Thank you, Senator Nickerson. Through you, Madam President, for the answer to the question I didn't ask, and I'm surprised that your answer is going so far away

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from my question.

My question was, if we can come up with all these bright ideas on who can do the marketing and enhance our own Lotto, which has been successful in the past umpteen years, why then hasn't anyone tried to do that in house. Is that a better word for it? Through you, Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Well, I did answer that, but let's cover it for a sixth time. Today, the Lottery expenses are governed by the General Assembly. That means an 18 month lead time in making changes. No corporation could survive in the rapidly changing retail market that the Lottery does, survive successfully and grow with that stricture on it. We don't have incentive compensation because the current rules of compensating members of the Department of Special Revenue don't allow that.

So, two moves that I would suggest to you that many other state lotteries, particularly Georgia and others have successfully employed would be a greater freedom in the board of directors to budget their numbers. A greater freedom on the part of the board of directors to expand the incentives for salesmen and the

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ability to be creative in running this as a corporation. That is the Georgia model. That is the basis on which the projections are here before you.

If you accept the projections, then that will happen. If you do not accept the projections then that won't happen, but I don't think I can you know, talk you into liking it if you don't want to.

THE CHAIR:

Senator Colapietro.

SEN. COLAPIETRO:

Through you, Madam President, I respectfully disagree with your philosophy. I believe that it can be enhanced and probably can be done better, and I believe we've done such a good job in the Lotto for the last so many years that we could probably continue to do that and enhance it more as well without forming a quasi-public corporation.

My next question would be, who would set the salaries of this quasi-corporation group of whoever's running this. Who would set the salaries and would that come out of the new enhancements and would that be profit driven. I guess those would be three questions so save me time. Through you, Madam President.

THE CHAIR:

Senator Nickerson.

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SEN. NICKERSON:

Well, as far as where the salaries would come from, all of the expenses to go toward operating the Lottery system would be under the roof of the new corporation, not under the general fund budget.

Who would set them? The board, of course.

SEN. COLAPIETRO:

So the board would have control over the salaries.

THE CHAIR:

Senator Colapietro.

SEN. COLAPIETRO:

Through you, Madam President.

SEN. NICKERSON:

Yes.

SEN. COLAPIETRO:

And that board could in fact probably be profit driven, have probably double the salaries of the people running the state Lotto as it is now. Is that true?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

The board would be charged with the responsibility of allocating its resources, both salary, advertising, technology and whatever else they deemed to be in the best interests of improving the sales and net revenue

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of the corporation.

THE CHAIR:

Senator Colapietro.

SEN. COLAPIETRO:

Through you, Madam President. Then it would be possible for us to, for the corporation to raise those extra revenues and therefore be in profit driven, not give it back to the state as we would in our own Lotto, state owned Lotto.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

No, that would not be possible because the board is appointed by the Governor and this Legislature and it would be the job of that board as appointees of state elected officials to see that the corporation was managed in the best interests of the owner, which is the state and most certainly not managed in the best interests of the salaried management who are not owners.

THE CHAIR:

Senator Colapietro.

SEN. COLAPIETRO:

Thank you, Madam President. Thank you, Senator Nickerson.

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THE CHAIR:

Thank you, Sir. Will you remark further? Senator Jepsen.

SEN. JEPSEN:

Yes, thank you, Madam President. Just to respond to several of the points that have been made so far. Every time I engage in a debate on this issue, somebody from the other side makes the point that the bottom 15% and wealth of our population buy the least number of tickets except for the richest 2% or 3%.

Of course the poorest 15% don't buy many Lottery tickets because they don't have any money. The point is, that this is unmistakably perhaps the most regressive form of revenue raising in our state.

If you look at the broad sweep of who buys tickets as a proportion of income, it is incredibly regressive because it focuses most heavily on working class people, working class families, middle income people.

Call it what you will. They focus only on that bottom 15%. The simple fact is that this is a mechanism for exploiting people in the working classes and working middle income people.

Secondly, this is very inefficient as a source of revenues. When we impose a sales tax or an income tax or an excise tax, the cost of administration compared

to the revenues that the state receives is minuscule, around 1%, 1.5%. It is tiny, compared to what the state gets back.

This is an incredibly wasteful way for the state to raise money because 5 cents off each ticket goes to the vendor. Two or 3 cents on top of that goes for regular administration, advertising and the like. You end up spending a dime or more to pull in a dollar of revenue. So this is an incredibly inefficient.

So all the talk about privatization and efficiency and how we want to do things better and more cheaply, this creates a drag on our economy like no other source of income does.

Senator Nickerson has said, he's been up here for 10 years. He hasn't heard any voices saying how we should be cutting back on the Lottery. Well, perhaps he hasn't been listening. It's perfectly clear on the record and one of the reasons we're here today is because we have made as a deliberate policy of restriction on growth, of gaming through the Lottery in this state. We've done it by restricting advertising budgets. We've done it by restricting the number of games that can be used. And when advertising has been offensive, we've demanded that it come off the air.

So we've made a deliberate policy of restricting

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gaming in the state. There has been growth, but it could have been a lot more, it would have been a lot more but for the deliberate efforts of the state and this Legislature, and that's the kind of control that will be gone if this is done.

Finally, and I wasn't going to mention this, but Senator Colapietro I think, very correctly raised the issue of compensation for executives. And Senator Nickerson made the comment that of course the board would act in the best interests of the state.

Well, that board might conclude, that board might well conclude that the best interest of the state lies in hugely increasing the income of those who are serving the Lottery.

You and I may not agree with that particular decision. We may not agree with that board's decision that doubling, tripling, quadrupling, the salaries of the top executives is in the best interest of the state. But you know what? We don't have a control over that decision any more.

So for all those reasons on top of the ones that were mentioned earlier, I continue to urge opposition to this amendment.

THE CHAIR:

Thank you, Senator. Will you remark further?

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Will you remark further? Senator Penn.

SEN. PENN:

Thank you, Madam President. Again, I, too, will be very brief in this. I think a lot of truisms have been spoken either to opposition of this particular bill and again, I hear Senator Nickerson saying where was everybody. I, too, may be somewhat rhetorical in asking the same question, where was he when we were trying to put jobs and economic development and bringing the state to a better source of revenue during the debates.

And for the life of me, I see two ironies here. One, again, as I said, maybe a week or so ago when people rise to support gaming who were so adamant about gaming. Unless I'm looking at the wrong books on the definition of gaming and how one, I guess it would be up to the beholder, when they want to choose it and when they want not to choose it, that's gaming, expansion of gaming.

But I think what this particular bill is aimed so directly at the heart of the residents of the State of Connecticut. The first irony is this. The numbers. Lottery. This game originated in Harlem, where it was a game of pennies. Black number writers used to do it exploiting the neighborhoods. A lot of people's hopes

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and dreams, particularly those who could least afford it, were playing their pennies and nickels on numbers, hoping to pay rent, hoping to subsidize medial income that they didn't have.

And from that number racket in Harlem when Dutch Scholtz took it, and from Dutch Scholtz to Al Capone. From Al Capone to the State of Connecticut and the Governor and the General Assembly. That's the issue of the Lottery. That's where it came from the numbers game. And it started off with pennies, but it's still a game of hopes and dreams for a lot of people who can least afford it.

I hear a lot of truisms that some disposable income and a lot in neighborhoods where it's not so disposable. The very attraction of what we want to do here again is go at the hearts and the souls of the residents of the State of Connecticut to purge, and as Senator DiBella said also, prey on those folks again, our residents, again, who we tax. Again, those who have dreams and hopes and aspirations, hoping to strike it rich.

And for the life of me, as Senator DiBella also said, trying to get a handle on what percentage of those gamblers would be Connecticut residents, and I can't believe my esteemed colleague that OPM cannot

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provide those numbers, particularly when it has so many numbers on the gaming.

That was very easily providable. We had it down to last resident who would go into a casino and lose their disposable income. Now, because it's an avenue that they choose to take, nobody has any numbers. Nobody can tell you exactly how many Connecticut residents will be affected by the expansion of gaming in the Lotto.

And though we do have already privatization of our Lottery games and again, I'll leave that alone for another day. But, Madam President, some of the reasons that I mentioned, some of the reasons that were mentioned in the larger picture of gaming seems to elude those folks who now choose to tell us this is a great enterprise for the State of Connecticut.

And truly, I don't knock them for not wanting to see expansion in the gaming if that was their conviction. But it doesn't seem that that's their conviction when you choose to do something else because it now suits you to do it. Not whether it's right or wrong for the residents of the State of Connecticut, because politics and other things enter in. I understand politics.

But be truthful to thine own self at least.

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Defend that. And I do, again, with great regret, do not see why we can't have some of the numbers that should be afforded this circle when we're asked to talk about the expansion of gaming and what it does and will mean to the residents of the State of Connecticut rather disposable or nondisposable income.

So with that, Madam President, thank you very much and I oppose the bill.

THE CHAIR:

Thank you, Senator. Will you remark further?
Will you remark further? Senator Daily.

SEN. DAILY:

Thank you very much, Madam President. When we considered this item tonight, many of the issues that surround gaming and gambling have been discussed for years, going back to the time that the state first adopted the Lottery as a source of revenue.

And at that time, the people of the State of Connecticut understood two promises. That the state would take care of this and manage it and guard it zealously and that the money would go to education.

Tonight we're here to try to break the last of those promises. I think the state should guard this very, very carefully. I think the state is the only one who should be the arbiter and the regulator.

And Senator Nickerson, I would ask you, when you were talking about the savings that would be present in the new plan, the new gaming board wouldn't have to justify their expenses to the Legislature. To whom would they justify their expenses?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

The new gaming board would set the budget, including the expenses, and their effectiveness in doing that would be judged as any board would be in the private sector as they came up for reappointment.

THE CHAIR:

Senator Daily.

SEN. DAILY:

Thank you very much, Senator Nickerson. I do respectfully, through you, Madam President, suggest to you, Senator that that's simply not satisfactory when you're dealing with something like gambling.

It has been said but it's been proven in the past, the expansion is possible and doable without any kind of privatization. We've had growing Lottery revenues. Moreover, we've had in the past campaigns that generated much more excitement and participation and the people of the state responded immediately and some

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of those ads were taken from the air virtually instantly, something that we were able to do and will not be able to do again.

But the idea of advertising brings up another question that I think should have come into play in an answer about where the market is. We have an advertising program and there's a market for that advertising and a geographic distribution. We must know from that where we expect to make money and we must know from the projected \$90 million increase, where that increase would come from.

Is it still that we don't have that kind of information? Through you, Madam President.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Madam President, I'm not sure that's a question. Let me go back to the comment on state control. We don't give up one iota of legislative control over advertising. The entire powers of this corporation are a part of this act, an amendable act at any time. Tomorrow we could pass an amendment limiting the advertising of this corporation. We don't give up one iota of legislative control.

Now, again, where would the additional revenue

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come from? It would come of course from the play of Lottery. Who plays the Lottery? Well, Senator DiBella mentioned, he said it's an, his estimate would be naturally in excess of 90% of the play would come from within Connecticut and I would agree with that. I'm not sure what the big deal about that is since all of our surrounding states have lotteries.

Traditionally, you would expect that the play in the Lottery in any one state to come from the citizens of that state. You don't drive from Hartford to Worcester to play the Massachusetts Lottery, so you figure the Massachusetts Lottery is played by Massachusetts people, the Connecticut Lottery is played by the Connecticut people. I'm really not sure what the big deal is.

THE CHAIR:

Senator Daily.

SEN. DAILY:

Through you, Madam President, I think the point has been made and I've heard it made repeatedly, the big deal is taking disposable income from the residents of the state.

And my question, and I think you've answered it, was that I thought that data should have been present in whatever marketing plan we have now.

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The last part of my question has to do with employees and retaining jobs. I think that you've made it very clear and articulately and eloquently so, that not one person works in this Division of Special Revenue today will lose their job as a result of this action.

They can stay in this new formed division, or they can move over into state employment in another agency without losing a day's work or losing any of their benefits or their level of employment, as I understand it. But who will they force out in order for them to have a job.

We've just adopted a budget which has about \$100 million in lapses. That means we're going to have massive layoffs, so those people, if they, we will have to bump state employees. So how could there be no loss of jobs?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

I don't mean to smile too much, Senator Daily. This is our fourth time around this question. I refer you to line 176 which says that when an employee of the Department of Special Revenue who is not employed by the corporation and who is reassigned to his position,

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he shall be reassigned with his position to another state agency.

What that means in law is, not only will the employee be offered a job in another agency, but his position, his legal entitlement to be employed shall be assigned, and therefore no one in that new agency shall be bumped. That was Senator Sullivan's comment of about a half an hour ago when he corrected his statement of an hour ago, indicating that there might be some bumps.

And he said, I was, this is quoting Senator Sullivan, I was wrong. Under line 176 no one will be bumped. So I can only quote Senator Sullivan to answer your question.

THE CHAIR:

Senator Daily.

SEN. DAILY:

Through you, Madam President. Thank you for indulging me, but I would ask the clarification from you. When an employee, the Division of Special Revenue goes to another agency, because they choose not to stay with Special Revenue, no one in that other agency loses a job because that person goes? We just increase the payroll and the personnel count in another agency because of this?

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THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Exactly.

THE CHAIR:

Senator Daily.

SEN. DAILY:

Thank you very much. And thank you for your time, Senator Nickerson. I think that's another dreadful way to do business and if there were any other proposal before us and we said we would just willy nilly increase the size of other state agencies, we'd certainly be subject to well deserved criticism. Thank you.

THE CHAIR:

Thank you, Senator. And before the Chair recognizes other individuals, I would like to remind members to stick to the issue at hand on Senate Amendment "A" and that at sometimes this evening, the debate appears to be repetitive and redundant. Questions have been asked repeatedly and answered repeatedly. Senator Harp.

SEN. HARP:

Thank you, Madam President. I'm actually going to ask some questions specifically on the amendment.

Section 13 and 14, through you, Madam President. I guess I'm really confused about the makeup of this entity and how it handles money. It says in Section 13 that they have the ability to set up a special account and that let's see, I'm trying to see exactly what it is, but anyway, they set up this special account and all the proceeds from the Lottery go into that account and then the president can use the resources in that account to pay for expenses.

I guess my questions becomes, then, after all the expenses have been paid, the prizes, the current operating expenses and the funding reserves, then a certification is given to the State Treasurer and I'm assuming then a transfer goes into the general fund.

Who oversees the corporation to assure that the accounting is appropriate and that the state is getting the appropriate transfer into the general fund of the dollars?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

In the first instance, the board would. And in the second instance, the Legislature has provided quarterly and annual reports on an audited basis, so that would be the two level check.

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THE CHAIR:

Senator Harp.

SEN. HARP:

Through you, Madam President, can you tell me how often transfers are made into the general fund based upon this amendment?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Yes, that would be weekly.

THE CHAIR:

Senator Harp.

SEN. HARP:

So the transfer actually, Madam President, through you the transfers are made weekly. Okay. And through you, Madam President, how often does somebody oversee, some auditing body oversee the manner in which that's been done?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Well, the board would oversee this every day. The Treasurer would be in receipt of a written certification, so the Treasurer would also be involved on a daily and weekly basis and the Legislature would

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receive quarterly reports.

So you have the board, the Treasurer and the Legislature all involved in that oversight process.

THE CHAIR:

Senator Harp.

SEN. HARP:

Through you, the Treasurer is getting certifications of estimates, though, correct?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

I'm awfully sorry. I didn't hear the question.

THE CHAIR:

Senator Harp.

SEN. HARP:

The board, I mean the Treasurer is getting certifications of estimates, according to this.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Yes. The way it would work, again, as with any company is, the budget for expenses would be set in advance, prior to the opening of a fiscal year, and as receipts come in, they would be apportioned between commissions, winnings, expenses, and the balance turned

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over to the Treasurer. The estimate simply refers to a week to week basis but the budget would be under the control of the board, having established it in advance and the officer making that estimate would be subject to the control of the board and reporting to the board to make sure that his estimates conform to the board.

This would be in accordance with normal corporate practice where the board sets a budget and requires the chief financial officer to adhere to that budget, and that would be the case here.

THE CHAIR:

Senator Harp.

SEN. HARP:

Thank you, Madam President. Through you, another question on Section 14. Can you explain the licensing function of a new corporation versus the Division of Special Revenue. It seems to me as if the Division of Special Revenue, at least I infer from what I've read here, that they will still have some responsibility for licensing.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Yes, indeed, that's correct, and you raise a very good point. One of the programmatic advantages to this

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plan as I indicated some time ago, is precisely the point that you make. Today, sale of Lottery tickets and licensing of agents who are viewed as qualified to sell Lottery tickets is done in the same agency, Special Revenue.

Whereas under this act, sale of Lottery tickets will be done by the corporation and licensing will be done by the Department of Special Revenue, thus creating an appropriate and beneficial separation of those regulators and regulatees.

THE CHAIR:

Senator Harp.

SEN. HARP:

Through you, Madam President. I think it's pretty confusing, though in Section 14 because it says, the corporation may sell Lottery tickets at any location in the state determined by the president, etc., and yet the ability to license those places remains in the Division of Special Revenue. How do the two come together?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Well, very simply. No agent can sell without having a license. The board will determine where they

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think a license would best go, but before that goes into place, a license must be issued by the Department of Special Revenue.

THE CHAIR:

Senator Harp.

SEN. HARP:

Thank you, Madam President. Through you. So are you saying that this intent, then, is that the board makes a general, geographic determination of where the sales might go, or do they identify a specific location, for example a specific vendor in a specific place on a specific street.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Well, the board and the corporation would identify a specific vendor, but subject to that vendor being able to obtain a license from the Division of Special Revenue.

THE CHAIR:

Senator Harp.

SEN. HARP:

Through you, Madam President. Doesn't that seem like it's a duplicative process?

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Senator Nickerson.

SEN. NICKERSON:

Just the reverse. It's a two level decision as a business matter, to determine where it is in the best interest of the corporation to sell through agent X, and wholly apart from that, a separate determination as to whether that agency has the requisite qualifications in the view of regulators. Far from being duplicative, I would view that as appropriate check and balance which the current department unfortunately lacks.

THE CHAIR:

Senator Harp.

SEN. HARP:

Thank you, Madam President. I don't believe that the responses to my questions made me feel more secure about the security of dollars for example. It would seem to me that if we're going to have a quasi-state entity with employees that are state employees and yet it being set aside that there would be some difficulty in transferring the funds, which is the main reason that we're doing this.

I think that we've made it more convoluted and complex. As well, I think, the licensing of the new locations and the new vendors has again become a more convoluted and complex process than we currently have.

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And instead of reducing the overall bureaucracy, I think that we have in this amendment, added to the bureaucracy and also added to the insecurity of the resources of the revenue that we expect to be drawing from this particular amendment.

And for those reasons, I would have a real serious problem supporting this amendment.

THE CHAIR:

Thank you, Senator. Will you remark further?

Senator Prague.

SEN. PRAGUE:

Thank you, Madam President. Through you to Senator Nickerson. Senator Nickerson, I may have been out of the room when you answered a question concerning stocks for instance. Can this quasi-public agency issue this corporation, issue stock to be purchased by private investors?

THE CHAIR:

Senator Nickerson.

SEN. PRAGUE:

If you have answered that already, Senator Nickerson, I'm sorry to make you repeat that.

SEN. NICKERSON:

That's okay, Senator Prague, happy to oblige. This board and this corporation are not empowered to

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sell any asset, any stock, any partnership interest or in any way distribute any ownership or any portion of the business. The entire business will remain under this legislation exclusively under the ownership and management of the corporation without any sharing with any other owner.

THE CHAIR:

Senator Prague.

SEN. PRAGUE:

Through you to Senator Nickerson. Senator Nickerson, is this at any time in the present and in the future?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Yes, that's exactly correct, under line 465.

SEN. PRAGUE:

Thank you, Senator Nickerson.

THE CHAIR:

Thank you. Will you remark further? Will you remark further? If not, would the Clerk please -- excuse me, Senator Bozek.

SEN. BOZEK:

Thank you, Madam President. Madam President, this particular proposal to create a quasi-public agency is

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not one that I support, nor constituents of mine in the New Britain and Berlin area. There's always some suspect when the state is going to take some action on a policy in this direction when we have a successful agency.

One of the most disappointing facets about this area which I was not surprised when I looked at the fiscal note, was that the plan for the increase in revenue. The increase in revenue and the difficulty with this public sale before was the same. If we sell the Lottery and somebody else had promised us more money by virtue of a percentage that we would be redeemed from a sale in its other operation, it means that it has to be marketed more aggressively.

And in this document here, it purports that this agency can well do that as they may. What's going to happen is, what's going to occur is they're going to market it more aggressively and the people on the lower end who normally for sake of argument may spend \$5 and \$10 and \$20 a week and of course more, are going to be subjected to spending probably anywhere from \$7, \$8, to \$10. Those that spend \$10 are going to spend near \$15, and so on, those in the \$20 are going to spend \$25.

Disposable income will go away. The state will make some money. But the quality and the benefit that

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the people receive will be the same. The chances will not be improved, just that they will be marketed more.

And it brings to mind one time a few years ago when the State of Connecticut had marketed one of their advertisements which showed a gentleman, a guy fishing in a boat and he was telling the public that you should be where I am. I bet all my money on the Lottery and now I can relax and I can enjoy myself.

It was the wrong message. The state received a number of calls and the marketing advertisement was withdrawn. What I fear is that this agency, we will not have the same quick reaction when this agency gets to marketing all new endeavors because they want to prove that they can make more money.

The second facet of this disappointment is, in marketing, in making more money, what I think we're trying to do is, we're trying to establish an agency by virtue of the proposal and I won't name whoever is behind this but it's not a Democratic Governor.

This particular proposal will set in motion the success rate that the state is making more money from gambling from the way it's running these operations, and therefore gambling per se, casinos per se, other areas and instruments of gambling, will be marketed to the public as positive areas for the State of

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Connecticut to find its new resources and additional resources of monies.

And the people who will run these other agencies of gambling that we will support, will be the type of people we probably will not want to have in the state. And the people who will make those types of monies similar to the Indians who take their money at this time, do not deposit it in the state, do not deposit it in this country. It's deposited and spent outside of this country.

We're going to have other entities in the future who will expand gambling, take disposable income, turn our state all the way around for a short period of time while the money is good. And when it's not, it will fall by the wayside.

There's a number of questions that were satisfied by Senator Nickerson and I respect his genuine gentlemanly answer to a lot of the questions that I held myself in suspect. I wanted to cover disposable income problem that we're having a problem with and I wanted to cover the area --

THE CHAIR:

Senator Bozek, do you have another point that you'd like to make.

SEN. BOZEK:

I'm trying to cut out some of the notes that I made and questions that I made as we went along, Madam President. In summary, I'm exposed to the expansion of this particular quasi-public agency because I fear the expansion of gambling and what it purports to present itself in the years ahead for other expanded gambling.

And I'm disappointed in this particular proposal, Madam President. I know a lot of my constituents are. I know we spent a lot of time on this particular issue and it's because there's a lot of disappointment in it.

I want to thank you for your time and the time that Senator Nickerson has given to present the rebuttal in a real gentlemanly way. But I cannot support the proposal because I do not believe it's in the best interest of the state. Thank you, Madam President.

THE CHAIR:

Thank you, Sir. Will you remark further? Senator Coleman.

SEN. COLEMAN:

Thank you, Madam President. Just a few brief comments. First of all, I would comment Senator Nickerson and others for putting forward something and trying to make some effort to accomplish something.

From previous conversations, I think Senator

Nickerson knows, I don't have any problem with the quasi-public forum that's being proposed in this particular amendment.

I do have some concerns, however, and the first question I guess that I would raise rhetorically, is, why even bother doing this? It seems to me that the Lottery in its present form is a performing asset and one that raises a significant amount of revenue for the state in its present form. So that age old principle comes to mind, if it ain't broke, why fix it?

Secondly, we've done a lot of responding to the public during this session and in the previous session. I can think particularly in the area of criminal justice. We've boasted and patted ourselves on the back about what the public has demanded and we responded to the public's demands and the public's outcries by giving them what they want.

In this particular instance, I'm not aware of any public demand or public outcry to tinker with the Lottery and I'm wondering why we're even trying to do anything when there doesn't really seem to be anything to respond to with respect to public demand as there apparently was to motivate us doing certain things in other area during this session and other sessions.

And I guess lastly, I would tend to agree with

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those of the membership who have indicated that they view gaming, lotteries, as the most regressive form of raising revenue and I would certainly have some deep and serious concerns about trying to raise revenue from those who can least afford it.

I think we probably need to be a little more responsible and responsive on this particular issue and I think I will have trouble supporting this particular amendment. Thank you, Madam President.

THE CHAIR:

Thank you, Sir. Will you remark further? If not, would the Clerk please announce a roll call. The machine will be open.

THE CLERK:

An immediate roll call has been ordered in the Senate. Will all Senators please return to the Chamber.

An immediate roll call has been ordered in the Senate. Will all Senators please return to the Chamber.

THE CHAIR:

Have all the members voted?

THE CLERK:

A roll call in the Senate. Will all Senators please return to the Chamber.

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THE CHAIR:

Have all members voted? If so, the machine will be locked. The Clerk please take a tally.

THE CLERK:

Total number voting, 36; necessary for passage, 19. Those voting "yea", 19; those voting "nay", 17.

THE CHAIR:

Senate "A" is adopted. Will you remark further?
Senator Sullivan.

SEN. SULLIVAN:

Thank you very much, Madam President. The Clerk is in possession of two amendments that I'm aware of and I would ask the Clerk to first call LC06519.

THE CLERK:

Senate Amendment Schedule "B", LC06519 offered by
Senator DiBella, Sullivan and Jepsen.

THE CHAIR:

Senator Sullivan.

SEN. SULLIVAN:

Thank you, Madam President. I move adoption of the amendment and request permission to summarize.

THE CHAIR:

The question is on adoption. Will you remark?

SEN. SULLIVAN:

Yes, Madam President, like the sands through the

hour glass of time, no, no, that's something else.

Madam President, Senator Nickerson has indicated the extensive oversight that will still be assured to the people of the State of Connecticut in his belief by the amendment that we have just adopted.

However, I think we have also heard some assurances that this will not, this will not, result in a substantial expansion of gaming, petty gaming in the State of Connecticut, because as Senator Nickerson said in looking at those numbers, whether we do the Lottery corporation or we don't do the Lottery corporation the revenues, the special revenues from the Lottery are going to grow.

And mindful of that, I think the question arises whose state is it and to whom ultimately is this entity accountable once we pass the asset and once we pass the power of decision to the Lottery corporation.

Understanding at that point in time that other than reporting, other than accounting, and perhaps other than freedom of information in some somewhat condensed form, the Legislature has, for all intents and purposes in the operation of gambling through the Lottery corporation said, we the representatives of the people of the State of Connecticut, the representatives of the taxpayers of the State of Connecticut are simply

no longer involved. It is no longer our choice as to how much and how often and how many, and how many places there will be Lottery or Lottery like gaming in Connecticut.

So we are making, in addition to the policy decision to expand gambling, contrary to the long standing positions of people like Senator Fleming and even Senator Nickerson that not only to expand gambling, but to expand it in a way where we lose all opportunity to determine the magnitude, the magnitude of that expansion.

Now, when this Body debated the casino, one of the clear caveats in sending that report out and bringing it back, was that the Legislature would have final say in that substantial expansion were it to have taken place in the State of Connecticut. Thus we had a vote on it.

But in this amendment now adopted, as in the Governor's original proposition, there is no such accountability because once the power is given, only a complete act to withdraw that power can take place, and even as to that act, we may not as the sovereign Legislature of the people of the State of Connecticut take an action which interferes with what they have contracted out. We may as to the future, but not as to

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the decisions made by the Lottery corporation.

So we who have been voted into this place, Democrats and Republicans alike, Senators and Representatives alike, charged with the policy oversight of the State of Connecticut, give carte blanche to the new Lottery corporation and once given that power, once they make those decisions, once they decide on whether there are to be 12 or 1200 Lottery games in the State of Connecticut, it is none of our business.

Yes, there are licensing issues. Yes, there will be vendors selected to sell the tickets. But as to the number of games, as to the magnitude of the enterprise of gambling under this new entity, this amendment says, Legislature elected by the public, it is none of your business. These are decisions to be made by the quasi-accountable, quasi-public body that we have created in the earlier amendment.

The purpose of the amendment now before us is to take Senator Nickerson, if you will, at his word and his word is good because I know, I have worked with him long and hard. And that is that this is not intended to represent an unfettered, unaccountable, unknown and to some degree, unprincipalled expansion of small time gambling in the State of Connecticut and instead says,

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yes, we want to see as the underlying principle that the Governor's put before us and that the amendment prior adopted puts before us, yes, Connecticut is going down the path of getting more money by selling Lottery tickets.

We've crossed that bridge. We're going down that road. But, we, the people's representative, want to have the opportunity to have something to say about the magnitude of that journey.

And so this amendment says quite clearly and quite simply, that at any point in time that the new entity should expand by more than 25%, the number of games compared to today and then compared to each decision upon which we offer an opinion under the accountability legislation in this amendment, that any time the entity chooses to increase by more than 25% the number of games, the peoples' representative, the Legislature of the State of Connecticut, shall have the opportunity to know, to consider and to approve or disapprove.

It is not an argument any more because we've crossed the path already in terms of whether you want more gambling or less gambling. It is only an argument about whether you want, as legislators, to have something more to say about that as we go forward in the future.

If you believe in accountability as I believe we all must, if you believe that policy belongs with the Legislature, not with this entity, if you believe we should walk before we run, then I would submit that it is appropriate to stand and support this amendment this evening because it gives us the opportunity to have the simple right to decide that either we do or we do not accept the degree to which this entity goes forward with additional gaming.

Now understand, that doesn't mean reject. That simply means that it will be our decision as a Legislature to set the policy standards, to set the gambling parameters. If you believe that we should not do that, if you believe this should be left to the agency, if you believe the magnitude of gaming in the State of Connecticut is no longer the business of the Legislature, then you would properly oppose this amendment.

But I would sincerely hope that that is not what we are going to do with the sovereign rights of the people of the State of Connecticut and that is essentially confined and consign our prerogatives to someone no one elected and someone to whom no one is accountable and someone who is not accountable to anyone in turn to make these decisions.

I believe this is a fair amendment. I believe it's an amendment which will give the people of the State of Connecticut some assurance that someone, whether it's in terms of the advertising, whether it's in terms of the magnitude and number of games, it's someone who they voted for, namely the Legislature, will have something to say about the future of this experiment.

THE CHAIR:

Will you remark further? Will you remark further?
Senator Nickerson.

SEN. NICKERSON:

Yes, Madam President. Well, let's establish a couple of principles. The act before us has absolutely no change in the Legislature's ability to govern Lottery games, keeping in mind that the current Department of Special Revenue is empowered by the state to establish Lottery games. The Legislature has never directed the Division of Special Revenues for example, to either have or not have instant games. That decision has always long been left with the Department of Special Revenue. Under the new legislation, it would be left with the corporation.

Secondly, it has always been the case and it always will be the case, that should the Legislature

for whatever reason seek to place its hands upon the control wheels of that decision, we have the unfettered right to do so at any time.

We do not establish here tonight a co-equal branch of government with legislative, executive, judicial at the Lottery. We simply establish a corporation wholly and always under the control of this Legislature.

So if at any time we want to change or modify or alter their policies with regard to games and the establishment thereof, we can do that. Today, tomorrow and any day. Now if we did want to do that, I would suggest we certainly would not want to do it in the form of the amendment before us because it says, provided any increase in the number of games be subject to a 25% standard.

Well, I have consulted the Department of Revenue Services and they can't tell me and no one can tell me what the number of games means. Does it mean the categories of games, for example, of which Instant Lottery is a category, or does it mean the subcategories within again, for example Instant Lottery. There are 24 Instant Lottery games which are created, abandoned, expanded, as time goes on, all to meet market demands.

If we dropped some Lottery games and added others,

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excuse me, if we dropped some Instant Lottery games and added others as has taken place many times over time, would that be adding? Would that be subtracting? And what would be the 25% standard?

I understand the thrust of the proponents but I must say on both the count that we somehow have lost our ability to control, this amendment fails, indeed ironically, the amendment is the very example of the kind of control we could exercise should we choose to do so.

This amendment, and the very ability of the proponents to offer it, shows that we can indeed offer amendments to control the Lottery if we wish to do so, nothing different from what we always have, but as I say, we certainly cannot do so in this matter because the arithmetic formula is unworkable. The determination of what are the number of games is unworkable and this Legislature has always chosen, though it could change its mind, to allocate the decisions, for example, as to how many Instant Lottery games to have to the Department of Special Revenue and it should wisely continue to allocate that decision to the quasi-public corporation.

So I would urge rejection and ask for a roll call vote.

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THE CHAIR:

Senator Sullivan.

SEN. SULLIVAN:

Madam President, for the second time on the amendment. I trust that our friends in back of Senator Nickerson who do not know the meaning of games, plainly stated, are not among those from Rothchild who helped to concoct the financing of this proposition.

The language of this amendment is abundantly clear when it speaks of games. It does not speak of categories of games. It speaks of the specific. So to the degree that there are 24 or 34 individual games, that is precisely the threshold that would be constrained by the 25% or more limitation. And therefore, constrained each time, not that there was a modification within that number as Senator Nickerson wrongly suggests and I know he knows that that is a wrong suggestion, but rather the number of games added to that, and it's not any addition, it's only a substantial addition by more than 1/4.

My friend will say to you, we don't need to do this. The Legislature obviously can take and act at any time. Well, first of all, the last I checked, though the hour does seem that way, we are not in session at any time. We are in session for but a few

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months of each year and the Lottery corporation, like the Division of Special Revenue is forever and a day present in its power and its decision making.

So the notion that we would have to come in ex post facto, after the fact, after the Lottery corporation has acted and taken action to move forward, first is a disservice to the notion of oversight but frankly, it's a disservice to the proposition that Senator Nickerson puts before use. Who on earth, who on earth would want to run the Lottery corporation knowing that its decisions would be second guessed afterward, rather than its decisions would be authorized in advance?

So what the amendment says is, know what the policy of the State of Connecticut is before you act rather than learn after you have developed a marketing scheme, after you have developed a management scheme, after you have done your financing scheme, that the Legislature doesn't like what you're proposed to do and is going to stop you after the fact before you can go to market. I can't imagine a worse way to do business, but maybe that's the way this thing is going to do business.

Last, the difference between the Lottery Commission, corporation, excuse me, and Special

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Revenue. It's right here in the amendment we just adopted. New corporation. Off budget. No one in this Legislature is going to make a single decision about its financing, its staffing, its size, its magnitude, or its operations. Not one legislator is going to have one word of say about any of that.

Right now, Special Revenue is indeed subject to our oversight, through the budget process, through the committee process, indeed, through the personnel process. And to say that the personnel process remains, ignores the simple reality that we're not talking about administration here, we're talking about co-equal branches of government. A Legislature and an executive. And now some quasi-executive branch, a sort of third wing on the bird that is kind of flying on its own without us being involved at all.

So with all due respect to Senator Nickerson's comments, it's just not true. Without this kind of oversight there is no opportunity except after the fact. For this Legislature to have anything to say about the level of operation, the level of gambling and the type of gambling that this new agency is going to be permitted to engage in.

All we are saying is this. You have 24 games. You want to add two. You want to add four. Go ahead

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and do it. But if you want to make a substantial expansion of the amount of gambling in Connecticut in new Lottery games so that new people should waste more money on these games, please come back to the Legislature and get our imprimatur, not just the imprimatur of some quasi-public agency.

THE CHAIR:

Will you remark further? Will you remark further? If not, I'll try your minds. All --

SEN. NICKERSON:

A roll call vote, please.

THE CHAIR:

A roll call vote will be ordered. The Clerk please announce the roll call vote. The machine will be open.

THE CLERK:

An immediate roll call has been ordered in the Senate. Will all Senators please return to the Chamber.

An immediate roll call has been ordered in the Senate. Will all Senators return to the Chamber.

THE CHAIR:

Have all members voted? If all members have voted, the machine will be locked. Clerk please take a tally.

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THE CLERK:

Total number voting, 36; necessary for passage, 19. Those voting "yea", 17; those voting "nay", 19.

THE CHAIR:

The amendment fails. Will you remark further on the bill as amended? Senator Sullivan.

SEN. SULLIVAN:

Thank you, Madam President. The Clerk is in possession of LCO6525. I would ask that that amendment now be called.

THE CLERK:

Senate Amendment Schedule "C", LCO6525 offered by Senator DiBella, Sullivan and Jepsen.

THE CHAIR:

Senator Sullivan.

SEN. SULLIVAN:

Madam President, I move adoption of the amendment and I request permission to summarize.

THE CHAIR:

The question is on adoption. Please proceed.

SEN. SULLIVAN:

Thank you. Well, we have just decided by rejecting the prior amendment that we don't want oversight of the Lottery games. So let's go back to Senator Nickerson's comments about Keno.

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Now, it is not a too well guarded secret that in the early deliberations of the administration on how best, and I put the word best in quotes, how best to expand gambling in the State of Connecticut through the Lottery proposition, that one of the ideas on the table in the back room conversations was the prospect of Keno.

Not Keno at a casino, but Keno in the bars of the State of Connecticut and other places where one could sit and have a beverage and look up from time to time and have the great advantage of sort of instant gambling wherever you might be. That sort of went along with what some commented early on in this process was an attempt to come up with Connecticut's new state motto, Connecticut You Can Bet on It, which nonetheless this evening seems to be still where we are headed.

Now, Senator Nickerson has said that he believes, he believes, and I believe he believes, that Keno would not be permitted under the amendment that we recently adopted, nor under current law.

Unfortunately, as Senator Nickerson knows as a learned lawyer, that when courts construe legislation, they look to legislative intent in only one circumstance, and that is the circumstance of ambiguity.

I would suggest to you that that which is permitted is permitted and that which is prohibited is prohibited and there is nothing in the language of the amendment that we have just adopted and perhaps, perhaps nothing in the language of current law, that says we are not able to look down the road to Keno on tap in the State of Connecticut.

So the amendment that is now offered simply says what Senator Nickerson has indicated he believes the state of the law to be, and that is that a Keno type game or other type nonexistent now, is not intended by this legislation, not because our friend Senator Nickerson says so, but because the Legislature says so, and that is the sole purpose of the amendment that's now before us.

If Senator Nickerson is correct, then passing this amendment confirms and ratifies his understanding beyond a shadow of a doubt. It doesn't make it part of the legislative record of this debate. It doesn't make it a supposition. It doesn't make it an implication. It doesn't make it an inference. It makes it law.

And so the opportunity to be abundantly clear on this point is here before us. I would, on the basis of Senator Nickerson's early remarks, and out of respect for his argument, suggest that therefore this ought to

be a matter of bipartisan consensus at this point and really in the nature of clarification rather than substantive change, but clarification nonetheless needed, so that there can be no question going forward from this day that we do not intend Keno in the State of Connecticut, unless and until the Legislature says so.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Madam President, when a fisherman sets out in a boat to spread his net to catch a fish, you have to be very, very careful that the boat doesn't double back upon the net and entangle the boat and the net in a knot and yield no perceptible gain in fish and a very perceptible lack of progress.

This amendment is that knotted net. Because it starts out by referring to Keno as a nonexistent game. Well, Keno is very much and has for years been an existent game in Connecticut in the sense of paper Keno. The state has for years sold Lottery tickets that are scratched off paper Keno.

Secondly, I never said it is not our intention to create Keno. What I said is, it is our intention not to create on line Keno. You have to know the net. You

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have to know the fish. And you have to use the gains. We have had paper scratched ticket Keno for years. It is not our intention to prohibit that, I'm sure, though this amendment would do that.

Secondly, it is clearly our intention not to allow on line Keno. Nothing in the act permits that. We made it very clear that our legislative history of all concerned preclude that, so that I suggest that this amendment doubling back upon itself entangles the propeller in the net, entangles the proponent in the net and I urge rejection and ask for a record vote.

THE CHAIR:

Senator Sullivan.

SEN. SULLIVAN:

Thank you, Madam President. I'm not well versed in nets and votes, but I can recognize something fishy when I see it. And I think I see it in the debate and I think I see it in the amendment that is previously before us.

I would respectfully suggest to my good colleague, Senator Nickerson, that there is not a single person in this state who knows by fact or even by generic reference, that our Lottery is in any way, shape or form a Keno game, nor could one find a reference to Keno games in the statutes which currently authorize

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the Lottery system.

It is clear what Keno is, whether it is automated, on line, off line, in bar, in home, or otherwise. And whether or not you choose one or the other forms, what this amendment says loud and clear is what Senator Nickerson said the bill says. Now, of course, we learn that's not what Senator Nickerson meant. He meant some kinds of Keno may be okay, and maybe what we can do, since the bill doesn't say anything about on line Keno or not on line Keno, is simply presumed as I suggested earlier, that this is a delegation wholly without standards or limitation.

And for us to say, in this circle today, well, don't worry, Keno's not involved. Don't worry, the Lottery corporation isn't going to do Keno games on line or otherwise. It's just going to be a kind of scratch cards and pull cards and automatic cards that you're used to. To say that just doesn't give the comfort of Senator Nickerson's keno representation that Keno was in no, way, shape, form or fashion, part of the debate.

I submit to you that this part of the discussion now gets us back to the heart of what's going on. The heart of what's going on is, the first wave has crashed against the beach of public opinion and the notion of

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selling off the Lottery has been repudiated. But never fear, never fear, we will take it as much of a step as we can this year. We will take it to the corporation. We will tell you there's no Keno, but we won't write in the bill that there's no Keno, because we might well want to be back at it the next chance we get.

And we don't want to be back at it in this circle. We don't want to be back at it downstairs. We want to be back at it in the Lottery corporation. We want them to make the choice. We don't want you as legislators in the State of Connecticut to have a darned thing to say about it.

And I think that's just fundamentally wrong. If the people of this circle believe that Keno should not be part and parcel of the gamesmanship of our Lottery system, semi-privatized, privatized, or publicized, let's say it, let's mean it, let's write it and let's make it law, because as sure as shootin, the alternative is this.

Just like in rejecting the First Amendment, where now we will have to somehow get the action to reconvene the Legislature to say no to the Commission when it wants to do that 300th new Lottery game. So, too, we will have to convene the Legislature to say, you know what? We really didn't mean Keno. Please stop. It's

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too late them.

No sense letting this new entity go down that road. No sense letting there be any confusion. Let's say it now. Let's mean it now. I agreed with Senator Nickerson's first remark. Apparently that was not the case. Now we don't know what we're talking about here, either in the underlying bill or in the policy we're setting. It's very easy to say no. Today's the day to say no.

THE CHAIR:

Senator Bozek.

SEN. BOZEK:

Through you, Madam President. If I may, seeing Senator Nickerson covered the area of intent on Keno, through you, Madam President, to Senator Nickerson. Senator Nickerson, with regard to the amendment that was before us and your feeling that Keno would not be a subject of a game to come up because, as you said that the underlying intent was that there would be no on line Keno.

Is it your opinion, or is it your intent in the underlying bill that Keno per se, that is not some makeshift misunderstanding of the game, but Keno per se would not become an on line or an active game as part of this new quasi agency.

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THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Well, I welcome this role reversal. It seems we have an opponent of the amendment. I'm sorry, a proponent of the amendment asking an opponent of the amendment what the amendment means, but that's okay. Let me just be sure that I get this correct for the third time.

It is the intention of those who offer this bill, the intention of those who will administer it, the intention of a wide circle of people who plan to vote for this bill that this bill does not authorize on line Keno. Okay? That is what I stated. I have no doubt of that as the intention, and I have no doubt that that's the way this will be interpreted by the courts and others.

Now, this amendment does not say on line Keno. This amendment says Keno. Now, again I hate to correct Senator Sullivan, but I know he's a man of accuracy and will appreciate this. For years this state has sold Lottery tickets which say on them, Keno, K-e-n-o, paper tickets.

There's a major distinction in the Lottery industry between what's called paper ticket Keno, which

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is a game that this state has had for years. Nothing new. So it's just not correct to say that we don't have paper ticket Keno. It is the case that we have that and this legislation before us would not preclude that and I don't know why anyone would want to preclude that. There's been no problem with that game for years, yet this amendment would preclude that.

That is quite different than on line Keno, a game that is played on line, just that, in the typical fashion that you might see it in bars or in Las Vegas. That is not within the meaning of the word Lottery. It is not part of this statute. It is not part of our intention and it is not necessary to have this amendment precluded and in fact, as I say, the boat is entangled with the net because we've been selling Keno tickets for years and I'm sure, at least I don't think it was Senator Sullivan's or anyone else's intention to preclude that, yet that's what this amendment would do.

So again, I urge rejection of this amendment.

THE CHAIR:

Senator Bozek.

SEN. BOZEK:

Thank you. Through you, Madam President. You're saying with the Keno discussion, because I want to have this clear. I'm sure we're all planning to be here in

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other years and in the event that there's any difficulty we can collectively resolve the understanding that we're having during this session with regard to this Keno operation and on line, Senator.

What I hear is that we are not going to have an active on line operation and I want to just extent that just a little further. In the event that the term is changed, but I want to have an understanding that on line then, types of gaming where we do know it exists in other states, is it your intention that this type of proviso, Keno would not be presented as an alternative gaming device by this quasi agency, that is, it would be restricted.

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Absolutely. This agency, as I indicated earlier would be by this act, prohibited from introducing on line Keno for the simple reason that this agency is only permitted to introduce Lottery games. On line Keno is not a Lottery game, is not within the scope of this act. It is not the intention of the proponents of this act, will not occur. Should it ever occur, we have the ability to pass an act prohibiting it. But I

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have no concerns about that and I have no concerns that a court will interpret this as precluding on line Keno.

As distinct from this amendment, which simply refers to the word Keno without the appropriate modifier of on line and as I indicated earlier, this state has had paper ticket Keno for many years and will continue to do so.

THE CHAIR:

Senator Bozek.

SEN. BOZEK:

Through you, again. Thank you, Madam President. Is there any difficulty, would this particular amendment injure or hurt your bill if it moved forward?

THE CHAIR:

Senator Nickerson.

SEN. NICKERSON:

Yes, it would, because it would preclude the use of paper ticket Keno which has been used for many years and quite successfully without problems or complaints. That would be precluded by the amendment before us.

THE CHAIR:

Senator Bozek.

SEN. BOZEK:

Yes, I was looking for Senator Sullivan, I had a follow up question. Senator Jepsen, Senator Sullivan.

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While you're on your way, through you, Madam President, if I may, through you, Senator Sullivan, part of the discussion here has gone from myself asking Senator Nickerson about Keno in the event, how would Keno injure the existing proposal. And he has responded by saying that if we adopt this amendment, then we limit ourselves and restrict the existing scratch off and pull tab type of items that we have in our gambling repertoire now. Is that the intention of this particular amendment, or could you clarify how, regarding Keno would actually work?

THE CHAIR:

Senator Sullivan.

SEN. SULLIVAN:

Thank you, Senator Bozek. Yes, I will attempt to respond. I think there is a fair difference of opinion as there is from time to time in this Chamber. I have had occasion while perambulating from here to the other room to talk to a couple of our staff people who indicate some disagreement as reasonable people may, from time to time with Senator Nickerson's characterization of the current scratch and pull, is that what you said, the current games that we have for Lottery in the State of Connecticut.

We believe in drafting this amendment that those

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games that would be known as Keno, and if anyone is familiar with shall we say, that large gambling joint down southeast, where they have both on line and paper Keno looking absolutely nothing like any game that we presently offer in the State of Connecticut, that it is that type of new, new, underline, italics, double quotations, new or any other nonexistent game. Okay?

So the phrase nonexistent is also the magic qualifier. Since if Keno was an existing game, then it could not be one of any other nonexistent games. So we are talking about nonexistent games in the form of Keno which Senator Nickerson well knows are quite a different cup of tea or coffee than we presently offer through the Division of Special Revenue and failing to support this amendment, one can only conclude, as I suspect some have feared or thought for some time, that inside the Trojan Horse of the Lottery corporation, there are many more surprises yet to be visited on the people of the State of Connecticut.

So this, Senator Bozek, only goes to the introduction of nonexistent games such as Keno.

THE CHAIR:

Senator Bozek.

SEN. BOZEK:

Thank you, Madam President. Well, there we are.

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Senator Sullivan has explained it correctly and I think therefore, Senator Nickerson, you're incorrect in your prior assumption. And therefore, I know you probably plan to support this amendment, wholeheartedly.

I think that the intention of trying to capture this particular area of Keno which is actually so important that it doesn't sneak away from us, doesn't get caught up in court and that we don't wind up in our local small taverns and bars and other areas where most of our middle income people frequent and lower middle income people frequent and gamble away a lot more of their winnings on these types of games.

Having witnessed those in different states that I've been in, I can see that the temptation is great. It's a sporting type of activity and you while away spending a lot of your disposable income.

I think that this type of amendment is in order and what it will do is, it will add to the intention and be more representative of the heart of the intention of your bill which is to sell the Lottery, which is to create this quasi-agency, but to put limiting intent in there about what we're opposed to. So in the event that there's some question later on, during this great debate and seeing some of the language that is inside the bill, we can see the

understanding of where we wanted to go.

We want to limit this. We want to be able to have some type of control. We don't want this thing to get out of hand and I think it is important for this particular reason, this particular amendment, on its own, while it will not hurt the underlying bill, is important to demonstrate down the line our intention to have limit and control on the bill and therefore, I would plan to support it and I think it's a good measure. Thank you, Madam President.

THE CHAIR:

Thank you, Sir. Will you remark further? Senator Jepsen.

SEN. JEPSEN:

Thank you, Madam President. We've learned something very important in the last year, since last May. I'm talking about the budget battle of last May and the one that we saw last week. And what we've learned that's most important is that the Legislature at least under its current configuration, is simply unwilling in the end, to make the hard choices necessary to balance a budget without resort to gimmicks and to tricks.

Last May it was putting before us the notion of a Lottery sale that would bring in \$166 million. This

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past May, once with the repudiation of the notion of selling the Lottery, we were met with an array of gimmicks, not the least of which was the selling of valuable mortgages, like selling the Lottery, selling off a valuable state asset, an income producing asset, to the deprivation of future generations.

In light of this past history, and as we look ahead with the Office of Fiscal Analysis telling us with great clarity, that in the fiscal 98 and fiscal 99, we can expect to see significant structural operating deficits if my recollection is correct, or approximately \$270 million in fiscal 98 and another \$310 million in fiscal 99 and this is without reference to any federal cuts mandated by the U. S. Congress, which we know are coming which will add perhaps several hundred million dollars per year to the projections that I just described.

We know that we face very difficult tasks ahead and if the reaction of the last two years is any measure, we know that there will be an effort to look for revenues that do not come either from honest spending cuts or conventional tax increases.

And while I'm happy to say that this legislation takes the issue of the Lottery sale off the board, an issue which I just can't resist reminding people that

was greeted with such extraordinary enthusiasm by apparent majorities in this Body, as recently as a few months ago.

This is a second temptation in the form of a new kind of exploitative gaming that unfortunately is not being taken off the table with the bill as amended, but which would be taken off the table should Senate Amendment "C" be passed.

And let me emphasize that Keno, on line Keno is radically different from the kind of gaming that we have today. I think you really have to view gaming in this age of technological marvels as a continuum. At one end you have a Lottery ticket that a person purchases and either later that night or at the end of the week they find out whether they have one.

At the other end of the continuum, you have conventional gaming in a casino, where with slot machines such as Senators such as Nickerson, Senator Nickerson and Senator Fleming and others made clear their opposition for a wide range of moral reasons, not the least of which is addictive gaming where you put in the money, you put in the coin, and within seconds you have instant gratification.

Keno, because of the extraordinary advances in technology, stands much closer in the way it deals with

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the consumer to that latter example of the casino, the slot machine where gratification, it's not quite instant, you have to wait at least five minutes before you know whether you've won and whether you can play again. And meanwhile, between games you can have another drink because historically, Keno is played at bars and we know what happens when people drink and they lose. They want to play again and they will play again.

And so what you have in Keno is not simply another game that's being put on the table, another scratch off ticket to win or to lose with, another form of Lottery ticket that one finds out at the end of the night if one stays up until 11:00 o'clock, whatever time they draw the things, or at the end of the week whether you've won.

What you have in Keno is a giant step down the continuum toward a casino, not in one city, not in a couple of cities, but a casino in every pub, every bar in this state. And with the enactment of Keno, the door isn't cracked open, it's blown off its hinges. We will be a gambling state, a state that focuses on gambling no less than in Nevada or some of the states in the midwest that have adopted a broad array of casino gaming.

So in putting the amendment before us that opposes Keno, we're not simply trying to fight one more small kind of game. At stake is what kind of state we want to be. A stake is, are we going to take a radical step toward broad based exploitation of our citizens in the same way that a slot machine does, or are we going to continue to try and hold the line.

And frankly, I find it absolutely incredible, especially coming from those who historically have been steadfast in their opposition on a wide range of grounds in opposition to games that are a slot machine in their nature. I find it incredible that an amendment that would make absolutely clear as selling part of the Lottery is now absolutely clear, I find absolutely incredible that they would oppose this kind of amendment.

For these reasons, I urge your support of the amendment. Let's keep Connecticut clean of Keno and let's continue to restrict Lottery in a way that's sensible and fair to our citizens. Thank you.

THE CHAIR:

Thank you, Sir. Will you remark further? Senator Williams.

SEN. WILLIAMS:

Thank you, Madam President. I'd like to join

Senator Jepsen's remarks. If there's really no problem in terms of being against on line Keno as Senator Nickerson was stating earlier, then there would appear to be no problem in having this additional protection in the legislation, just to make it absolutely clear that this is not a direction that Connecticut wants to take.

They've taken this direction in New York State and recently there have been a few articles detailing some of the results. Last September in the New York Times there was an article talking about how the fact that the game's pace makes it more akin to casino style gambling and more prone to pocket training abuse.

In the article it was stated by one player, you don't have to wait, said a 46 year old plumber who played a few games at his lunch break, it's right there in front of you. You're a winner or a loser.

Another patron stated as follows: I came here half an hour ago to buy milk and diapers said Catherine Peterson, 37. I'm still here. It's addicting. I play the daily number but you have to wait until 7:30 to know, she said. This is quicker. Five minutes. It's like being in Atlantic City. I won a dollar, she said. I bet seven dollars. I have no more money for the diapers and the milk, but I had fun.

The article goes on to detail a very significant increase in chronic gambling and people trying to obtain the services, social service agencies that treat chronic gamblers in New York State. This is certainly not a direction that we want to take --

THE CHAIR:

Senator Williams, one moment please. The Senate please come to order. Senator Williams has to scream across the circle in order to be heard and there aren't that many members in here. Senator Williams, you have the floor.,

SEN. WILLIAMS:

Thank you, Madam President. Video Keno has been called the crack cocaine of gambling. Certainly, it makes sense to make this statement through this amendment and close the door of video Keno in the State of Connecticut in the future. Thank you, Madam President.

THE CHAIR:

You're very welcome. Will you remark further? If not, will the Clerk please announce a roll call vote. The machine will be open.

THE CLERK:

An immediate roll call has been ordered in the Senate. Will all Senators return to the Chamber.

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An immediate roll call has been ordered in the Senate. Will all Senators please return to the Chamber.

THE CHAIR:

Have all members voted? If all members have voted, the machine will be locked. The Clerk please take a tally.

THE CLERK:

Total number voting, 36; necessary for passage, 19. Those voting "yea", 17; those voting "nay", 19.

THE CHAIR:

Senate Amendment "C" is rejected. Will you remark further on the bill as amended? Will you remark further? If not, would the Clerk please announce a roll call vote. The machine will be open.

THE CLERK:

An immediate roll call has been ordered in the Senate. Will all Senators please return to the Chamber.

An immediate roll call has been ordered in the Senate. Will all Senators please return to the Chamber.

THE CHAIR:

Have all the members voted? If all members have voted, the machine will be locked. The Clerk please

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take a tally.

THE CLERK:

Total number voting, 36; necessary for passage,
19. Those voting "yea", 19; those voting "nay", 17.

THE CHAIR:

The bill as amended is passed. Senator Fleming.

SEN. FLEMING:

Yes, Madam President, at this time, I would like
to ask the Clerk to go to Page 18 to Calendar 120 and I
would ask the Clerk to call that item.

THE CHAIR:

The Clerk please call.

THE CLERK:

Page 18, Calendar 120 -- SB 675

THE CHAIR:

Senator DiBella, for what purpose do you rise?

SEN. DIBELLA:

A point of parliamentary inquiry.

THE CHAIR:

Proceed.

SEN. DIBELLA:

Are we going out of order from the Calendar as
read?

THE CHAIR:

Senator Fleming.

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GEN. ASSEMBLY
HOUSE

PROCEEDINGS
1996

VOL. 39
PART 17
5824-6222

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Those voting Nay 0

Those absent and not voting 8

SPEAKER RITTER:

Bill as amended passes. Clerk please call
Calendar 611.

CLERK:

On page 17, Calendar 611, substitute for Senate
Bill Number 54. AN ACT ESTABLISHING THE CONNECTICUT
LOTTERY CORPORATION. As amended by Senate amendment
schedule "A." Favorable report of the committee on
Finance, Revenue and Bonding.

SPEAKER RITTER:

The Honorable Chair, Representative Schiessl you
have the floor sir.

REP. SCHIESSL: (60th)

Thank you Mr. Speaker. I move acceptance of the
Joint Committee's favorable report and passage of the
bill.

SPEAKER RITTER:

Motion is on acceptance and passage, please
proceed sir.

REP. SCHIESSL: (60th)

Thank you Mr. Speaker. Mr. Speaker the Clerk has
an amendment, LCO 5771 designated Senate amendment
schedule "A" I ask that amendment be called and I be

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given permission to summarize.

SPEAKER RITTER:

Clerk has LCO 5771, if you may call Representative Schiessl would like to summarize.

CLERK:

LCO 5771, Senate "A" offered by Senator Nickerson, etal.

SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

Thank you Mr. Speaker. This amendment becomes the bill. As you know this is an act establishing the Connecticut Lottery Corporation. It is a budget implementation bill and I would move adoption at this time.

SPEAKER RITTER:

Question on adoption sir, I'm sorry I was getting a kiss. Please proceed.

REP. SCHIESSL: (60th)

Thank you. With the adoption of this amendment that is before you, the bill as amended will establish the Connecticut Lottery Corporation for purposes of transferring the operations of a state lottery from the Division of Special Revenue to the Corporation. The purposes of the corporation shall be to operate and

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manage the lottery in an entrepreneurial fashion and business like manner free from the budgetary and other constraints that affect state agencies to provide continuing and increased revenue to the people of the state through the lottery by being responsive to market forces and acting generally as a corporation engaged in entrepreneurial pursuits and to ensure that the lottery continues to be operated with integrity and for the public good.

This proposal will in essence transform a public agency to a quasi public agency and there is a fiscal note attached to the amendment which indicates a revenue gain from this activity. There are others here who have greater familiarity and knowledge of those sections of the bill that address the operation of this new corporation, but let me touch on a few of the main points.

The bill as the proposed amendment will indicate establishes the CLC, if I may, as a public instrumentality and political subdivision of the state-which is not construed to be a department, institution or agency of the state with respect to budgeting procurement. The CLC shall assume all the state's current responsibilities as an employer after the transfer of the lottery occurs. The CLC shall

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recognize existing bargaining units and shall offer current employees the opportunity to transfer with their position to the corporation and provide its employees state health insurance and retirement benefits.

This bill as amended also provides that employees currently amended also provides that employees currently covered by collective bargaining agreements that are not employed by the CLC shall be assigned to another portion within state services.

This bill and this amendment proposes that the CLC shall comply with the freedom of information act concerning actions, meetings and records of the corporation except with respect to new lottery games, serial numbers of unclaimed lottery tickets, and financial credit and proprietary information submitted by prospective vendors.

The officers, directors, and employees of the CLC shall be subject to state ethics laws and are prohibited from participating in or sharing in the winnings of lottery games. The CLC shall set prize payouts not less than 45% of sales, deposit proceeds of lottery sales net of costs in the lottery fund that the CLC shall transfer weekly to the treasurer to be deposited into the general fund. Shall operate the

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lottery in a fashion similar to provisions under section 12-568 of the general statutes, including types of games, notification of odds of winning, agency commissions, and ticket distribution.

The CLC shall transfer \$250,000 per year to the Chronic Gambler's fund for the education, prevention, and treatment programs. The executive director shall prepare and distribute informational materials on the prevention, treatment, and rehabilitation of problem gambling to be displayed at all state licensed gaming operators and agents.

Some of the, well we're doing two things here, we're taking an existing public agency off budget and allowing it to operate as a quasi public corporation. That in itself achieves some savings. But we're also enabling this corporation with the oversight of the Division of Special Revenue, and our regs review committee, and in fact ultimately by the legislature to provide oversight over these activities of the CLC.

Some of the ways they intend to create new revenue includes expanding the couponing program, more consistent promotion of jackpots, increasing agent incentive programs and lottery field representative visits to agents, increase instant ticket introductions and re-name and re-launch Cash Lotto and add new play

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type to the daily game. This bill does not contemplate an expansion into new forms of gambling, things like on-line keno are not part of the bill. But fundamentally and at its essence we are taking something that an activity that the state has engaged in for some years, directly out of the public purview and into the realm of quasi public in order to draw benefits from the private sector concepts and from public sector oversights.

At this time Mr. Speaker I would like to yield to the Honorable and knowledgeable Chairman of the Public Safety Committee Representative Stephen Dargan for further comment.

SPEAKER RITTER:

I can attest to you that he is both of those. Representative Dargan do you accept the yield sir?

REP. DARGAN: (92nd)

Thank you Mr. Speaker, I do. A year ago when there was discussion from the Executive Branch to privatize the lottery there was a number of people who were opposed to that, including myself. During this year there was a proposal to privatize 6% of that, a proposal by the governor and a bi-partisanship by you Mr. Speaker, and I disagreed with both of those programs Mr. Speaker. Today the bill before us is

unique, because Special Revenue is a very unique state agency. It performs three major functions. First it collects taxes on certain businesses that are licensed by the agency. Second, it regulates legalized gaming operations through licensing and continual oversight to insure the integrity of gaming in this state.

And third the agency operates and promotes certain games of chance. These three functions regulating, operating and taxing are generally carried out by separate state agencies. The two functions operating a business and regulating the same interest are in direct conflict. In 1993, Mr. Speaker, Legislative Program Review did a study on legalized gaming in the state of Connecticut.

And within that report they had recommendations at that time for the lottery to become a quasi public agency, so this bill before us today will do that. Some highlights of it, this corporation cannot take any action with regards to introducing new or modifying existing lottery games, that would violate any compact or memorandum or understanding agreement that the state has with the Mashantucket Pequots and the Mohegans in the future years.

The purpose and powers of this corporation to operate and manage the lottery in an entrepreneurial

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spirit and business like manner will increase lottery revenue and continue the operation of the lottery with integrity for the good of the public.

Another feature in this bill, lottery ads must include a clear statement of the odds of winning if they are carried on TV or radio in 30 seconds or longer or by newspaper, magazines, brochures, and poster advertisement.

A new feature of the bill that was added. There are a number of people in this Chamber, including Representative Stillman, who helped work on this along with Representative DePino asked the administration to have section on compulsive gambling, and we did that Mr. Speaker.

Beginning in fiscal year 96-97 and each fiscal year thereafter there is \$250,000 received by the state from the lottery sales must be credited to DSR and used for educational, prevention and treatment programs. This is a substantial amount of monies since right now the pari-mutuel industry and off track betting and the Mashantuckets pay just about that same amount Mr. Speaker.

I think that this is a step in the right direction for people who are not for gaming in this state, it's a strong component of the bill Mr. Speaker that will

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address the problem of compulsive gambling within the state. I stand here and move adoption of this amendment Mr. Speaker, thank you.

SPEAKER RITTER:

Will you remark further on this bill, Representative DePino, I apologize sir, you have the floor.

REP. DEPINO: (97th)

Thank you. Good day Mr. Speaker.

SPEAKER RITTER:

Good day, it is going to be a good day.

REP. DEPINO: (97th)

I rise also in support of the amendment Mr. Speaker. Before I begin I would just like to thank the chairman of the Public Safety Committee, the co-chairman of the Finance, Revenue and Bonding Committee for putting in a lot of hard work and many hours on this bill.

Mr. Speaker, this is something obviously Connecticut has never done before. But it really is a step in Connecticut's future and how we take an existing producing asset in our state and make it even better Mr. Speaker.

My colleagues in the House, your support for this bill today will tell the citizens and residents of the

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state of Connecticut that you really have a vision of the future of Connecticut and how we can run a quasi-public corporation in a most efficient and cost effective manner.

And not only that, Mr. Speaker, but what this bill does is this bill gives the Department of Special Revenue by creating the Connecticut Lottery Corporation flexibility. State agencies need flexibility, in order to improve and increase the return on our meager resources Mr. Speaker.

We have to be able to come up with ideas and components in our state government that allows for opportunities for people to be creative. And that creativity will be returned by way of increased revenues. Increased revenues will lessen the burden that we have on each and every one of the taxpayers that we represent in this state.

This bill really represents the best efforts of both sides of the aisle. There were a lot of concerns in discussions about what would happen to the fate of the 60 employees in the Department of Special Revenue who do the lottery now, those concerns have been addressed.

And more so, Mr. Speaker, the future of these particular agreement employees who work for our state

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will be guaranteed. This is a very good piece of legislation, it comes forward today in the best tradition of this House, in a bi-partisan manner. I would ask all of our colleagues in the House today to please concur with the Senate and support this bill for the future of this state. Thank you Mr. Speaker.

SPEAKER RITTER:

Will you remark further? Representative Belden.
Good afternoon sir.

REP. BELDEN: (113th)

Thank you Mr. Speaker, good afternoon. Mr. Speaker I rise very briefly to speak in favor of this amendment. Let me just say as serving currently as the director on two quasi public state agencies that this particular legislation creates probably the least quasi public agency that we have.

A couple of things that it does, it allows the collective bargaining process to move over into the new function. It allows the Executive Branch to continue to negotiate the labor agreements on behalf of the quasi public agency and I think Mr. Speaker, it probably has more restrictions in it than I personally would like to see.

Because we're trying to cut the thread here and allow a particular function to operate more in a

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business like basis without all of the constraints that most of our public funds have attached to them. It certainly is compromised in, the most positive thing I think it does it separates the operator from the regulator.

I think that's been a concern of many people. It puts a little more distance between those two functions and I think that's certainly very positive. I just encourage members to support the amendment. Thank you.

SPEAKER RITTER:

Thank you, anybody else like to briefly talk on this? Representative Stratton.

REP. STRATTON: (17th)

I rise with a great deal of concern about the measure that is before us. And probably think that there are few actions that this General Assembly is going to take this session that are going to more dramatically change the character of the things in our state unwittingly.

As many of you in this Chamber have also, we have debated many, many times in the eight years that I have been here, the issue of the expansion of gambling in the state of Connecticut. And every time that we have done that those debates have been very spirited, have been very substantive, and have really focused on the

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character and nature of our state and how we thought gambling would impact that. Those decisions have been made and have come out in different kinds of ways, they have been sometimes very frivolous perhaps. And sometimes incredibly substantive, including a very spirited debate in my first session here--or second session I guess--on whether we should do away with any forms of gambling in the state in order to prevent the introduction of casino gambling.

What I think really concerns me about the measure before us today is the debate that has surrounded this. This legislative session is that we have focused almost exclusively on how to run an expansion of gambling rather than whether we wanted to do that.

We have a budget problem, and we look at something that is sort of a golden cow and our real goal has been to say, how do we allow that cow to produce unlimited milk in order to fill that budget gap.

In the process conspicuously absent I think has been any real debate about, what I consider probably really an egregious and unprecedented abdication of our responsibility as a state to determine policy and to determine what happens.

I would guess that if one asked our constituents what the impact of whether we privatize the lottery and

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sold six percent of it or invested pension funds in it, one would not get much of any interest or response from the public. They sort of said selling is not a good idea, but the idea that is incorporated in this amendment before us right now, allows a quasi public agency, the most powerful one we have ever created in the state of Connecticut, to basically do whatever it wants in order to expand revenues.

We have placed no limit upon how much revenue it can raise by advertising to the hilt, and as my son says encouraging people who gamble and don't know math to buy lottery tickets. It places no limit on the number of employees that, that quasi public agency can hire. It places no limit on their salaries.

That the quasi public agency that we have created in a sense, has only one limit on what it can do and that is if the Indian's say that a game that they introduce would violate the compact they can't do it. Other than that the language in here says it may introduce any forms of instant or technological games in order to raise revenues.

The hole in our budget right now would necessitate in order to run the administrative part of it, that we have taken off budget and given to the quasi public the additional funds that we need at a minimum a \$15

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million in net revenues to the lottery, that means that a minimum of \$120 million more of lottery sales.

When the proponent of the amendment brought it out and made a couple of comments, and actually I have a couple of questions if I could direct them to the proponent of the amendment Mr. Speaker.

SPEAKER RITTER:

Representative Schiessl, Representative Stratton would like to ask you a question.

REP. STRATTON: (17th)

Representative Schiessl you had indicated that this amendment limited, or did not include on-line keno. I'm wondering if you could tell me how this amendment would exclude that possibility, because if I read somewhere around lines 338 and 363 it talks about the ability to develop games.

SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

Thank you Mr. Speaker. Through you Mr. Speaker. I am familiar with the language to which you are referring, and it's important to make a distinction which I made in the introductory comments which I will reiterate at this time. Which is that, that section addresses the issue of lottery games.

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And we are distinguishing between lottery games and what are known as on-line keno. And so having made that distinction, one must conclude that on-line keno is not contemplated under the terms of this statute. And I can also indicate further that this distinction was also made on the floor of the State Senate.

So our legislative history is consistent on this issue, between Chambers. Through you Mr. Speaker.

SPEAKER RITTER:

Representative Stratton.

REP. STRATTON: (17th)

Thank you Mr. Speaker. And pursuant to that is there any limit on this on where such instant lottery machines could be placed in the state of Connecticut?

REP. SCHIESSL: (60th)

Through you Mr. Speaker.

SPEAKER RITTER:

Please proceed.

REP. SCHIESSL: (60th)

Thank you. There is no language in this amendment that creates any change from current law with regards to the location of agents or the introduction of games. These games currently can be sold in existing businesses where there is an expectation of a certain amount of traffic.

I am told that there is not a contemplated and a proliferation of new locations, under the terms of this bill. That is not part of the plan as it were. Through you Mr. Speaker.

SPEAKER RITTER:

Representative Stratton.

REP. STRATTON: (17th)

Thank you Mr. Speaker. Then I find myself increasingly troubled as to why it is necessary to include section 14 in the bill starting on line 583 that says the Corporation may sell lottery tickets at any location in the state which will best enhance lottery revenues.

While I would certainly like to believe that it is not the intent nor will this quasi public agency defy to go through a wholesale expansion of the number of outlets where lottery tickets can be sold. The major difference in this underlying bill is that one no longer has to have an individual present to sell those tickets.

And if indeed our desire is to not see that kind of wholesale expansion which the proponent has said is not contemplated, it seems to me that it would be a prudent exercise of oversight by this body to say that we don't want to see that happen, and in pursuit of

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that Mr. Speaker, the Clerk has an amendment LCO.

SPEAKER RITTER:

Representative Stratton, we're still on Senate
"A."

REP. STRATTON: (17th)

I'm sorry, thank you, I'm apologize, I will wait for that. Thank you. I think in sum with regard to this amendment then Mr. Speaker, I am deeply troubled by the action that we are taking today. I think that any of you who have traveled in some of our neighboring states and seen the proliferation of vending machines dispensing lottery tickets.

We have provided within this that persons under 18 are not supposed to buy these. I have walked out of grocery stores in Massachusetts and New Hampshire and seen lined up next to the soda machines, the vending machines for lottery tickets and mother's hand their children the change when they buy the groceries so that they can go over and buy the lottery tickets.

This bill permits with no further real discussion by this assembly that kind of expansion, an expansion that I don't even think we can completely contemplate, in that it allows for any new technology which may come along and places essentially no restrictions. And I really very, very strongly urge my colleagues to look

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hard at what it is we are permitting to go forward in the state in Connecticut. I certainly understand the budget implications. This amendment should have been drafted in a way to fill the budget need of this biennium without opening the state of Connecticut to such a wholesale expansion of gambling and change in the way that we have exercised our power over entities of this state and I strongly urge rejection of the amendment.

SPEAKER RITTER:

Will you remark further? Representative Carter.

REP. CARTER: (7th)

Thank you Mr. Speaker. To the proponent of the bill Mr. Speaker. At the end of the year when, would there be a lapse in funds of money that would go into the general fund?

SPEAKER RITTER:

Your question was is there a lapse in funds that will go into the general fund?

REP. SCHIESSL: (60th)

Through you Mr. Speaker. As I indicated in my introductory remarks the money is transferred over on a weekly basis, so there would be no lapse in accounting.

SPEAKER RITTER:

Representative Carter.

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REP. CARTER: (7th)

Through you Mr. Speaker. The savings that we will have from moving this back over to the quasi agency, will we have a surplus and where will that surplus go?

SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

Through you, as the fiscal note indicates, there is an increase of net revenue projected which I would assume would occur primarily through increased sales activity. Through you Mr. Speaker.

SPEAKER RITTER:

Representative Carter.

REP. CARTER: (7th)

Thank you Mr. Speaker. But I think my question would we move all the staff over to the quasi public agency, we would take them off of the funds they're on now, will we save any money?

SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

Through you Mr. Speaker. As the fiscal note indicates, by taking the lottery division off general fund there is a reduction anticipated in the amount of \$26.6 million.

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SPEAKER RITTER:

Representative Carter.

REP. CARTER: (7th)

Thank you Mr. Speaker. Who would have because of the quasi public agency, who would they be accountable to at all? Because I realize now that none of the quasi publics are really accountable to anybody in the General Assembly, will they be accountable to the Committee of Cognizance to the General Assembly at large?

SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

Through you Mr. Speaker. If the question is to whom are these employees accountable I would say to their supervisors. Those supervisors are accountable to the board of directors of the Connecticut Lottery Corporation. Those directors receive appointments from the Governor and members of the legislature for the most part and ultimately the buck stops here at the legislature. Through you Mr. Speaker.

SPEAKER RITTER:

Representative Carter.

REP. CARTER: (7th)

Through you Mr. Speaker. So you say the control

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will really be there and the control we will have as a legislature.

SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

Through you Mr. Speaker. If as to the issue of control you are referring to the operation of the lottery. I would say that, that will ultimately be most responsibly conducted by the directors of the corporation. But as to the issues of oversight, and regulation, those will still lie with the Division of Special Revenue and ultimately with the Connecticut General Assembly. Through you Mr. Speaker.

REP. CARTER: (7th)

Thank you Mr. Speaker.

SPEAKER RITTER:

Anybody else? Representative DePino

REP. DEPINO: (97th)

Thank you Mr. Speaker. Very briefly I just want to respond to what my dear colleague Representative Stratton has eluded to in part of this amendment, specifically section 14. I thought her comments were very thoughtful and well placed.

But I do take exception to really the terms the wholesale expansion of gaming in the state. I think

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the fact is Mr. Speaker, that we are looking for ways, to reach a better, more informed population, adult population in Connecticut and make the product accessible. Mr. Speaker I want to draw, give an example. You can now, by regulation from the Department of Special Revenue have a vending type machine distributed through the Department of Special Revenue at any particular social club.

I am a member of a social club in New Haven. In that social club there is a vending machine for tickets which is authorized by the Department of Special Revenue for gaming. This is the kind of opportunity that we will now take under the lottery corporation and we will effectively make money and the department will make money.

And it's already happening. I think that the term wholesale expansion would lead one to believe that we were going to open up vending machines in this state to lottery tickets whereby children will have access. I disagree with that comment, I thought it was a thoughtful comment, but I think the members of the legislature should realize that vending type machines are already authorized by the Department of Special Revenue now, and that this would only coincide with what's in place but allow the Connecticut Lottery

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Corporation to really make a difference in how the product was marketed. Thank you.

SPEAKER RITTER:

Will you remark further? Representative Veltri.

REP. VELTRI: (9th)

A question to the proponent of the amendment.

SPEAKER RITTER:

Please proceed sir.

REP. VELTRI: (9th)

Representative Schiessl.

REP. SCHIESSL: (60th)

I'm here.

REP. VELTRI: (9th)

On lines 725 through 729, do we presently contribute to the chronic gamblers fund? I am aware of the Indian's contribution, but does the state contribute to that same fund today?

SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

Through you Mr. Speaker. No we do not, this amendment proposes to make contributions in the amount of \$250,000 per year into that account. Through you Mr. Speaker.

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Representative Veltri.

REP. VELTRI: (9th)

Through you Mr. Speaker. Will we still accept the Indian money have that, and just enlarge the programs?

Representative Schiessl.

SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

Through you Mr. Speaker. Yes we will.

REP. VELTRI: (9th)

Thank you Mr. Speaker.

SPEAKER RITTER:

Thank you, will you remark further? If not, I'll try your minds, all in favor signify by saying aye.

REPRESENTATIVES:

Aye.

SPEAKER RITTER:

Opposed no. The ayes have it Senate "A" is adopted. Will you remark further on this bill as amended? Representative Tulisano.

REP. TULISANO: (29th)

Mr. Speaker, I rise to oppose the bill. Something that Representative DePino said me speak at this point on this issue. All we're trying to do, and I paraphrase, is to expand the ability like we do in our

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social club, except to our kids, of people to use gaming. Get more tickets out to more people. Mr. Speaker it seems to me that any government that relies on gaming is really on very thin ice. We should not be relying any more than we do by the way at our local level on the Pequot money.

We ought to look at some of these things as a one shot deal. But we ought to be balancing our budgets, we ought to be determining our expenditures based upon tax revenues and not gimmickry. Now I understand privatization is the in word. But I'm not so sure that this is really a private entity. It isn't we're calling it quasi public.

It's a way of addressing an issue that did not have any support in this legislature. But to try to get people to spend more of their disposable income on non-productive, non-productive methods, such as gaming and that really being state sponsorship it seems to me to be irresponsibility on the part of the government.

This legislature in the past, in fact they passed legislation and stated policies which limited as an example advertising the beginning of selling of the idea of gaming to the population although we had already made a commitment to rely on some of that money. It's a slippery slope.

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When we got on to the first lottery, we began the downward spiral. But we tried to put some brakes on it. And now the public policy change is, let's go try to get as many people as possible through all the means possible that are sold by--guess who?--the cigarette people?

We just hit them because after all kids will be exposed to their advertising, Joe Camel and they'll start using cigarettes, but we're going to start advertising gaming, maybe kids will get used to that idea and we'll get them into gaming. It's the same thing that everybody complains around here about alcohol and advertising, and how it's attractive to get young people to begin.

And of course if we're going to adopt the private enterprise standard by which to get people to be active and use the product, the product here being gaming, that's what we're going to have to do. And I expect we will think that our managers of this operation will in fact do all of those things.

If this bill passes as is stated, we ought to expect that. Because that's what it's intended to do. Mr. speaker, I think that the maintenance by this society with what we have, however you implement it, it's important that we do not implement new gaming

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facilities or expansion of even existing with outside the current structure and without the limitations we put on it. And Mr. Speaker, therefore the Clerk has an amendment LCO 6540.

SPEAKER RITTER:

Clerk has LCO 6540 which will be designated House "A" if you may call and Representative Tulisano would like to summarize.

CLERK:

LCO 6540, House "A" offered by Representative Tulisano, etal.

SPEAKER RITTER:

Representative Tulisano.

REP. TULISANO: (29th)

Mr. Speaker this amendment modifies section 7 of the amendment that was just passed that would limit the ability to introduce new lottery games, modify existing lotteries, determine distribution channels, etcetera. Which allows what I think was essentially a larger expansion, authorizes more of an expansion. I would move adoption.

SPEAKER RITTER:

Question is on adoption, would you remark further?

REP. TULISANO: (29th)

I think Mr. Speaker, and there is another

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amendment to insure it, but Representative Schiessl said that the bill does not authorize keno as an example as a new lottery game, but it doesn't prohibit it either. And there is I understand some kind of dispute as to whether or not keno is in fact a lottery, or keno is in fact another kind of gaming.

I don't know what it is, I've never played it. I've seen it in operation in a few places, I'm not bright enough to know what it's about, I'm not quick enough to do it. It's very simple, this is an attempt to minimize rather than maximize our attempt to attract new people to the gaming industry.

And for that reason Speaker I hope that it will be taken by roll call.

SPEAKER RITTER:

Would you like me to put that question to the Chamber?

REP. TULISANO: (29th)

Mr. Speaker.

SPEAKER RITTER:

All those in favor of a roll call signify by saying aye.

REPRESENTATIVES:

Aye.

SPEAKER RITTER:

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I don't think Representative Tulisano, will you remark further? Representative Dargan.

REP. DARGAN: (115th)

I rise in opposition to the amendment Mr. Speaker, because right now under these regulations, Special Revenue does offer keno in their instant game. They do not offer it on-line so that's why I speak against the amendment Mr. Speaker.

SPEAKER RITTER:

Will you remark further? If not signify by saying aye.

REPRESENTATIVES:

Aye.

SPEAKER RITTER:

Opposed no.

REPRESENTATIVES:

No.

SPEAKER RITTER:

Amendment fails, will you remark further on this bill as amended? If not, Representative Stratton.

REP. STRATTON: (17th)

Thank you Mr. Speaker. In pursuit of the discussion about whether such instant machines and any new technologies which this bill now authorizes some and where those are placed and who has access to them

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easily. The Clerk has an amendment, LCO 6332 would he call and I be allowed to summarize.

SPEAKER RITTER:

Clerk has LCO 6332 if you may call and Representative Stratton would like to summarize.

CLERK:

LCO 6332, House "B" offered by Representative Stratton, etal.

SPEAKER RITTER:

Representative Stratton.

REP. STRATTON: (17th)

Thank you Mr. Speaker. It certainly is true that we already have a great deal of.

SPEAKER RITTER:

Representative DePino.

REP. DEPINO: (97th)

I'm very sorry to interrupt Mr. Speaker, we do not have the amendment on this side, if we could just pause for a second?

SPEAKER RITTER:

Absolutely sir. Why don't we stand at ease. Make sure it gets over there. I'll just ask everybody today to as much as possible to make sure all these things work out so we can save time, we have much business to do today. Okay Representative DePino? I'm sorry madam

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please continue.

REP. STRATTON: (17th)

Thank you Mr. Speaker. And I don't need to take a great deal of time to explain this amendment. This amendment in an effort to try to limit the sort of proliferation of such instant lottery devices across the state would limit locations where such could be to consumer bars and to off-track jai-alai and dog racing facilities. And I would urge adoption of the amendment.

SPEAKER RITTER:

Question on adoption will you remark further?

Representative Dargan.

REP. DARGAN: (115th)

Thank you Mr. Speaker. I rise in opposition to the amendment. Presently there are over 3,000 lottery agents out there in the state of Connecticut. And what this amendment will do is, they will not be able to sell lottery tickets. There's probably about a third of the facilities that sell right now under the consumer bar, and it will give these people an unfair competitive advantage in the purchase of lottery tickets within the state of Connecticut.

And it will be lost revenue for the state of Connecticut, so I rise in opposition to this amendment

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Mr. Speaker.

SPEAKER RITTER:

Will you remark further? Representative DePino.

REP. DEPINO: (97th)

I just want to agree with the comments my dear friend Steve Dargan made. But also Mr. Speaker, this amendment will do precisely what we are trying to create, against what we are trying to create in that we are trying to provide flexibility. And by limiting the access Mr. Speaker, we are limiting the creativity and the flexibility of the Connecticut Lottery Corporation to do its charge.

I can understand the intention of the amendment and I can certainly well respect the lady's desire to have the issue put forward. But the very reason the bill in front of us Mr. Speaker is to create the unshackling of what the bureaucracy has been involved with, with the Department of Special Revenue for all these years.

I think it's very important that we let the department do its job. I think the monitors of checks and balances are in place and that this amendment is not needed. I urge my colleagues to not support the amendment.

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Thank you sir. Will you remark further? If not I'll try your minds. Representative Schiessl.

REP. SCHIESSL: (60th)

Thank you Mr. Speaker. I rise in opposition to the amendment as well, but only for the purposes of pointing out to the members of the Chamber that in lines 623 through 625 of the bill there is language that may address a concern of those who wish to adopt this amendment.

That concern being that lottery tickets be sold to minors. That language indicates that no person shall sell a lottery ticket to a minor and no minor shall purchase a lottery ticket any person who violates the provision of this section shall be guilty of a class A misdemeanor. So for those reasons I think there is sufficient protection in the law from minors getting involved in lottery purchases, and I respectfully oppose the amendment. Thank you Mr. Speaker.

SPEAKER RITTER:

Representative Villano.

REP. VILLANO: (91st)

Mr. Speaker, thank you. I oppose the amendment as well. The concerns expressed in this amendment and the previous one which we just rejected, addressed in section 23, which provides that the Department of

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Revenue Services, of Special Revenue--I'm sorry, will adopt regulations governing the operations and management of the new corporation.

And it will deal with such things as licensing sales agents, the advertising, internal controls, the integrity of the games and the introduction of new games. So the controls are there and if we let the Division of Special Revenue do its work as intended in this amendment we will achieve the kind of operations and increased revenue we hope this will achieve. So thank you very much Mr. Speaker.

SPEAKER RITTER:

Thank you sir. Representative Graziani.

REP. GRAZIANI: (57th)

Thank you Mr. Speaker. The purpose of this legislation that's before us in general is to really try to extract more money from the citizens of Connecticut and to do it in such a manner that they do not complain. That is what a lottery is about, that's what allure of a lottery is about. Is that the chance for the quick tale, spend a few bucks and even make more.

It's a way, to I think, for the government to avoid its responsibilities to take money in a responsible manner. From those who can afford to pay,

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from those who will not be hurt and to do it in such a manner that we're not going to encompass and have an unfair burden on people who are least able to afford.

Studies have shown that people who play the lotteries most often are really people who really cannot afford to be gambling, cannot afford the added dollars that are lost. Mr. Speaker, I think as a public policy to try to restrict such that it does not become overwhelming and does not become all encompassing is good public policy and I think this amendment helps to do that. You can't get by a day in Connecticut without listening on the radio the advertisement to get rich quick schemes.

To see the bill boards, the advertisements, Mr. Speaker, I think we've gone too far, I do not think that this is an appropriate and valid way to finance the government by trying to take money from the citizens by in a sense basically try to entice them with the lure of kill so that they won't complain and be able to obtain money and I think the amendment is a step towards adding a little more rational procedures to our budgetary processes and not unfairly luring people into the lottery as a solution to their financial woes. I move passage of the amendment.

SPEAKER RITTER:

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Thank you, will you remark further? If not I'll
try your minds, all in favor signify by saying aye.

REPRESENTATIVES:

Aye.

SPEAKER RITTER:

All opposed no.

REPRESENTATIVES:

No.

SPEAKER RITTER:

Amendment fails, will you remark further on this
bill as amended? Representative Beals.

REP. BEALS: (88th)

Thank you Mr. Speaker. Just a few remarks on the
bill as amended. Let us, through you Mr. Speaker,
members of the Chamber, let us make no mistake about
this, this entire proposal is based on the premise that
it is a good idea to persuade the people of Connecticut
to spend more of their money by buying lottery tickets
by gambling.

In the initial study, that preceded this amended
proposal, the per capita lottery sale in Connecticut
although it is high was compared with Massachusetts.
Massachusetts per capita sales apparently are even
higher, and therefore it was concluded that there was
capacity in Connecticut to increase our per capita

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lottery ticket sales.

But let's look for a moment at where those increased sales are likely to come. Information that was presented to us at the public hearing by the proponents of the proposal showed very clearly that while households in Connecticut with incomes exceeding \$100,000 made up 9% of the population, they made up only 4% of the lottery sales.

Clearly the people in these income brackets are not the ones who are buying lottery tickets now, and I find it very difficult to believe that they are the ones who will buy the increased lottery tickets to be sold under this proposal. Just people in these income brackets do not need to buy lottery tickets to fulfil their dreams, because they have the resources to do it otherwise.

Just for example if we look at some statistics about where the sales occur. There are no lottery sales agents in the towns of Lyme, Weston, and Woodbridge. The per capita lottery sales in the cities of Bridgeport, New Haven and Bristol ranged from \$240 to \$280 per capita. The per capita lottery sales in Redding, New Canaan and Ridgefield--just for example--range from \$7.00 to \$65.00 per capita.

We have heard a number of comments in this chamber

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about how we should not be taxing one group more than another group. Granted this is not a tax, but as Representative Graziani has pointed out it is a way of getting money from people voluntarily. However, it is very clear that this money does not come from the people who can afford it most, the people who could afford through the tax structure to support the services that we expect of our government by paying a somewhat higher tax, which would certainly have been my preference as a means of balancing the budget. Thank you very much Mr. Speaker.

SPEAKER RITTER:

Thank you madam, will you remark further?

Representative Garcia.

REP. GARCIA: (128th)

Thank you Mr. Speaker. Mr. Speaker, I rise in opposition to this bill. A few months ago, you can remember, this same body voted against a casino in the city of Bridgeport. We were told then that it was alright to depend on gaming to bail out our distressed cities. We heard all types and all kinds of excuses, but it would hurt people, especially the poor people that would spend all their money and leave their children hungry.

We heard about how we irresponsible we would be on

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the issue of compulsive gaming. That it would be alright for us because this had become a monopoly because the Indians have too much power. Well, what is it that we're doing here today that is so different? Today, no one in this Chamber has raised the issue of how this new extension of advertising what it's going to do to poor communities.

Because you and I know that it is exactly the poor people who would be well advertised, all you need is a dollar and a dream, support this lottery. We can honestly say in this instance that this is an instance where we take from the poor and we give to the rich. Because you know, educated people they buy stock, they buy bonds, they secure their money.

Poor people, they buy lottery tickets. And although I realize no one forces them to do so, they are lured to the prospect of a dream. If you look around the state in my district, I have a lottery machine on every corner. Now go to Fairfield, go to Trumbull you have to get in your car to find a machine.

So we are in fact affecting poor people, but no one cares because it's going to give this state a lot of revenue. I care and I'm going to ask my colleagues to oppose this bill. Thank you Mr. Speaker.

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Representative Merrill.

REP. MERRILL: (54th)

Thank you Mr. Speaker. I rise also with some concerns about this bill reflected by some of the speakers who have gone before me. However, my concerns also lie in another direction and I have a question for the proponent of the bill. I'm not sure if that's Representative Schiessl he seems to have left. It's about operations, Representative Dargan, a question to Representative Dargan.

SPEAKER RITTER:

Representative Dargan prepare yourself sir.

REP. MERRILL: (54th)

Thank you Mr. Speaker. Through you. On line 649 to 652 of the bill there is some discussion about the competitive bid process that will be allowed by this corporation. And the language states that the corporation may select contract as deemed as the most favorable bid, etcetera when such award is in the best interest of the corporation.

Further on it talks about that it will have a bidding process, unless it's either impracticable or not in the best interest of the corporation. For the record, through you Mr. Speaker, is that language current language for other state agencies in terms of

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competitive bid process?

SPEAKER RITTER:

Representative Dargan.

REP. DARGAN: (115th)

Through you Mr. Speaker. The answer is yes.

REP. MERRILL: (54th)

Thank you Mr. Speaker. I know in the GAE Committee we frequently discuss competitive bid and other such procurement practices and I'm just trying to assure myself that when we create these quasi public agencies we really understand that we're creating sort of a new gray area of the law.

And I know that there are other quasi public corporations in the state already, CRRRA being one of them and there are several others. My experience with quasi public agencies thus far on the GAE committee tells me that we're in rather uncertain waters with some of these provisions.

And while I recognize and think we need flexibility for the operations of our state, I would say that, that flexibility ought to be across the board if we're going to do that. Now we have a lot of discussions constantly about things like competitive bids and I want to make sure that we're creating what I would describe I guess as a level playing field for

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state agencies and quasi public.

I am personally troubled by the proliferation of quasi publics. I think we're in very interesting legal area and I just would caution all of us that this is rather uncharted and we still need to do a lot of work on the kinds of provisions in place and we need to watch this carefully. Thank you.

SPEAKER RITTER:

Representative Mazzoccoli.

REP. MAZZOCCOLI: (27th)

I'm listening to the debate on this and I find it interesting when we talk about the lottery and this so called being viewed as an expansion, which I don't really see, I think there's a wide diversity of games right now that people can play.

I believe that the view of the lottery is a yes, maybe I'll take a chance and hopefully I'll win, but most people realize that the bulk of the revenue is going to go to the general fund. It's going to pay for the services of the state of Connecticut.

Now I know that many of the same people who are opposed to this bill are the same people who are for check off's on our income taxes to pay for various funds. Voluntarily. When we play the lottery we know pretty much voluntarily making a contribution to the

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general fund of the state of Connecticut.

When we fill out our income tax form and we make one of the check off's for one of the various donations, we do so because we want to contribute to the state of Connecticut. I don't recall seeing on my tax form that if I don't make more than \$25,000 or \$30,000 a year I can't contribute more than \$5.00 to the fund, even though I may not be able to afford it.

And some of us would say that people can't afford to play lottery shouldn't be playing the lottery. I agree, I don't agree in the expansion in gambling in general. But let's be consistent on how we view our tax policies. If you're going to turn around and put on voluntary check off's on your income tax, don't turn around and say that what we're doing with the lottery is something different.

Because it's really not, at least with the lottery you're giving somebody the opportunity to earn some money back. And maybe it's enticing to do so, but I think for the most part people realize, with lottery versus casino gambling that the money they spend is going for a good cause. And I think that's the difference here Mr. Speaker, and I would urge adoption of this bill.

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Representative Tulisano.

REP. TULISANO: (29th)

Just a few questions through you to the proponent of the bill, just for my own information.

SPEAKER RITTER:

Please proceed.

REP. TULISANO: (29th)

In section 17 of the bill, that's line 683, indicates that this new corporation will have the exercise the powers granted by the performance of essential governmental function. And the other day we were talking about proprietary functions versus governmental functions.

Does this really mean that this entity will be subject to sovereign immunity? Through you Mr.

Speaker. SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

No it does not, Mr. Speaker, through you.

SPEAKER RITTER:

Representative Tulisano.

REP. TULISANO: (29th)

Through you Mr. Speaker then, when I read that with section 18 where it seems to allow suits against the entity only for contractual obligations. And this

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is just for purpose--you want to know that an individual say the agent, this entity it's agents service employees, committed a negligent act would you be in fact able to sue it even though it seems that section 18 limits the ability to sue?

SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

Through you Mr. Speaker. I'll yield to the distinguished chairman of the Public Safety Committee who seems to have the answer to that question.

SPEAKER RITTER:

Is that satisfactory Representative Tulisano?

REP. TULISANO: (29th)

Yes, certainly.

SPEAKER RITTER:

And what I'll do I'll just call on Representative Dargan, he's the Honorable chair of the Public Safety Committee.

REP. DARGAN: (115th)

Thank you Mr. Speaker. Through you to Representative Tulisano, I think in line 708 is what you're looking for, except governmental immunity.

SPEAKER RITTER:

Representative Tulisano you have the floor sir.

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REP. TULISANO: (29th)

Through you Mr. Speaker. I understand that, but through you Mr. Speaker to Representative Dargan. That also makes reference as to regard to sub A which seems to limit the ability to bring an action against this corporation only on the contractual issues. And through you Mr. Speaker, if I might just edify it.

My concern is that in fact what it looks like is that it does now have governmental immunity and if it's the, this governmental agency itself, it's then their agents service employee or employees presumably which might very well include all of those people who are selling the tickets and whenever they're doing some kind of function for them.

And this is meant, I oppose this bill, this is not meant to do anything, but this is an issue we have to-- aside from my opposition--we should be able to resolve in some way, through you Mr. Speaker. I don't really know the answer?

SPEAKER RITTER:

Are you looking for one?

REP. TULISANO: (29th)

I'm looking for an answer yeah.

SPEAKER RITTER:

Maybe you're looking in all the wrong places?

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Will you remark further? If not, staff and guests to the well, I'm sorry, Representative Belden.

REP. BELDEN: (113TH)

Mr. Speaker, and perhaps to try to clear up that last question, I believe on line 431 of the amendment it talks about in its own name to sue and be sued, plea and be impleaded, adopt this deal and alter the same. I think that's subsection 20 on line 420. It's 21, subsection 21 on line 431 and 432 of the amendment. Thank you Mr. Speaker.

SPEAKER RITTER:

Thank you will you remark further? Representative Johnston.

REP. JOHNSTON: (51st)

Thank you Mr. Speaker. Mr. Speaker through you a question to the proponent of the bill as amended now.

SPEAKER RITTER:

Please proceed.

REP. JOHNSTON: (51st)

Representative Schiessl, as we look at the fiscal not, fiscal year '97 current law we show lottery expenses in the amount of \$26.6 million as we projected our one year fiscal '98 for the quasi public corporation expenses in the amount of \$38.6 million. In one fiscal year we're looking at a \$12 million

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increase in lottery expenses, could you possibly summarize where you see these increases in lottery expenses and what categories they might fall under? If not, staff and guests to the well of the House, the machine is open.

REP. SCHIESSL: (60th)

Through you Mr. Speaker. If you look at the fiscal note you see that the conversion is really one that occurs in two steps, one from \$26 million which is the current expenditure associated with operating the division of the lottery division. And then an increase of approximately \$8 million which constitutes the start-up costs and additional overhead assumed by the quasi public corporation and taking on the operation of the lottery.

That is a one time increase of \$8 million. Then you see in the fiscal year a project from quasi public to quasi public that is just under \$4 million in terms of increased overhead expenses and operations. Through you Mr. Speaker.

REP. JOHNSTON: (51st)

Thank you Representative Schiessl. Through you Mr. Speaker. May I follow-up question on that. So the one time expenses of approximately \$8 million for start-up costs I assume would disappear in the second

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year, and therefore wouldn't expect to see it reflected in the \$38, so if in the \$38 million we've lost the approximate \$6 to \$8 million in start up costs then we're still at that \$12 million increase in expenditures. As we look at those expenditures would you have any idea what percentage of lottery expenses would fall under the category of advertising? Through you Mr. Speaker.

SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

Through you Mr. Speaker. I do not have a detailed breakdown of projected budgets for FY 98 from this agency. But the fundamental concept is apparent and lies in the essence of the bill which is that we will be investing more to earn more. And so my expectation is that advertising will constitute a portion of that increase, as we attempt to operate our lottery division in a more entrepreneurial fashion and earn more revenue from it. Through you Mr. Speaker.

SPEAKER RITTER:

Representative Johnston.

REP. JOHNSTON: (51st)

Thank you. I guess a comment upon that. Any time that we privatize I think one of the big advantages

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that we somewhat tout is efficiencies gained, somewhat unshackling from regulations and I guess my assumption would be associated with some expenses being saved due to these efficiencies. That's why I find if we are going to have these savings due to lottery privatization efficiencies then I would assume that the advertising budget would increase dramatically to bring about these increased sales. Through you Mr. Speaker. Thank you.

SPEAKER RITTER:

Thank you. Representative Stratton.

REP. STRATTON: (17th)

Thank you Mr. Speaker. One of the things that had concerned me a great deal about this, the proponent mentioned when he brought the bill out, and I have been looking through this to try and find the reference since then. But the language in the first part of the bill that grants the corporation the ability to establish its own personnel policies irregardless of those that currently exist in DAS and OPM and set salaries, etcetera.

You had said that this made those employees subject to the ethics commission. And I'm wondering whether there are provisions in here that I'm not picking up, that in addition address some of the issues

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that we did in the gaming bill in the last session about those who could be qualified employees of that corporation to eliminate the possibility of those who seek, or stand to benefit from the expansion of this-- becoming employees of that corporation. Through you Mr. Speaker.

SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

Through you Mr. Speaker. That seems to have sounded like a two part question. Perhaps we could take it one part at a time. If you would perhaps indulge me by breaking down that question into it's constituent parts and posing the first part, I will be more than happy to respond to you in a incremental fashion. Through you Mr. Speaker.

SPEAKER RITTER:

We're making incremental progress.

REP. STRATTON: (17th)

Through you Mr. Speaker. I was trying not to take additional time, but

SPEAKER RITTER:

Thank you madam.

REP. STRATTON: (17th)

The first question is, where is the provision that

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makes the employees of the quasi public corporation subject to the ethics commission rules and the second question was are there any other provisions in this bill to provide parameters really on who employees can be in this corporation with regard to either their former involvement with this Chamber, with gaming interests, etcetera. Through you Mr. Speaker.

SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

Through you Mr. Speaker. I would request the indulgence of the Chamber, as we search for the language that places these directors and employees under the state ethics laws.

SPEAKER RITTER:

The Chamber will stand at ease for a moment. We'll come back into session, Representative Schiessl.

REP. SCHIESSL: (60th)

Thank you, I'm grateful for the indulgence of the Chamber. The response to the question is in lines 548 through 551, in section 12--the indication that the president and all directors, officers and employees of the corporation shall be state employees for purposes of section 1-79 to 1-89 inclusive of the general statutes. Through you Mr. Speaker.

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SPEAKER RITTER:

Thank you. Representative Stratton.

REP. STRATTON: (17th)

Thank you very much. And the second part of the question, are there any other--what shall we say-- limitations or determinations as to who is not allowed to be employed by this corporation as a result of their involvement either with the issue previously this Chamber voting on it or their ability to benefit from the work of that corporation?

REP. SCHIESSL: (60th)

Through you Mr. Speaker.

SPEAKER RITTER:

Representative Schiessl.

REP. SCHIESSL: (60th)

Thank you Mr. Speaker. The constitutional prohibitions that apply to legislators or other elected officials going to work for executive agencies or agencies that are connected with the executive would apply to this corporation as well. Through you Mr. Speaker.

SPEAKER RITTER:

Will you remark further? If not, staff and guests to the well of the House, the machine is open.

CLERK:

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The House of Representatives is voting by roll
call, members to the Chamber. The House is voting by
roll call, members to the Chamber please.

SPEAKER RITTER:

Have all the members voted? Please check the roll
call machine to make sure your vote is properly cast.

DEPUTY SPEAKER HARTLEY:

Have all the members voted, is your vote properly
recorded? If so the machine will be locked. Clerk
please take a tally. Clerk please announce the tally.

CLERK:

Senate Bill 54 as amended by Senate "A."

Total Number Voting	148
Necessary for passage	75
Those voting Yea	108
Those voting Nay	40
Those absent and not voting	2

DEPUTY SPEAKER HARTLEY:

Bill as amended is passed. Will the Clerk please
return to the call, Calendar 516.

CLERK:

On page 34, Calendar 516, House Resolution Number
32. RESOLUTION PROPOSING APPROVAL OF A MEMORANDUM OF
AGREEMENT BETWEEN THE STATE OF CONNECTICUT AND THE
UNIVERSITY HEALTH PROFESSIONALS, LOCAL 3837. Favorable

JOINT
STANDING
COMMITTEE
HEARINGS

FINANCE,
REVENUE
AND
BONDING
PART 2
348-716

1996

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rch FINANCE, REVENUE & BONDING

March 19, 1996
1:00 P.M.

PRESIDING CHAIRMEN: Senator Nickerson
Representative Schiessl

COMMITTEE MEMBERS PRESENT:

SENATORS: DeLuca, Jepsen, Looney,
Penn, Rennie, Smith, Jr.

REPRESENTATIVES: Altobello, Barth, Beals,
Beamon, Belden, Cardin,
Cocco, Dandrow, Davis,
Dimeo, Flaherty, Fuchs,
Fusco, Gelsi, Gerratana,
Giannaros, Gyle, Hess,
Knopp, Lescoe, Maddox,
Mushinsky, Newton,
Norton, O'Neill, Piscopo,
Samowitz, Scipio, Staples,
Villano

REPRESENTATIVE SCHIESSL: Good afternoon ladies and gentlemen. I'd ask you to please take your seats. We are about to convene a Public Hearing and a Finance, Revenue & Bonding Committee.

I am Representative Carl Schiessl, House Co-Chairman of the Committee. To my right is Senator William Nickerson, who is the Senate Co-Chairman. We are hearing one bill today, SB54, An Act Establishing the Connecticut Lottery Corporation.

This is a proposal that is being heard for the first time in my tenure here in the Legislature so I would ask the members to please pay close attention to those who are offering testimony and for those of you in the audience, you'll have an opportunity to speak if you're willing to sign up on the agendas which are outside the Committee Room or over under the easels there.

Unlike most public hearings, we have a panel of invited speakers. We're going to ask for testimony from our panel. There are six individuals who are prepared to testify here today

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as members of this panel of invited speakers.

I would ask the Committee's indulgence and have you hold off asking questions until the panelists have completed their presentation. This is a bit unusual because of the nature of the bill and the fact that this is sort of an issue of first impression for this Committee.

I would request your indulgence on holding off on questioning individual members of the panel until the panel has completed its presentation. At that time you'll have an opportunity to pose whatever questions you may have to individual members of the panel or to the panel as a whole.

If there are no objections, Senator Nickerson.

SEN. NICKERSON: (Inaudible)

REP. SCHIESSL: We have a revised proposal. Every member should have on their desks before them, Proposed SB54-LCO3475. This is the draft-- this is the proposal to which we will be receiving testimony for purposes of clarification.

Are there any questions or comments?

I believe we're prepared to begin. I see Reginald Jones from OPM. I would expect you're probably going to open up here for us

SEC.-OPM- REGINALD L. JONES, JR.: Yes I am. Good afternoon Representative Schiessl, Chairman and Senator Nickerson, Co-Chairman.

First I want to say how delighted we are that you were able to arrange this special Public Hearing to hear this very important bill. We thank you for that.

Secondly, I would like to thank Mary Finnegan for all the work she did in the logistics of this bill. Now I note there's a certain amount of interest in this bill -- remember my right side is the good side. Excuse me --

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So we thank you for the opportunity for my lottery team and me to describe to you why the enactment of SB54, an Act Establishing the Connecticut Lottery Corporation will bring positive benefits in both the short run and the long run.

The testimony will be in several parts.

First, I will lay out the key objectives of the Proposal and how those objectives are to be met. Then Bud Cohn, OPM's Executive Finance Officer and director of the Lottery Project Study, will describe the major elements of the proposal. He will also note some changes that are needed in the bill.

Next, I have with me, Rebecca Paul who is the President of the Georgia Lottery Corporation and whose background includes a term of service as the State Lottery Director in Illinois and the State Lottery Director in Florida, both of those assignments within the current structure of those state budgets just as we are today. Now she has been freed and is the President of a Quasi-Public Corporation, the Georgia Lottery Corporation.

She will testify regarding the importance of freeing the Lottery operation from its current State structure.

Wilbur Ross, Jr., Senior -- hold your head up Will, Okay -- Senior Managing Partner of the Rothschild Bank. One of the most prominent banking institutions, is here with us. He was a Consultant and will talk about Marketing Partnership Interests.

Also we have Art Brown with us -- hold up your hand -- Brown. Art Brown is currently working for the Connecticut Lottery.

We also have with us Marty Stauffer, a partner of Coopers & Lybrand. There's Marty, and he will discuss how we reached the conclusion we have recommended.

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In addition to those testifying, my very capable Deputy, Donald Downes. He is here as is David Warren, Treasurer's Office, Burton Alter of the law firm of Carmody and Torrance, who are legal advisors, George Wandrak of the Division of Special Revenue and Linda Yelmini of the Department of Administrative Services.

They are here to help answer questions. It shows you what they think of my ability to answer questions -- okay.

As many of you will recall, when the budget act was adopted last session, it included a provision that required OPM to prepare an implementation plan for the full or partial privatization of the Connecticut Lottery. The budget adopted for fiscal year 1997 assumed that such privatization would yield an immediate \$200 million in addition to the already-anticipated lottery revenues.

The approach we took was to find ways to improve the lottery operation and the net income to the state, while meeting the financial objectives assumed in the enacted budget. We wanted to grow the enterprise, rather than cannibalize it.

Let me say that again. Our strategy is to grow the enterprise not cannibalize it, as some have claimed.

The proposals embodied in the Proposed SB54 include the following:

1. Transfer of the operation of the Connecticut Lottery to a new Connecticut Lottery Corporation, so that it can operate more like a business, thereby improving lottery revenues.

And we hope to persuade you that it is a business.

2. Improved lottery oversight by the Division of Special Revenue.
3. Organization of a lottery partnership, with

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the Connecticut Lottery Corporation as the controlling general partner.

4. Sale to passive investors of limited partnership interests which would total, on our calculations, about 6% of the lottery for the fiscal year 1997.

The proposals embodied in the bill reflect the following considerations:

1. They recognize that the lottery differs from almost all other state revenue collection functions in that it depends upon voluntary, rather than involuntary participation by the public.

The lottery must function like a business to be successful. It must be structured as much as possible like a business if it is to function like one.

2. Although the lottery management is doing quite well despite the straitjacket within which it now functions, we believe we are missing out on at least \$100 million a year in net lottery revenues, once we get up to about the third year of our operation, because of the operational constraints that have been imposed.
3. The \$100 million in additional revenues is net of the relatively small amount of new money that would have to be invested to achieve such fresh revenue. That investment has, nonetheless, not occurred and will likely not occur under the current structure, which places responsibility for the expenditure side with one committee in the Legislature and responsibility for the revenue side with a second committee.
4. By creating a quasi-public corporation and by permitting investment of lottery revenues to generate even more revenue, the value of the lottery itself can be enhanced.

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We think its worth about \$3 billion dollars That's a heavy asset to be carrying on our books. In fact, the State can sell a very small interest needed to help balance the Fiscal Year 1996-97 budget and still receive lottery revenues of \$50 to \$70 million per year higher than projected under the current operation.

In short, the lottery can bring in substantially more revenue to the state general fund if we untie the hands of management.

5. Although the lottery is a business, it is a public business. The revised structure is designed to improve rather than relax accountability. The separation of the lottery operation from the Division of Special Revenue means the separation of lottery regulation from lottery operation. This will undoubtedly strengthen day-to-day oversight.

Policy control by the Executive and Legislative branches will be exercised through appointment of the Board of Connecticut Lottery Corporation.

Business looks to the bottom line to judge the success of its efforts. The bottom line on the lottery proposals is we can improve revenues, improve operations, improve real accountability and raise the money we need to help balance the budget for the coming year, and we can still have more money than we would have every year thereafter.

I would now like to call on Bud Cohn to discuss more fully the proposals. Bud.

BENSON (BUD) COHN - EXEC. FINANCE OFFICER-OPM: Good afternoon. SB54 is the result of an exhaustive process of research, investigation, financial modeling and discussion. With the participation of the Division of Special Revenue and the State Treasurer's Office, and the hard labor by Carmody & Torrance, Coopers & Lybrand and Rothschild we did a number of things.

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1. We defined all of the plausible options for full or partial lottery privatization;
2. We financially modeled the most promising possibilities;
3. We extensively investigated the state and federal laws that might apply;
4. We made informal inquiries to the IRS and to the FCC to test various theories;
5. We delved into the operational concerns and constraints; and
6. We pursued ideas for operational improvements.

The result of this work is a two-stage plan that addresses all of the considerations outlined by Secretary Jones.

In stage-one, beginning on July 1 of this year, the regulation of the lottery and the operation of the lottery would be separated.

The Division of Special Revenue would regulate the lottery; a new quasi-government corporation - Connecticut Lottery Corporation - would be established to operate the enterprise.

The Connecticut Lottery Corporation would be governed by a nine member board. Four public members would be appointed by the legislative leadership. Two members initially would be appointed by the Governor and the OPM Secretary and the State Treasurer would be ex officio voting members.

The Executive Director of the Division of Special Revenue would also be an interim ex officio member for a period of only one year, at which time he would be succeeded by an additional gubernatorial appointment.

This interim arrangement is necessary to insure that there would be no interruption in lottery operations and lottery revenues.

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As of July 1, 1996, the operation of the lottery would be fully transferred to the Connecticut Lottery Corporation.

The three ex officio members, or their designees, would constitute a quorum until the rest of the members are appointed. The board would manage the lottery within the parameters included in the current statutes regarding permitted games, minimum payouts and commissions for lottery agents.

It is expected that an interim operating plan, interim budget and interim procurement procedures will be ready for board adoption on the effective date so there will be no interruption.

The Connecticut Lottery Corporation would be off-budget. It would contribute its revenues to the State general fund, net of operating expenses. It would no longer have to compete with governmental services for scarce appropriations, It would invest funds in a business-like manner to return a higher profit for the benefit of the State general fund.

The first order of business following organization is to begin implementing a series of revenue enhancements that we expect will add over \$33 million to lottery's FY 1996-97 bottom line revenues.

By the end of three years, those enhancements should add nearly \$100 million per year to the corporation's bottom line. It would take about three years to build to that level. Ott Brown will shortly describe how this can be achieved. Our financial modeling indicates that a \$100 million addition to net revenues would add about \$600 million to the market value of the lottery.

While the business is being built, preparations for sale of limited partnership interests would proceed.

First, the Connecticut Lottery Partnership would be organized. In such a partnership there is typically a general partner, which retains full

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operating and management control of the enterprise, and then there are limited partners. The limited partners are passive investors who invest money for return but play no role in the management.

In this case, the Connecticut Lottery Corporation would be the managing general partner and would retain full operating control. Thus, the state, through the Connecticut Lottery Corporation, would retain control and ownership of the lottery.

Prior to the sale of limited partnership interests to outside investors, required rulings from the Federal Communications Commission and the Internal Revenue Service would be sought.

The team has thoroughly reviewed the issues involved and anticipates no surprises with regard to obtaining the necessary rulings. In fact the FCC has informally reviewed the legislation itself and told us there's no problem.

However, it's necessary to have these rulings in hand because they reduce any perception of risk that there might be by potential investors and therefore increases what investors would be willing to pay.

Late in fiscal year 1996-97, after the revenue enhancements have begun taking hold and after the federal rulings are in hand, limited partnership interests sufficient to raise the required \$160 million, to balance the budget, will be sold.

Again, the buyers will be passive investors and will have no role in lottery management. They must, however, have confidence at the outset, and thereafter, that the lottery will be run in a business-like manner or they will not invest.

It's estimated that only about 6% of the lottery would have to be sold to raise \$160 million, plus the costs of the transaction. It is important to remember that even by selling that small interest, the enhancements and the new entrepreneurial structure will mean that the market value of the 94 percent of the lottery which the

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State would retain will be greater than a 100% was before we started.

Further, because of the enhancements and the new structure, the net revenue to the general fund each year will be between \$50 and \$70 million higher than is anticipated under the current structure over the next 10 years.

The bill would impose a 10% tax on net lottery revenues, effective when the passive investors came into the picture. This is comparable to the taxes on other gaming in the state. If the tax is not imposed at the beginning, it is unlikely that it could be later without creating a problem with the investors

When the lottery report was released in January, we indicated that there was a high probability that the "Powerball" consortium, which is hostile to privatization, would eject us.

We, therefore, included in the plan sufficient time to organize a competitor before sale of partnership interests. That would have taken until late fiscal year 1997-98. Interim financing, pending the sale, would have been required to bring the money into FY 1997 where we need it.

However, when the report was released and the "Powerball" leadership read it, they realized that the state would remain in full control of the lottery, and the consortiums objections were removed.

We will be staying in "Powerball" and we can accomplish the sale of partnership interests within fiscal year 1996-97. We will not be doing an interim financing and the substitute bill you have before you has been redrafted to reflect the elimination of the financing.

Overall, there are several key points to remember about this proposal and structure:

1. The lottery can earn \$100 million more per year than at present if the hands of the

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managers are untied so they can operate it more like a business.

2. The establishment of the Connecticut Lottery Corporation, as structured in the bill, would introduce and permit such flexibility.
3. Only a very small interest in the lottery would be sold, estimated at about 6%.
4. Because of the bottom line increase of \$100 million per year, in net revenues, the state would continue to receive \$50 to \$70 million dollars more per year in revenue after the sale of the small interest than if we did nothing and changed nothing.
5. As managing general partner, the State through the Connecticut Lottery Corporation, will remain in full operational control of 100% of the lottery.
6. Without the Connecticut Lottery Corporation structure, there can be no sale to meet fiscal year 1996-97 budget needs. Few buyers would want to invest in a venture that has not been set up to operate like a business, but operates instead like the State agency.
7. The entire plan has been carefully thought out and investigated. It can be accomplished with legislative approval by the end of fiscal year June 30, 1997.

Thank you.

REGINALD JONES: I would now like to turn over the floor to Rebecca Paul, President of the Georgia Lottery Corporation, to speak about the advantages of the corporation from the state agency form. Rebecca has managed lotteries in both state agency environments and now in a quasi-public corporation. Rebecca.

REBECCA PAUL - PRESIDENT OF GEORGIA LOTTERY CORPORATION:
Honorable Committee Members. It is indeed my pleasure to be here today and to provide you

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information about the Georgia Lottery Corporation (GLC).

Our history is a short one. Unlike your lottery which began in 1972 our lottery began in 1993. The Georgia General Assembly in 1992 passed the enabling legislation that defined how we would be structured.

To write the Bill, the Governors Office analyzed all of the lotteries in the United States and Canada, looked at the lotteries abroad, tried to analyze what the pitfalls would be that they wanted to avoid so that they could provide the framework from which we could indeed become the most successful lottery start-up ever.

What they did was to separate us from government. We are a status formentality, we are a public corporation, we are run in an entrepreneurial business-like fashion with a 100% of our profits going to the State. We have never received any State funding, including our start-up period of time.

During start -up we went to a financial institution as would any other business when they were starting and got a start-up loan which we paid back ten days after tickets went on sale.

The Governor to further insure the entrepreneurial nature of our lottery, appointed a seven member board that had private-sector experience.

It was important to him that the lottery be operated as much as possible in both management and marketing as the private sector operates their businesses.

Our seven member board has staggered terms so if there is a new Governor it would take four years for him to control that board, helping to try and isolate rapid turnover of lottery management which often occurs with changes of Governors and political parties.

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Our board has the authority to hire and fire me, to adopt and amend operating policies and procedures and approve our budgets without any intervention from the Legislative Branch or the Executive Branch.

It allows us the flexibility to respond to changes in the marketplace, be they technological changes or market conditions at any time during a fiscal year without having to wait for the next Legislative Session, for the next budget approval. We believe that that's crucial to our success.

We are also exempted from State Purchasing and State Personnel requirements. What that means is that we have the flexibility to operate competitively and do procurement on what makes the best business sense and we have the opportunity to compete in the marketplace for employees at a comparable rate.

We compete with Coca-Cola in Atlanta for a marketing staff and be pay comparable to Coca-Cola. All of our Sales Reps are on commission structures based on the performance of the sales of the retailers in their territory. Every employee is on a bonus structure tied to overall sales therefore returned to the State.

The other thing that's in the Legislation, which is not, I think important to the Bill that you have, but important to Georgia and I'd like to spend 30 seconds, is earmarking very specifically how our dollars could be spent so that the dollars that the Georgia Lottery brought in would not replace existing education dollars that would create new programs.

1. If you graduate from a Georgia High School with a "B" average, you can go to any State Institution, tuition books and fees paid for on a lottery funded scholarship. 97% of the Freshmen at Georgia Tech are there on lottery funded grants. 96% of the Freshmen at the University of Georgia are there on lottery funded grants.

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2. We also fund a voluntary pre-kindergarten program for every four year old all over the state and

3. We provide computer technology to elementary and secondary schools.

We have been a huge success. We have shattered every per-capita record for a first year lottery. Had huge increases for a second year lottery and deposited it in the industry and on our third year we're on target to do a \$1.6 Billion.

Now if I may put that into perspective, when I worked at the Illinois Lottery in the same position, when it was a Division of the Department of Revenue, Illinois' twice the size of Georgia, and we'll out sell Illinois in total sales.

A lot of that is due to very hard work from our employees and our staff, good marketing decisions made by the Corporation as a whole, entrepreneurial guidance from our Board of Directors.

But I would leave with you the thought that none of that could have happened without the foresight of the framers of our enabling Legislation. It's our enabling Legislation that allowed us to do all of the things necessary to maximize the revenues that we have returned to the State.

I'd be happy to answer any questions when it's question time. Thank you.

REGINALD JONES: I'm sure you'll get some, particularly when they know that you've returned over \$500 million dollars to the State of Georgia. Now I'm going to ask Ott Brown to say a few words. Ott, the floors yours.

OTHO R. BROWN, UNIT CHIEF, CT STATE LOTTERY
Good afternoon Representative Schiessl and Senator Nickerson, members of the Committee.

I'd like to start by thanking you very much

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for allowing me to come here on behalf of the Connecticut Lottery Corporation.

My name is Otho Brown, I am the Lottery Unit Chief with the Connecticut Lottery, and I have been here in this position for the past two and a half years.

I am here today to speak with you about marketing initiatives that are in the Privatization Plan.

Those marketing initiatives are broken down into two basic categories: those intended to create awareness of the Lottery and those intended to refresh and renew the lotteries games.

Those initiatives intended to create awareness are:

1. An expansion of our coupon program. Now couponing is used by the Lottery as a way of inducing trial in our products. We had a great deal of popularity here in Connecticut but there are folks who have never played our games and there are folks who play just one of our games.

Often times, its either they're intimidated by the game, they don't understand it or they don't know about it. And couponing can offer free trial where they get the opportunity to experience the game.

Now couponing as a program requires continuing reinforcements in order to be effective and to do that the Lottery must have consistent funding for this program.

Currently in our pilot project, we've used unclaimed prize money to fund the prizes in the coupon games. Now that approach is in line with our regulations that state, I think very perfectly, that unclaimed prizes should be returned to the players in the form of future prizes.

However, I would tell you under our current structure, the unclaimed prize fund is often viewed

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as an attractive source of funding for other State worthwhile, very worthwhile State programs, but there is not regard for the impact that the alternate use of funding will have on the Lottery revenue contributions.

A second program that we have to increase awareness is more consistent promotion of Lottery jackpots. Sales of our Lotto and "Powerball" games are directly dependent on the size of the jackpot. The larger the jackpots the greater the sales. That's provided that the public knows about the jackpots.

We must have consistent funding for promotion of our jackpot in order to have success with those games, and we have just in the most recent past, last year, experienced the situation where we were fortunate to have large jackpots in the first half of the year and due to that we were unable to advertise our jackpots for the second half of the year. We had a much lower sales and much less success in the second half of the year, then we did in the first.

A third initiative is to increase incentive programs for agents and to increase the Lottery Field Representatives visits to our agents.

Now the agent location is extremely important to the Lottery, where the Lottery sale takes place. The better presence we have in an Agent location, the more aware our players are of our games.

It's important to our success that our Agents view the Lottery as a valued product in their store and that they will use their support in marketing our games.

We've got to make more frequent visits to build the relationship and have placement of our point of sale material at the Lottery Agent location.

Now we also have got to have professional Field Representative people in those positions that are motivated to provide service. They must

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understand that they have a success in the Lottery and they should be rewarded for their considerable contribution, and its an important ingredient that Georgia has used very effectively.

Now we've identified in broad areas two initiatives that were intended to refresh and renew the Lottery.

The first one is to increase Instant ticket introductions. Now the instant ticket game is one that has been highly successful here in Connecticut. It's a game that sales peaked in about two to three weeks and then they began the product line cycle that matures in two to three weeks.

In order to take advantage of those peaks you have to have multiple game launches. Approximately one every two weeks. In order to maximize the sales from these games, again you've got to have the public aware that the games exist.

We've experienced where we do not advertise half of our games because we had to place priorities with what funds we had available. So we need media point of sale advertising for each game.

A second area to refresh and renew the game is to rename and re-launch our Cash Lotto game and to add a new play type to our Daily Game.

These are games that have been out there for a period of time and similar to the Instant Ticket games, they need to be renewed. Not as frequently as the Instant Ticket games but they need to be renewed and be refreshed.

We propose to do that but in order to do that we've got to have the advertising promotion and public relation programs to support those launches or we won't maximize our success.

Now the above initiative that I've described are the methods that the Lottery proposed to employ in order to increase our revenue contribution to the State's General Fund. Very importantly in my

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judgment, we also have to have the means.

The means to accomplish these objectives in a business like fashion and we have got to change the way we do business in order to accomplish them.

We must become more consumer driven and we must have our employees believing that they will make a real contribution to our success. They must

believe they have a stake in that success and they should be rewarded when we are successful.

If you make the changes that are recommended in the privatization plan, the results projected by the plan can be achieved. The \$100 million increase in annual contribution to the State's General Fund will most definitely be a challenge for the Lottery. A challenge that will require the Lottery to fully employ the private-sector practices envisioned by the plan.

However, if we get the chance, I look forward to Lottery being as successful as it can be and to achieving that success with the dignity of a State owned operation.

I would like to say in conclusion that none of the marketing initiatives that I've described in the plans target any particular ethnic, income group or job group, age group.

The Connecticut Lotteries market research as well as market research by many other lotteries in the U.S. and in fact recently substantiated by the Irish National Lottery, International research, confirms that the demographics of lottery players are virtually identical and proportionate to the demographics of the general population.

The privatization plan envisions continuing that widespread appeal. We'd like to broaden the base of our support.

I again thank you very much for this chance to come before you and I am hear to answer questions when this is over.

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REGINALD JONES: Ladies and gentlemen, our next speaker is Wilbur L. Ross, Jr., Senior Managing Director of Rothschild, Inc.

WILBUR L. ROSS, JR., SENIOR MANAGING DIRECTOR OR ROTHSCHILD, INC.: Thank you. Good afternoon, Chairman Schiessl and Chairman Nickerson and members of the Committee.

I'm Wilbur Ross from Rothschild and I thank you for the opportunity to present Rothschild's views regarding the proposed partial privatization of the Lottery.

Rothschild has been the leading privatization advisor to governments worldwide in each of the last five years. We've advised over 120 major privatizations in some 35 countries, and it is very clear to us that privatization of the Connecticut State Lottery makes sense.

The plan submitted by the Office of Policy and Management is sound. It provides for a new quasi-public corporation to become the sole general partner in the Lottery with passive investors buying a 6% limited partnership interest.

It will provide Connecticut with \$160 million of privatization proceeds that will never have to be repaid and yet will provide the State with more recurring cash flow each year on the new 94% of ownership then would have been earned by the State under the old 100% ownership. This result should not be surprising.

There are many functions government performs well, but product innovation and consumer marketing are not among them. Those are commercial, not governmental areas of expertise.

To accomplish the economic objectives, it is necessary to establish a quasi-public corporation. The quasi-public will act as the general partner for the limited partnership investors.

This is essential in order to insulate product planning and marketing decisions from annual

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legislative initiatives. It is also necessary so that we can market the equity to private sector investors.

It is Rothschild's opinion that leaving the Lottery as a direct agency of the State would make it impossible to market the equity at a price remotely as high as we have proposed, if indeed it could be marketed at all.

We can talk all we want about running the Lottery in an entrepreneurial fashion in the current structure, but investors know about the repeated decisions to hold advertising to an uneconomically low budget, thereby unnecessarily constricting revenues.

Inadequate advertising here is one reason why your neighboring lottery in Massachusetts captures two and one-half times as high a percentage of disposable income as the Connecticut Lottery.

Because the limited partners would be passive in nature and have no formal decision-making power, it makes it even more important that the day-to-day management is shielded as much as possible from politics.

Does any one really think investors would buy equity in General Mills or Coca Cola or Estee Lauder or any other such company at a high price if the Legislature set their advertising budgets, staffing and compensation levels? I don't think so.

A well-staffed quasi-government general partner will be saleable to investors on the terms presented, namely a tax free cash return of 12% a year for up to 15 years on the offering price.

This structure, plus the uniqueness of owning equity in a highly profitable state lottery, offset the fact that a quasi-public entity, not a for-profit corporation has ultimate control.

Indeed, based on the volume of inquiries received by Rothschild, many other states and

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cities are considering similar structures for their proposed privatizations.

Other elected officials are attracted to the Lottery partnership structure for several reasons.

First, there is so little downside. Unless you believe that the quasi-public will somehow reduce Lottery profits, the worst that will happen is that the State will keep 94% of the benefits plus \$160 million in cash.

The only upside being sacrificed is the excess over \$160 million for 6% of the company. But the fact remains that the State will gain almost \$16 in value for each \$1 gained by the investors.

Second, the quasi-public corporation preserves control permanently over the Lottery even if at some later date the State decides to sell more of its equity.

Third, the partnership structure assures that none of the State's share of Lottery profits ever will be subject to Federal income taxation and that the passive investors will pay little or no tax on it for many years to come.

To sum up, the main points I can leave you with today are two-fold - the Lottery privatization plan as presented is a highly marketable proposition, and the quasi-public form is essential to the plan's success.

We respectfully urge you to give this plan your approval. I'll be glad to answer any questions you may have.

REGINALD JONES: Let me introduce Martin E. Stauffer, Partner of Coopers & Lybrand. Had a little trouble getting that our Marty. Probably you know why.

MARTIN E. STAUFFER, PARTNER OF COOPERS & LYBRAND: Good afternoon Ladies and Gentlemen. Thank you for the opportunity to speak to you on behalf of those at Coopers & Lybrand L.L.P. who acted as financial advisers to the Office of Policy and Management in

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the development of a privatization implementation plan.

It is our belief that the enactment of SB54, An Act Establishing the Connecticut Lottery Corporation, and the implementation of the privatization plan is beneficial to the State of Connecticut. It will result in increased revenue for the State both in the short-term and the long-term.

As you've heard during the privatization process, a number of alternatives were evaluated. To service this evaluation process, an alternative had to meet certain threshold criteria.

1. The financial results to the State, both short-term and long-term, of the alternatives had to be better than the current operation of the lottery. We believe this proposal does that;
2. The alternative had to ensure the maintenance of the integrity of the lottery. This proposal does;
3. The lottery had to continue to be operated in the public good and be subject to necessary regulatory and legislative oversight. This does;
4. Any legal, tax or other hurdles had to have the likelihood of being overcome, by rulings from appropriate federal agencies. We believe it does.
5. A sale of an interest in the lottery had to be achievable at a price and terms that both the buyer and seller would find attractive.

As part of the public debate, some may question the benefits of the creation of the quasi-public corporation.

I would like to comment on that aspect of the plan first. The Connecticut Lottery is a profit-

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making business whose reason to exist is mainly to produce the maximum revenue to the State of Connecticut.

This obviously must be achieved while maintaining the integrity of the games offered and always operating in the best interest of our state's citizens. It became evident to us during the evaluation process that our State's lottery maintained the highest integrity and the public good has always been uppermost in the decision process of the lottery.

We can also be proud that our State lottery is consider one of the better operated lotteries in the United States.

What also became apparent to us during the evaluation process was that the operation of a profit-making business subject to governmental budgetary constraints, governmental bureaucracy, and even political pressures is causing our lottery to be far less successful financially than it can be. We are leaving a significant amount of money on the table.

For example, the lottery's major business operation is marketing, yet the advertising budgets are set based upon state budgets and not the level of advertising that maximizes profits without sacrificing the public good. Cutting the lottery budget \$3 1/2 million to balance a budget might reduce revenues by \$35 million. That's not a wise decision.

Other examples may be the inability to evaluate owning instead of leasing computer terminals, introducing agent incentives to increase sales, or executing a telephone contract that would reduce cost to the state.

It is our belief that these are but a few of many examples where the Connecticut Lottery could increase profits without jeopardizing the public good. The quasi-public corporation enables the long-term maximization of profits that will not be achievable or sustainable when run as part of our

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general government.

The second step of the process is the sale of a limited partnership interest in the lottery. This step is important and beneficial to the State as well.

The quasi-public corporation would remain within the full control of the executive and legislative branches of government. That assures the maintenance of integrity and public control.

But in our opinion, there is a clear long-term benefit of having the passive minority private ownership because it would provide creative tension to help maximize profits.

For example, this maximization of profits may come from making business decisions to invest in the ownership of computer terminals without going through the state budgetary process. It may also include evaluating the lottery advertising budget based upon what is appropriate for the lottery and not on balancing the state budget.

In short, the private limited-partnership interest creates the appropriate profit-making pressure without sacrificing public control.

(GAP IN TESTIMONY. CHANGING FROM TAPE 1A to 1B)

Another aspect to the privatization plan is the timetable. With the "Powerball" issue apparently resolved, the longest term, one time steps that need to be accomplished are legal and tax rulings, and it is our belief that the legal and tax rulings can be achieved within six to nine months enabling the sale of partnership interests to be completed by June 30, 1997.

In conclusion, Coopers & Lybrand has participated in a thoughtful and thorough analysis of alternatives for the privatization of the Connecticut Lottery.

As we have said before, it is our opinion that the worst thing that the State could do would be to

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sell the entire lottery. However, the next worst thing the State could do would be to do nothing at all. It is our opinion that the implementation of the privatization plan presented would result in significant increases in revenue to the State of Connecticut General Fund in future years.

Therefore, we believe that Senate SB54 should be approved.

REGINALD JONES: Thank you very much Marty. That brings us to the end of our prepared remarks and we are now open if you wish for questions.

REP. SCHIESSL: Thank you and I'd like to thank the Committee for their indulgence in allowing the panel to make its full presentation before asking questions of them.

I would like to maintain the level of decor we've established here during the presentation period in terms of the decibel level in this room throughout the question and answer period. So if you would be kind enough to continue behaving in this exemplary manner, I would appreciate that very much and so would those who are posing the questions and those who are attempting to answer them.

I'd like to begin with some questions of my own. Perhaps, working in reverse order Mr. Stauffer.

At the end of your testimony, you indicated that there are several tax issues that need to be addressed in order to have successful implementation of the plan. I presume these reference Federal Income Tax issues and are matters, I suppose where you may be seeking a Revenue Ruling from the IRS.

Could you provide us greater detail on what some of those tax issues may be and I'd welcome a response from anyone in the panel to any of the questions that I have too pose, but since you brought it out Mr. Stauffer, I thought perhaps you could elaborate on what some of those tax issues

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are.

MARTIN STAUFFER: Sure. One of the issues, and I don't know how much detail you want me to go into without boring you all, but one of the issues is to make sure that the State of Connecticut share of the partnership revenue remains exempt from taxation.

The State of Connecticut right now obviously is free of Federal Income Tax on any revenue it earns. There has been some thought. We don't think it's significant but there is some thought that if there's private participation in an enterprise that the State participates in, that could taint the State's share.

I might add that we have approached the IRS formally through our Washington Office and informally we were told that they don't think that's a problem. It was an easy issue.

However, given the amount of money involved, you can't take that risk and one would seek a formal ruling.

The second major issue will be to make sure that the limited partner's purchase of their partnership interest, that the price that is being paid be allocated towards goodwill and they would be eligible to amortize that, and in effect create a shelter for the income that they are receiving.

That in order to maximize the price an investor would pay. Which is to produce tax-free income as opposed to taxable income over a period of time. To maximize their price, it would be prudent to seek a revenue ruling on their behalf or on the partnerships behalf. Now, those are the two major issues.

REP. SCHIESSL: Alright, those are the two major issues.

Now onto another area. The FCC. Reference was made during Mr. Cohn's testimony, the need for there to be a ruling of some sort from the FCC with regard to this proposal.

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Could you elaborate on the issue involved in that FCC matter and perhaps articulate what you think will happen down at the FCC and what the timetable might be as well?

BENSON (BUD) COHN: Yes, certainly. There is a provision in the Federal Statutes that forbids advertising on the Federal airwaves by gambling enterprises, other than a Lottery then "a Lottery conducted by a State". So just as a matter of safety, we wish, we need to get a ruling from them that under the form we propose we will in fact remain a Lottery conducted by a State.

We did meet prior to issuing the report with the Director of Enforcement at the FCC and he walked us through precisely what we needed to do to make sure we got that Rule 8 and we built the proposals around that, so we're virtually certain we'll get the ruling we need and it shouldn't take particularly long because they are already briefed and ready.

REP. SCHIESSL: Thank you Mr. Cohn.

Another question unless there is further comment from the panel. The other question relates to the "Multi-State" or "Powerball Lottery".

We're looking at a revised draft of this proposal and I was told, at least it was raised in the original report the possibility that we may in essence be excluded from participating in the "Powerball" consortium if we attempted to privatize a portion of our Lottery and sell it to private investors.

Could you elaborate on the current status of our relationship with the "Powerball" consortium in light of this advised proposal?

BENSON (BUD) COHN: Yes, certainly.

The original assumption by the "Powerball" people that we were going to do something that they didn't like, was based on the original proposals floating around the Legislature last session

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indicating a total sale of the Lottery.

When we issued the report, because we had to deal with the FCC concern about what is the Lottery conducted by a State and when they read that report they realized that we had put together a proposal which would continue to define the Connecticut Lottery as one conducted by a State.

Therefore their objections went away and they communicated to us in writing that as long as we got the FCC ruling, we stayed in. And as I mentioned we expect to get the FCC ruling.

REP. SCHIESSL: Now these assumptions are based on the Legislature adopting this proposal as it's been presented to us in a revised form. The Legislature has the power to make alterations to this proposal, but this is a situation where we have a Bill before us, that if we enact a certain way, the panel believes that certain rulings from the IRS and FCC will be forthcoming that will result in our being able to maximize revenues and be able to do everything that we intend to do.

But what happens if we take some action and amend this Bill in a way that throws the FCC ruling in risk? What happens then if we have a flawed proposal?

BENSON (BUD) COHN: The project team with the legal and financial expertise remains in place to advise the Legislature on any amendments which may be proposed as to whether they might create a jeopardy situation with either the IRS or FCC.

So we stand ready to help you and advise you if you wish to make changes on what the impact may or may not be.

REP. SCHIESSL: Well, I've got to tell you, I have faith in certain things, but one of the things I don't have faith in is government. That's probably the reason I'm here.

I want to see it first hand. And, I got to tell you, if there's a change in administration or

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a change in policy or a change in tax law on a Federal level both in the IRS or FCC, these best laid plans of Connecticut's, among Connecticut's finest minds in Government may be in jeopardy and the whole house of cards can collapse. That's an object of great concern to me.

I was very pleased with the removal of the bonding provisions here because it removed one of the major obstacles to Legislative approval, but I'm still a little nervous about our having to take an action, put a provision in place and rely on informal rulings from Federal regulators and proposed revenue rulings with a possibility of a change in the Federal Administration, which may bring drastic changes to the way the Federal Government does business.

BENSON (BUD) COHN: That's actually the point of getting the rulings formally because once you get them formally you can rely on them, so a change of personnel or a change of policy will not alter that.

Also, the two pieces of the tax code that we need to rely on. One was adopted when the code was adopted in 1916 and hasn't been materially amended since. And the other was adopted in the mid-1930's and hasn't been materially amended since. So once we get those rulings in place, we're pretty secure that we can continue function.

REP. SCHIESSL: Well my immediate problem is, we as a Legislature are being asked to rely on a plan that involves future approvals. Just because there is an informal letter or a meeting that goes the right way, doesn't necessarily mean the race is done and I've experienced that first-hand, dealing with State and Federal Agencies.

So it is a source of great discomfort for me and something that we'll need to address perhaps in greater detail at another time. Mr. Jones.

REGINALD JONES: Mr. Chairman. I'd like to make a comment on that.

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As you know, every year hundreds of rulings are issued to corporations for proposed courses of action that involve taxes or other government issues. I think what Bud was trying to suggest is that these are formal letter rulings. Once the government issues them, you are protected as long as you operate within their constraints.

Now, admittedly, new Congresses or new Presidents can come up with ideas, but I think our whole frame of our structure in this Country is well hooked to that idea that once you get a formal ruling you can go ahead and make business plans without jeopardizing large investments. Isn't that the position you were talking about.

REP. SCHIESSL: Yes. Thank you. That should help. Another question, moving on. Here's a general question.

What happens if we change our minds as a Legislature and decide that not only do we want to privatize the Lotto or we want to dismantle the structure but we want to get out of the Lottery business altogether and prohibit lotteries from operating within our State?

Are we becoming a hostage to these investors in terms of the way we regulate gaming in this State by Statute? Are we trapped through some contractual obligation with these private investors in living with the Lottery from now to the end of time?

WILBUR ROSS: I don't think so Mr. Chairman. The investor is simply trying to make a rate of return. He is not requiring any formal changes at all in any of the existing Legislation regarding the way Lotteries are conducted. So there is no new burden being imposed upon you.

If as and when you decided to get out of the business, there would have to be some mechanism for settling up with the investors because they would have put in \$160 million and presumably it would not be the Legislature's intent to confiscate the money. Other than that, at least that's not part

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of the pending legislation as I would sponsor it.

REP. SCHIESSL: You never know. So in essence we'd have to buy them out.

Alright, well, another general question concerns this quasi-public entity Connecticut Lottery Corporation. I'm hearing a lot of talk about how this proposal will allow us to react to the market, it will allow us to operate like a business, but really what we are doing here is creating a monopoly.

And, what I want to know is how do you justify creating a monopoly, claim that its going to react to market forces when typically a monopoly does not have to react to market forces because it's the only game in town.

REGINALD JONES: It is already a monopoly. It's a Connecticut Lottery.

REP. SCHIESSL: Right it's a monopoly using public dollars.

REGINALD JONES: I think it's a question viewed in the new context of who the competitors are for the entertainment dollar.

For example, in the State of Georgia, as President Paul pointed out, they compete in every convenience store with Coke, Budweiser, etc. so they have to operate with the incentives and the enthusiasm of their route men to compete in that environment.

We will have competition for entertainment dollars in spite of the fact that we're a monopoly but our monopoly status in our protective market will be of some significance to potential investors.

Rebecca would you like to comment on that?

REBECCA PAUL: My only comment Sir is on...in the thought of the true monopoly, is when if you have to have electricity and you only have one choice

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for the electricity.

You don't have to buy a lottery ticket and it's the fact that we are competing for that impulse buy in the convenience store that makes it not the same type of monopoly that an electric company might have.

REP. SCHIESSL: Well I'm thinking more in terms of thoughts with casinos and their monopoly on slot machines within our borders as opposed to the utility example. That's something we have to live with as a Legislature and feel the financial obligations of that contractual arrangement every year here in the Legislature.

Question about vendors. I guess the general question is have the vendors been consulted as to the terms of this proposal. Have they been offered an opportunity to express their views about the proposed increase in instant games or the introduction to new technologies that might have an impact on their ability to make money as our agents?

OTT BROWN: Okay, now I believe I intended to respond to a similar question. Unfortunately we had a little confusion on words. We used the word vendor to indicate a supplier and an agent is the one who sells our tickets. Are you referring to...

REP. SCHIESSL: I'm referring to agents.

OTT BROWN: Okay. We quarterly hold agent's breakfasts. We recently held one at People's in Waterbury about a month and a half ago. We certainly discussed this issue somewhat.

I would tell you there was not a great deal of concern with any of the agents we had and there really isn't a big change for the agents associated with this. If there is any change at all, it's our intention to increase the incentives for themselves, so they are probably in favor of that.

In the terms of the number of instant games.

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We have had a few, not many, but a few that feel as if we've inundated them with instant games. And it is and we have proven it to be the road to success in the instant ticket product and the vast majority of them appreciate the W2's when they come and their sales have increased and their contributions have increased. So, I don't believe we've got a problem or do we have a problem with our agents.

REGINALD JONES: Can I just ask you for Rebecca Paul to amplify that answer and tell you about what happened to the Georgia agents when they went with the quasi-program?

REP. SCHIESSL: Yes, and as she does that I'd like her to elaborate on what types of gaming take place in all the neighboring states that surround the State of Georgia.

That ranges from casinos to horse tracks to dog tracks to Jaialai, to Keno, to instant gambling. I'd like to know what, since we're talking about Georgia, although we're here in Connecticut, I don't know anything about the State of Georgia besides they're going to be hosting the Olympic Games and the World Series Champion comes from there--but we do know what kind of competition we have here around the State of Connecticut.

So perhaps you can elaborate about the competitive atmosphere and the battle for that entertainment dollar as you also comment on the issue that Under-Secretary Jones raises.

REBECCA PAUL: Sure, there are five states that surround Georgia. Only one of them has a lottery and that's Florida, but the Florida Lottery did a terrific job in start-up of convincing Georgians to play the Florida Lottery.

22% of Florida's Lottery sales came from Georgians before the Georgia Lottery began. Florida is an adjacent state, has Jaialai, dogs, horses and you can go to almost any Port and take a Cruise Ship out three miles, be in International waters and do almost anything you want to do.

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I am not extremely familiar with the other states in terms of other gaming. I believe Alabama has dogs, Mississippi which is close has casinos in the Gulf Port, I don't believe Tennessee has any gaming, South Carolina has a very active video poker contingent that you can go to numerous locations in South Carolina and play video poker.

Georgia has no gaming, other than the Lottery, but we are competing as we've been talking about. When you go into a convenience and you fill up with a good tank of gas and you spend \$18. You give them a \$20 and you now have \$2 change. I want you to spend that \$2 on a lottery ticket as opposed to a Coca Cola or a Beef Jerky or a pack of Frito-Lay or whatever else you might buy with your change after your fill-up of gas.

So as we work with our Field Representatives, what they are fighting for is shelf space in that convenience store environment so that when you're there at the cash register, you see Lottery signage.

Instant tickets are an impulse not a planned buy. You probably plan to play "Powerball", you probably plan to play Lotto or plan to play your three digit game, but no one gets in their car and drives generally to go buy an instant ticket. Impulse buy.

So the better our reps do at getting signage right above the cash register, tape papers on the gasoline, in carriage dispensers, the better our reps do of getting that space from that retailer, the more lottery will be on your top of mind awareness when you have that extra \$2 after you have filled up with gas. Did I answer what you wanted?

REGINALD JONES: Yes, I think so. You did add almost 1,000 agents or retailers.

REBECCA PAUL: Yes.

REGINALD JONES: I guess you would call them retailer after two years. By using incentives and programs

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that we do not have here.

REBECCA PAUL: Our retailers are incentified for increasing sales. So they get a goal base from what their sales were last year in the same quarter and if they sell more tickets in the same quarter this year that they did in the same quarter last year, they share in about a \$15 million pool. So our retailers in addition to a 5% for selling and a 2% for cashing get \$15 million for increasing their sales.

SEN. SCHIESSL: Thank you. Just for purposes of clarification, no portion of the Georgia Lottery has been sold to passive investors. Correct?

REBECCA PAUL: No.

SEN. SCHIESSL: OK. All the monies is still used by the State.

REBECCA PAUL: Yes. 100% of our profits go those Education programs.

SEN SCHIESSL: Very well, okay.

Senator Nickerson for a series of questions. Thank you very much.

SEN. NICKERSON: Thank you. Thank you for the panel. I'd like to build on a couple of questions that Senator Schiessl asked.

First a short term one of Mr. Ross. Senator Schiessl has explored the area of the challenges and obstacles in terms of the FCC, the IRS and the "Powerball" that have to be overcome in order to meet the scheduled sale in June of 1997. But I would like to ask you the obvious marketing question.

How do you assure the Legislature, that assuming those other obstacles are surmounted, that you, I guess your firm has been hired not to do just the consulting but to do the marketing, is that right?

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(TALKING BACK AND FORTH IN BACKGROUND)

Then, I guess I asked the right question.

The question obviously is how would anyone who was selected, should it be your firm or anyone else, would they at this stage in the game, (poor term), how would they in this stage of the session assure the Legislature that the marketing effort will be successful, and will bring in a 6% investor at the targeted price.

The same way of asking the question is how do you assure you or your successor won't be back here, saying "well, we solved the "Powerball". the FCC and the IRS problem but we weren't able to sell the 6% for the targeted dollar.

WILBUR ROSS: You're about to see the power of incentives at work Senator.

SEN. NICKERSON: Go for it. Go for it.

WILBUR ROSS: The reason we feel so comfortable that it would be saleable is what is the nature of the product.

It is the lottery that has been growing. We believe we'd have very good continued growth prospects. You've seen those outlined in the brochure. But even absent growth, what the investor would be getting is a 12% untaxed return. Namely a tax-free return for approximately a fifteen year period.

When you consider that is a mature rate of return, for what we view at least as a very safe investment, then you can get in most things. It seems to ask that it would be inherently a quite attractive investment.

And indeed, if we hit the Lottery or the State hits the Lottery, so to speak, but its possible to be done at a more aggressive price. We tried to come with a very conservative version of pricing so that we could sit here and be quite confident that there should be no problem marketing.

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SEN. NICKERSON: At a 12% tax free rate of return I would agree with you. Maybe a smaller percentage could be marketed for the same price.

WILBUR ROSS: Well, it could be, and if you want to begin the negotiations we'd be happy to Mr. Senator.

SEN. NICKERSON: Let me ask Mr. Brown a brief question and then I want to ask the whole panel a rather large question.

Mr. Brown, much has been said about "We shouldn't expand Lottery." If I understand your testimony and others this morning, the State has been in the Lottery business since, was it 1972? We have been in this Lottery business for 24 years.

Receipts the day before we were in it were zero. Gross receipts today are I understand in the area of \$718 million approximately. So if you were to graph that, in response to those who say "Connecticut should not expand the Lottery", your answer presumably would be "We have rapidly expanded the Lottery over a 24 year period without objection that I'm aware of from the Legislature or anyone else. Is that, would you comment on that?"

REGINALD JONES: Yes. I would think that's accurate. We have had some little bit of herky-jerky, but we have expanded it dramatically.

SEN. NICKERSON: OK. Let me ask anyone in the panel I think a very major question. It'll be my last one, but I'd like real comment on it.

This observation has been made by both proponents and opponents of the plan that the quasi-corporation format will give rise to the potential for decoupling the operation from State regulation and thus expand the Lottery. But that is different from selling a 6% share.

How would any of you react to the proposal if the Legislature were to do, in effect half of this bill? Mainly adopt the quasi-corporation rational but not the other half of the bill with

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regard to saleable interest.

Obviously that would give rise to a budget problem in the current year but my question was "How would you see that as a methodology for meeting the goals of enhancement of future revenue from the State"?

REGINALD JONES: Well, they've requested that I take that question. I would consider that a huge problem for the Legislature.

I didn't approve the budget last year. They called for my agency to study the sale of the Lottery. If you, and you certainly can choose, to do half of this but not the whole thing, but if you do that, I think then it becomes incumbent on all of us to either find additional revenue or cut spending.

Now you may be thinking about the programs you'd like to cut if you don't want this revenue. I don't mean to be flip with you but the issue is pretty straight forward in my mind. If you go the Rebecca Paul route, set up a corporation and for 15 years you have an enhanced growing friend of revenue earned.

I don't know whether you should care so much about when you take out the cash. I mean you take out \$160 million now and what. \$5 million the last five years from now. The thing that I think is important in this issue is to recognize that under this proposed solution, you will not only increase the payout to the limited partners but for every dollar you pay them, you the State gets \$16 more that year.

So I think it's a broad question. It involves the issues of budgets, it involves the issue of enhancement of value, it involves the issue of time, of when you take out the cash, and the issue of need for your citizens and opportunities of how you use the money.

SEN. NICKERSON: OK Reg, that's very illuminating because what you're saying is that the, I think

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it's most useful, but what you're proposing is that the sale at the outset of a small, a very small limited partnership interest in effect is the Legislature realizing on the future stream of income that will be generated by enhancing the Lottery.

--and that there's nothing untoward about taking an early realization when the person paying for that is an outside party who is ready to write a check, which is in effect, his bet that realization of enhanced revenue will take place and he'd like to share in it.

REGINALD JONES: As you know, the only real test of value in our economy is a bargain between a willing buyer and a willing seller. So it helps establish the value of this asset we now hold.

I must tell you as a matter of personal bias, that I believe we hold too many assets. I believe the interests of the citizens could be enhanced by some asset disposal plans.

We have had a history in this State government, when we vacate a property we give it away to somebody else. We have significant assets. You don't see them on our books, because you probably don't read our balance sheet.

I don't either, but. The fact is, we have a big pile of assets and I would like to see us do something to reduce those investments for the people of Connecticut.

SEN. NICKERSON: Well then Reg, and this is my last question.

I guess it's to put what you said into a different perspective. The sale of the 6% is key to the workability of this plan. Not only for budget purposes, but to provide an outside market test of someone who is going to write a check to confirm that we have done it right and-- that we haven't in fact created an entrepreneurial oriented organization that is different enough from what we are doing now so that someone is willing to be our

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6% partner and to write a check to prove that he is willing to be that.

REGINALD JONES: That is my opinion but I recognize that you can't separate these issues in the views of some other people.

SEN. NICKERSON: OK. Thank you very much Reg and thank you to the panel.

REP. SCHIESSL: Thank you. Senator Jepsen you have the floor.

SEN. JEPSEN: I've heard Governor Rowland and I think perhaps yourself and others over the years say that one of the things that they don't like about new taxes is it takes money out of people's pockets so they can't spend it someplace else.

On that narrow point could you distinguish a saleable lottery ticket which provides revenue to the State and takes money out of people's pockets is what has been described as competing for impulse buys which means they're not buying something else.

Can you distinguish on that narrow point a lottery sale that goes to the State and a tax?

REGINALD JONES: Yes, I think that was covered in the testimony Senator. A tax is involuntary a lottery sale is voluntary.

SEN. JEPSEN: One of the arguments that was frequently made in debate over the years about sales tax is that its partially voluntary.

REGINALD JONES: Um, I never viewed it that way.

SEN JEPSEN: But the narrow point. Excuse me. The narrow point, I don't think that you've addressed my fundamental point which is that once a dollar leaves somebody's pocket and goes into State government offers, by a standard not that George Jepsen has annunciated but dozens of critics of taxation, they say, it's not a (indiscernible) we spent in the private sector any more.

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Isn't that correct with a lottery sale?

REGINALD JONES: No, I think the fruits of the Lottery returns substantial monies to the pockets of the winners in Connecticut.

SEN. JEPSEN: Some money comes back, but some goes to the State. And the money that goes to the State, distinguish please between that and a tax on the specific terms that I asked.

REGINALD JONES: If I buy a lottery ticket, that's an act initiated by me. If I get a tax bill from Connecticut that's an act initiated by you.

SEN. JEPSEN: The point that I made, and I'll let it go, but the point that was made time and again is that these dollars are no longer available to circulate in the Connecticut economy through consumer purchases.

What you've done when you sell a lottery ticket, when you net out, what comes back to the consumers is money that goes to the State. That's exactly like a tax and is exactly what Governor Rowland and others have frequently criticized new taxes for.

REGINALD JONES: I think I've tried to, you may not accept, but I have distinguished it and I believe most people here understood what I was saying.

SEN. JEPSEN: Ok, alright. I think everybody understands exactly what you're saying. There's a point of disagreement here.

The data that you yourself or your organization has provided, literally on its face, would say that the purchase of about 61% of the tickets, if you look at it, just to tease the data a little bit by thinking in an intellectually honest way, you'll find that the data from the Census data of 1990 and the lottery player data is 1994.

During that time of course there's been income growth among lower in the bottom 61% and so I think

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it's very fair to say that if you compare apples to apples from 1990 to 1994, you'd find that the bottom 60% of the population, the numbers higher than 61% it might be 64% it might be 67% by now 80%. I think that's a fair observation.

And to take that one step further, what that pretty clearly shows in contrast to what Mr. Brown said, is that this is a very regressive form. I won't say tax, but, a very regressive form for taking money out of public pockets and putting it in other pockets.

If you'd care to comment on that.

REGINALD JONES: Well, I think it's always difficult to work with somebody else's numbers without having a chance to study it, but let me ask Will. He has studied the demographic distribution of lottery ticket buyers.

WILBUR ROSS: All the numbers on the scale presumably moved up to the right as you went from 1990 to 1994. However, the bottom 60% is still the bottom 60%. That doesn't change.

SEN. JEPSEN: Even if I grant that, what it still tend to show is that the bottom 60% buys a commensurate 60+% of the tickets for all players.

WILBUR ROSS: Why don't we look precisely at what it says since you and I have the benefit of the material in front of us, and not everyone does. With your permission Sir, I'd to like to read off what the numbers show, so that at least we have a common starting point.

The Income category, that seems to be the most over-represented in lottery purchases, is in fact the category in the \$75 thousand to \$100 thousand dollar bracket. In that, that is the universe which constituted 9% of the population, but 13% of the lottery sales. So, in effect, they overspent by almost 50% relative to their share of the population.

I'd very much doubt that categorization has

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changed with inflation. The 75 to 100 maybe is 85 to 105 or 110, but in terms of its behavioral pattern, its very improbable that that's changed.

The second most over spending category is the category of \$30 thousand to \$50 thousand. That category constituted 26% of the population and 31% of the lottery purchases. Consequently it overspent its share by roughly 20%.

Interestingly, and I think not to surprisingly, the category that underspent the most is in fact, the poorest category. The people earning under \$15 thousand, which constituted 15% of the population and only 10% of the lottery purchases. They underspent by about a third.

SEN. JEPSEN: I understand that and not to belabor the point, but I think it should be very clear that income categories move up over time. And when you compare 1990 to 1994, there is a small but recognizable shift and what you'll find if you take a hard look at the numbers is that, by the numbers you've provided, 60% of the population made under \$50 thousand in 1990. The under \$50 thousand category, purchased 61% of the tickets, cumulative, in 1994.

Whatever shift exists, certainly will shift up so that 61% number is higher. I don't know whether its 63, 64 or 65. I readily concede that the poorest people simply don't have the money to purchase but, the general point, whether you accept the 61% number or tease it up to 65 or 66% which is clearly more accurate, is that the bottom 60% of the population purchase at least as actively as everybody else.

And when you compare that, when you take into account where the poor and working class people who are buying tickets, and you compare it to other forms of securing revenues for the government (income tax, sales tax), other forms of securing revenues to the government.

I think its crystal clear that this is relative to them, and even on its own terms, is a

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fairly regressive way of securing revenue for the government.

Call it tax or call it what you want but it's a regressive way especially compared to other forms of securing revenues to the government.

Do you have a comment?

WILBUR ROSS: Unless you define \$50 thousand earners, as being among the working poor, which we in New York would not normally do, I don't think that is supported by the data.

REGINALD JONES: Well, the data can be studied but I think I would just point out that our Governor wants to reduce the Income Tax on the poor citizens.

SEN. JEPSEN: On which citizens?

REGINALD JONES: On our poorest working citizens.

SEN. JEPSEN: The poorest working citizens don't pay necessarily the Income Tax.

REGINALD JONES: Well by your definition of the working poor, many of them do.

SEN. JEPSEN: Well, I think the point is clear and its undeniable, that when you look at who buys tickets, it hits relative to other ways our government gets its money, it's a very regressive way.

I can share with you afterwards. I'll share with you the charts and graphs about who pays the Income Tax, who pays the Sales Tax. It's undeniable.

The bottom line obviously don't agree. I think this is a very regressive form of, I may call it a new tax, but whatever it is, it is a new form of getting government revenues.

Have you folks looked at all, at the issue of compulsive gambling or addictive gambling and has

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that been part of the gambit of your study?

BENSON (BUD) COHN: Yes, it has. There is a section in the report on that and it's been a couple of months now since I've read it, but the gist of it is, there is a program for helping gamblers and part of this proposal is to increase that program by earmarking a piece of the lottery revenues for that, which is not yet, not up to now occurred.

OTT BROWN: Well, that's an area that we look at continuously. And again there is provisions in there, I think its important to put lotteries into perspective when it comes to compulsive gaming, gambling.

It is a personality disorder. The compulsive gambler is generally addicted to a variety of things. It's not the existence of the lottery that causes the compulsion. It's where the outlet happens to be. I don't think there's impulse buys in most cases, where if it is, it's an impulse they can't control.

My point is, they don't particularly like lottery by the way, it's not a favorite form of compulsive gaming. There is to much chance associated with it and they think or believe they have a way of honing the odds by their own inlay and they don't like lotteries because the restricted chance.

SEN. JEPSEN: You made the point earlier under, questioning or prompting I should say, from Senator Nickerson that the lottery has been expanded over the last 24 years and that, what's the big deal about expanding it once again.

Oh, we've been expanding other sources of revenue to the State for the last 24 years, but that doesn't mean we're under some obligation this year to go out and expand sources of revenue once again whether its the Income Tax or Sales Taxes. I'll just leave the broad issue.

I think if you look closely at your data you'll find that its a regressive form of bringing

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revenues into the government that's undeniable based on the statistics that you yourself provided.

There's an issue that you admit to, that you even wanted earmarked money for in the issue of compulsive gambling. We'll have some witnesses in a couple of minutes about the full impact of compulsive gambling on society, but it's very real and we're only adding to it.

I'd like now to look at the fiscal aspect of this proposed legislation.

Is there a business plan in writing about how the expansion of the lottery would take place?

Looking at the proposal, and last year's budget, and I know and I want to make clear I understand the point that there is no explicit linkage between the sale of the lottery and the tax cut or anything else.

But it is certainly true that there is a \$200 million reduction in revenues from other sources and I remember very clearly that Senator Nickerson was very eloquent before the Senate in making clear that we expected the sale of the lottery to bring in at least, or whatever was done by the lottery to enhance it.

I guess borrowing has been dropped as a proposal, but whatever was going to be done was going to bring in at least \$1 million and my understanding based on my reading of the proposal, and what Secretary Jones has said today, is that about over the next three years, the revenue enhancements will build up to the point where revenues will have been enhanced by a \$100 million.

That's the goal and that's the number I've been using publicly and I agree that what the study says.

In the interim, however, and Secretary Jones, today used the phrase, The need to balance the budget requires the sale of an asset, he described as taking the cash out. It sounds like to me a one

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shot revenue source.

It's of an enhanced asset, but it's a one shot revenue source, and by your own admission, even after this revenue enhancement, which I say is a kind of a (indiscernible) for taxing or getting poor people to put more of their money into the public Treasury. Even after this enhancement has taken place, having created a \$200 million

(GAP IN TESTIMONY - CHANGING FROM TAPE 1B to 2A)

our ongoing revenue stream.

Now we find that even with the enhancements, it only brings another \$100 million in. Secretary Jones correctly noted that if we don't sell the lottery, we'll have to find revenues from another source or cut spending in other places and asked us to look for programs we would like to cut.

If we sell 6%, to cover this gap in 1996, it would seem by the numbers you yourself have given us that a year from now we will be back here facing -- forgetting any other aspects, the budget we're spending may have gone up or revenues might not have come in as anticipated.

On the internal loop of this proposal, we face an ongoing deficit in the out years of \$100 million and don't we face exactly the same question a year from now and two years from now and three years from now that was poised by Secretary Jones today.

Specifically, if we are not willing to sell more of this asset, if we are not willing to carve off another slice of it and send it out to private investors, we're going to have to look for revenue from other sources or for a -- or to cut spending. Is that an accurate description of---

REGINALD JONES: No, I wouldn't go along that Senator. With all due respect, our budget is dynamic. It's not a static document, that if this year you make a decision to cut-out \$200 million, that means you've

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made a decision for every year.

I would also point out that when my wife wanted some cash, and sold her IBM at \$90 a share, it is now worth \$128 a share. So an investment is dynamic too.

What the lottery will be worth, a year from now, and I think what you do here in this session will have something to do with what it will be worth, is unknown. But it won't be worth the same. It'll be worth more or maybe not as much.

SEN. JEPSEN: But with all respect Secretary Jones, the tax cut that was put into place, that \$200 million tax cut, is not a one year tax cut, it is written into law, unless that law changes, it's going to be there in the out years as well. And I understand with all--I understand, let me finish, Sir,

I understand fully that the budget is a dynamic document, that tax revenues from other sources could cascade in, with a dynamic Connecticut economy that's going to solve this budget problem.

But the point is, that a \$200 million hole was created in the budget last year, and this was the vehicle that was going to fix it by your own admission. Even in the out years we're still \$100 million short and I submit, and it's undeniable, that unless other revenue sources come in to make up the gap, or spending drops through the floor due to our (indiscernible), we're going to be facing the question that you yourself posed.

Do we sell more of this asset next year or do we cut spending, or do we look for revenues in other places. Everything else held equal, that's exactly the dilemma we face.

REGINALD JONES: Senator, your confidence in me disappoints me greatly.

The budget is prepared for each biennium on a set of circumstances from that point in time.

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I don't have to keep replacing the so called \$200 million hole. Who knows what will be in the next budget. We may sell more assets. We may appropriate -- we may propose to you to sell more assets or appropriate money for certain functions of government. You have to.

I have never said, nor did I present a budget to this Legislature, that says "revenue from lottery sale \$200 deduct Income Tax cut and Property Tax credits \$200" and then going on with the rest of the budget. They're not tied that way. We have a Revenue Budget and an Expenditure Budget.

SEN. JEPSEN: I understand that, I've made that point, my point is that a \$200 million gap was put in the budget. It's there on an ongoing basis. I agree it's not linked to anything. But what we were told last Spring was that the lottery privatization would be (indiscernible) the floor debate from the Senate.

I heard it with great clarity and what you're telling us today is that even after we build up in three years, in the first year we were even short by a \$160 million. But even in the third year we're still \$100 million short. We've traded one revenue source for that \$200 million for one that by your own admission, even on the out years, gives us \$100 million.

And what you are asking us to do is to slice off a part of this income producing asset in order to plug that gap. That's what we call a one shot revenue source.

REGINALD JONES: I would not agree with that as long as the value of the lottery grows after that revenue source. If we looked at it like a Series "E" bond, 10 years you get so much a year. If you take it out this year you don't get it in a later year. If we said its a finite asset, it will never grow in value. What you take out now, you're robbing Peter to pay Paul. That's not the case here.

SEN. JEPSEN: That asset could decline in value as well.

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REGINALD JONES: We have spent a lot of money studying this Senator, and the collective opinion of the world's leading experts is, that it will not decline.

SEN. JEPSEN: But, if--if there's going to be future growth in that asset and people expect future growth in that asset, I assume that would be internalized in the selling price this year.

That's, you know, you guys are the ones who love the free markets and I'm sorry that's what would, would happen.

REGINALD JONES: We believe perspective buyers would recognize the inherent value of a 12% tax return.

SEN. JEPSEN: But, and that would be factored into their purchase next year.

REGINALD JONES: Absolutely.

SEN. JEPSEN: And so the future growth you're talking about would have already been factored in. So, I'm I'm afraid--I'm afraid that that's not what would happen.

REGINALD JONES: Unfortunately we don't live in a world of totally perfect markets. It would take all the fun out, Sir, if we did.

SEN. JEPSEN: And the values could go down. You never know what government will do. I have no further questions.

SEN. NICKERSON: Representative Belden did you want to ask some questions?

No, okay. Well, as a Ranking Member we recognize you.

REP. BELDEN: Thank you Senator. I have a microphone on and I'll try to speak loudly.

The first question, I guess is, if this is a quasi-public agency. Except as I think I quickly read through the latest substitute language,

there's a section there that talks about, the employees would be separate except for certain things like pension and what not.

Is that essentially the reading that you have on the point before us?

BENSON (BUD) COHN: Yes, that's accurate. The corporation could optionally decide to include the employees in the State Pension system and offer them the same health benefits but they would not be State employees. And that's true of most of the other quasi-publics.

REP. BELDEN: The mechanics of switching over from a State run to a quasi-public agency, as I read the bill here. I guess on July 1, without benefit of bylaws or anything else, the switch would take place and I wonder why perhaps parts of the bill are not effective on one date and other parts of the bill effective two months later.

So that there is in fact an a opportunity to put the framework in place rather than, as I recall reading in here. it says "If there are no other directors appointed, the ex officio member shall run the operation, etc., etc.

There's a kind of a gray area from July 1, on in terms of how this all switches over and I just wonder if another approach isn't to have two different starting dates.

BENSON (BUD) COHN: That is a possibility, to permit at least an interim smaller board to start adopting the various procedures before they actually take responsibility.

REP. BELDEN: I just raised that because I see a kind of a giant legal void over there in terms of how you switch from one to the other.

BENSON (BUD) COHN: What we were thinking of to make the transition as smooth as possible, was to, with the staff of Special Revenue, OPM and others to, and borrowing heavily from similar by-laws and rules

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and regulations, in the other quasi, to have everything together for the Board to adopt on an interim basis on July 1st so its ready to roll instantly.

But, it is worth considering that other parts of it could happen even sooner.

REP. BELDEN: I understand that. I just want to know who has the errors and omissions insurance in place before the board takes action, etc., and all those kind of things.

I just wondered maybe there ought to be a hiatus there of 30 days or 60 days, even if the Bill were effective on passage and you had, you know, a period in time there, I don't know what affect that would have.

BENSON (BUD) COHN: One complication is that we need the corporation to be legally effective because we're going to start incurring expenses pretty rapidly for the preparation of the partnership and all that.

And documentation to get the rulings from the Feds, the IRS and the FCC so we don't have much option to move it beyond July 1. We might have the option to move parts of it sooner effective on passage perhaps.

REP. BELDEN: I just wonder if you should incorporate sooner. with the effective date a little later in the process, so that you have a chance to get your bucks in and rolling. It's just an issue that comes into my mind.

What would happen in the area, and I don't want to get to nit picking here but, what would happen if the current employees are in some real estate somewhere? I assume that State owns space somewhere.

BENSON (BUD) COHN: Um. Yes.

REP BELDEN: On the effective date of this particular legislation, how would that all be handled?

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BENSON (BUD) COHN: We contemplate that initially the corporation would contract with Special Revenue to use the current employees through a transition period and that there would be a process and we've started working with Department of Administrative Services.

And others here know more of the detail on how to do this, but we've been working with them on how to do this transition so the employees wind up with jobs and the ones that the corporation wants to move over can be moved over and that this all gets sorted out, in accordance with the existing laws and rights and contracts.

REP. BELDEN: I could understand how the new quasi-public agency can move rapidly. I don't know if DAS (indiscernible) our side, but our rules can move rapidly. To ratify the other part of that agreement. (indiscernible)

Another reason why I wondered if we maybe we should have a little window. Alright.

This is a key question and I'm going to ask you right now.

As I read the proposed bill before us, in one section it says that the Board can determine how much to sell of the lottery. In another section, it says that it can only sell a percentage as defined by a certain date, etc., etc.

Which section will apply here in the long run?

BENSON (BUD) COHN: The section that defines the percentage to be sold to raise \$160 million plus costs of transaction.

REP. BELDEN: So the other powers enumerated earlier in the proposed language are limited by the later section.

BENSON (BUD) COHN: Yeh. Or at least that was the intent.

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REP. BELDEN: So other sale of assets of the lottery would require Legislative approval?

BENSON (BUD) COHN: I think so. Thank you.

REP. BELDEN: Thank you.

SEN. NICKERSON: Thank you very much. Okay, we move to questions to the Committee. I have quite a few names. Representative Maddox to be called, Representative Gelsi, Representative Newton, Giannaros, and others.

Representative Maddox you have the floor.

REP. MADDOX: Thank you. I just have a few questions. Let's get started with Mr. Brown. You went through a litany of new things that you were enthusiastically hoping this new corporation can do and I guess I just asked the question. Why can't we do them now?

OTHO BROWN: Some of them you can and I'll recategorize them as methods.

The only concern that I have by saying that you can, is this is a two year plan. You could, for example, or the Legislature could for example, appropriate some things that are in that plan for

one year. Who knows what's going to happen the next year.

Another thing about that is the concern that I have that there's too much focus on the budgetary side. Because the real success of this organization, is it changes the way it does business. The way it thinks, the way it operates, the way it conducts itself in Personnel.

So lets not think that its all (inaudible) That's (inaudible) but we won't make it unless we change the way we think.

REP. MADDOX: --Currently of course you submit a budget the Appropriations Committee and it goes through that.

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Has the Appropriations Committee ever severely cut your budget?

OTT BROWN: Pardon.

REP. MADDOX: Have they severely cut your budget in the last five years?

OTT BROWN: Yes.

REP. MADDOX: Okay. Would a proposal such that would allow your entity, however, whether it keep your current configured. Or even if its re-configured as a -- well say keep it current configured--will we basically allow you to submit a net number only exempt just (inaudible) from the Special Revenue Office.

You could set your expenses at whatever you wanted them to be and we just get concerned here at the Legislature with what the bottom line is. That would be the same objectives?

OTT BROWN: I don't believe so. Because the temptation in the out years when the lottery is not perhaps the issue or in the forefront. there is some other program that priority is obviously in the forefront.

History tells us that temptation is to grab (inaudible) immediately to solve a current situation. And the other end is the loss of revenue at the end of the year. Revenue that you don't realize.

REP. MADDOX: I'm sorry--

OTT BROWN: That happened in 1992, 1993 and 1994.

REP. MADDOX: So \$160 million isn't that? So \$160 million isn't a temptation to grab money now for future earnings down the road?

OTT BROWN: I know the lottery. I believe there is the restrictions. Taking the money out is in the Legislation certainly not the Lottery Sir.

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REP. MADDOX: Mr. Ross: I'm just wondering when you reviewed this whole thing from the market perspective, and you, projecting that if you grow, I believe at least \$100 million more, that the income that we're going to receive from that.

WILBUR ROSS: Yes Sir.

REP. MADDOX: Did you look and review in this State particularly, I guess what I'd call a cross market elasticity with other gaming? Our competition with Foxwoods. Our competition with Mohegan Tribe coming on by Labor Day, the Para-Mutuals?

And, I guess the question I have is (A). Did you review that and secondly what did you find?

WILBUR ROSS: Yes, we did indeed. In the report itself on page 74 you'll note that there is a little summary of the market share of the various forms of gaming.

And, you're quite right, Sir, that Foxwoods, in fact, is larger. Foxwoods handle during Fiscal 1995 was some \$875 million or 44% of the total gaming in the State.

The next largest category was \$670 million which was the Lottery and that constituted about 34%. So when there was talk before about a Lottery, it's at best being a monopoly, it's at best at 34%.

REP. MADDOX: I'm sorry. My question is "Why do you believe this new entity in this market share? Where's the \$100 million going to come from? Are we going to take it from Foxwoods, and we do have the Mohegans coming on line. You didn't look at the Mohegan--

WILBUR ROSS: Sure. Um, the experience in other states has been that eventually lotteries get to, if they're well run and they're appropriately marketed, they get to a percentage of disposable income in that state.

And as we mentioned a little bit earlier, the

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lottery mail is only at about 40% of the share of disposable income in the State of Connecticut as it is in the State of Massachusetts. There is a very, very, major discrepancy but we think a lot of it has to do with the relative act of advertising.

Now these are small percentages. You're talking fractions of a percent.

REP. MADDOX: Well can you, I'm sorry, can you maybe give me a, are talking in percent, can you give me a dollar. Can you tell me how much is our per capita sales versus Massachusetts. Then if you want to compare them.

WILBUR ROSS: Well, I don't think per capita is necessarily the measure, Sir, that you'd like to use. I think it's more disposable income because it is a monetary boundary more than it is a physical number of people boundary.

REP. MADDOX: Well that, that's fine. Well how many, do we have the highest--

WILBUR ROSS: If my memory serves, the lottery here is about 8/10's of one percent of the disposable income in the State. And it is well over 1% in Massachusetts.

REP. MADDOX: Okay. But, did you look at total gaming men by basically adding together Massachusetts Lottery, I guess they have no casino gambling, so I don't know if they have Para-Mutual and comparing that to Connecticut.

WILBUR ROSS; Right. Where it a little complex is you do have the out-of-state element. Not all of the \$875 million, that's wagered at Foxwoods, and not all of whatever the Mohegans get will be from in-state people. So you really have to --as well for the

REP. MADDOX: They have told me that 60%.

WILBUR ROSS: I beg your pardon.

REP. MADDOX: They have told me that 60% of their

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revenue approximately comes from in-state.

WILBUR ROSS: Oh sure. That wouldn't surprise me but the 40% that is left, in and of itself, represents around \$350 million for roughly almost 20% of the total gaming in the State. Thank you.

REP. MADDOX: The simple answer to my question is, no you did not compare total gaming with total gaming you just compared Lotto to Lotto.

WILBUR ROSS; No, no, no. We have, I just don't have all the numbers in my head. I'd be very happy to provide them to you supplementary.

REP. MADDOX: I'd appreciate that. The next one is, What is the multiplier effect of a lottery sale?

Every dollar spent in Lotto, on the economy?

WILBUR ROSS: Okay. Well I think that has a couple of answers. Each dollar that's spent on Lottery, more than half goes back to the bettors and the anchor people, because you have a pre-ratio here that's in excess of 15%.

As to the other 40%, you'd really have to trace the dollars through and see how those were spent at the State side. To the degrees that those were spent, on people's incomes, you can make the argument that those would be largely recyclable in any event.

So I think it gets to be a rather hard dollar chasing exercise, but I think the important issue is that more than half goes directly back out into the population, in any event.

REP. MADDOX: Okay.

WILBUR ROSS: And since we're only talking in number at present that's about 8/10's of a percent of the disclosable income. Something like 5/10's goes back. You're talking of 3/10's of a percent.

It's very hard to do multipliers when you get to the low small numbers.

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REP. MADDOX: Okay. Um, and it was, I want to make sure it was fully understood that you anticipate these bonds paying a return rate of 12%.

WILBUR ROSS: These are not bonds, Sir, these are limited partnership interest.

REP. MADDOX: You anticipate them making a 12% per year, tax free return. Correct.

WILBUR ROSS: The return if the earnings that we forecast are achieved, that it the rate of return the investor would get.

REP MADDOX: Mr. Cohn., right, from the Treasurers' Office.

BENSON (BUD) COHN: No, from OPM.

REP. MADDOX: OPM, Okay I'm sorry. Maybe you would know or if we had somebody from the Treasurers' Office here. Do we have someone?

Yes. What percent do we get on our State Pension? Return average. Average return on State Pension?--41%?

WILBUR ROSS: Well, you use an actuarial rate of 8 1/2%. Your actual portfolio performance has been in excess of that.

REP. MADDOX: Just on 12%?

WILBUR ROSS: In some years it probably has been. Sure. In recent years, I would dare say it's likely to have been more.

REP. MADDOX: In your opinion, do you think it would make sense then that possibly we should just simply sell the \$160 million to our State Treasury and have them invest pension funds in it. Can we sell it to ourselves?

WILBUR ROSS: That would leave so little room for the middle man that I find it conceptually difficult to answer that--more seriously. More seriously it

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wouldn't be usual for a Pension Fund, which is not a tax paying entity. It wouldn't be usual for a Pension Fund to be uniquely attracted to a tax-free investment.

REP. MADDOX: But if our Pension Fund, if we have, if we have at least \$160 million out there, it don't make 12%. You're projecting a 12% tax free return because the Pension Fund would be tax free.

Therefore it would make sense for our State Treasurer to invest \$160 million and buy this fund or even for the Legislature to just mandate that.

WILBUR ROSS: Well I think it's a little outside the purview of our study to set policy through the State Pension Fund.

And I would also suggest that unless the investments that the State made had an anticipated return, in excess of whatever they get, they would never achieve the excess cause every once in awhile something goes bad.

REP. MADDOX: I understand. This sounds like a great deal for 12%. I mean, I think that during this economy, I'm only getting 3% on my bank account, You know.

WILBUR ROSS: We might have made our first sale of the lottery partnership. Wouldn't you say?

REP. MADDOX: That I don't really consider it a sale.

BENSON (BUD) COHN: Let me try to add a little bit to this. The 12% tax free investment is a conservative estimate of what investors would require on an initial public offering.

Our hope is that when we go to market, we'll do a lot better and be able to sell the \$160 million in equity or a lower return than that. So don't take the--

REP. MADDOX: Oh we're only getting 8 1/2% at the Treasury so I assume you're offering more than 8 1/2%. I mean.

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WILBUR ROSS: What we did really want Sir, is to be able to come here today and give you quite good assurances as I did earlier to, I think Senator Nickerson or Representative Schiessl's question.

We're totally confident that it can be sold on the terms we described and we hope that it could be sold on more favorable terms to the State.

SEN. NICKERSON: Thank you. --not a rip-off but it just shows that we understand his answer.

REP. MADDOX: What he is saying is that it's the State's goal to sell it for the lowest rate of return possible; and therefore, obtain a check for \$160 million in return for putting on the other side of the table as small an interest in the system as possible. So that the 12% is the most you'd have to expect, that you'd like to give a buyer. But if he'd buy it for 6 or 8 you'd love it.

There is still comparability between that and the portfolio return where the State's interest, as the portfolio manager, is to get the highest possible rate of return for the benefit of its retirees.

For the State to sell it to itself, would be to sell on the seller's side a diametrically opposite goal than the buyer's side. The seller's side would be to push down the rate of return.

It depends I guess what the interest rate is. I'm saying that the interest rate is 12% which is the testimony I heard here. I think in my opinion it makes perfect sense that we sell it to ourselves. If it gets as low as 8 1/2%, it still makes sense.

If its 6% you are absolutely right and we should sell it off to that private investor that comes in with cash in the bag.

I just have a couple of more questions. Miss Paul. I just want to make sure.

As I really understand what your agency could

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be best described as a 100% State owned privately operated entity. Is that correct?

REBECCA PAUL: I think you could define it that way.

REP. MADDOX: And what we are proposing here, our proposal here is different in the sense that its not going to be 100% State owned. It will sort of be privately operated.

REBECCA PAUL: The comparison between how we operate and the proposal is on the operation side of the Lottery and their ability to operate as a business. And that's the comparison as opposed to who owns it.

REP. MADDOX: Right. They would be operating the same.

REBECCA PAUL: Yes

REP. MADDOX: The difference is the \$160 million and do we sell 6% or if we sell 6%, to who.

REBECCA PAUL: That's correct.

REP. MADDOX: I guess finally, I was going to ask Reg. and I guess he had to leave so maybe his stand-in here can answer that.

Did you take a look at, or whoever wants to? How many new jobs would this plan create?

(STAND-IN) FOR REGINALD L. JONES, JR.: The lottery is not a job intensive operation. Given the size of the financial operation, it's unlikely to either create or reduce the total employment.

REP. MADDOX: Will it cost jobs?

(STAND-IN) FOR REGINALD L. JONES, JR.: It shouldn't.

REP. MADDOX: So it will be that wash. It will just be moving people from there.

WILBUR ROSS: It's a bum area Bill. The ones who will be helped are the retailers. Many of the retailers in the State get a very substantial portion of

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their net profit from their lottery ticket sales.

Therefore, I wouldn't discount the degree to which lottery ticket sales enable retailers to stay open and keep their doors and keep their employees in place.

REP. MADDOX: But I still want to make sure I understand that from what I got from Mr. Brown earlier.

I guess what my question would be "literally could you, you know, not today but sometime, take this bill and actually point out to me things at the moment you can't do?"

I understand, I understand. Perfectly. I've been around here for 10 years. I understand the constraints, I understand sometimes that this Legislature on rare occasion acts on the short sighted "Let's get out of here", "Let's get through the election time mentality".

Discounting that, if there's anything in this proposal, such as the addition of new games, instant vending machines--I mean, you're talking about an increase. I don't know how substantial it is, but an increase in more lottery products and services and an increase in the marketing of those to increase the sale of those.

I guess I am interested to know if we gave you the resources to do it. To simply, the budget so we weren't constraining your marketing budget. You could do everything?

OTT P. BROWN: If you gave me everything that's in there, I believe the Lottery can accomplish the objectives. Now simply changing the budget for one year is not going to get you there.

REP. MADDOX: I mean, the policy thing that I discussed with you. I think you followed it through. Was simply we would, and we did this bill (inaudible) setup plan, I don't know exactly how it was set up with the--I think its for we have a locked box, we have a deduct thing we did for the Economic Recovery Funds initially. The money was taken off

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the side and it doesn't run through. I mean, that's sort of what I'm talking about.

Okay. Thanks very much.

REBECCA PAUL: Representative Maddox could I address a couple of those issues, Sir?

In addition to the budgetary constraints, there are Personnel Policy constraints and the ability to recoup people from the private sector with private sector skills that mirror the needs that you have as a corporation.

The kind of incentives that you can offer your employees, the kind of incentives that you can offer your retailers. We grow a thousand new retailers. For every hundred retailers I recruit I add a new Field force.

That part of the appropriations process, that part of a budget process, I have a hundred new retailers. I need another person to call on them. So a lot of them are not only budgetarily tied but State Personnel policy tied. So that you are allowed to do the same kinds of incentives that the private-sector would do.

And those are the things that I can do in Georgia even though 100% of the profits go to those three programs, that can't be done in Connecticut under their existing structure.

REP. MADDOX: Thank you.

REP. GELSI: Thank you maam. First, let me get it straight. Are we going to sell 6% of the Lottery or are we going to sell a percentage that will make \$160 million. Now, I've heard both, or at least I thought I heard both.

What percentage are we selling and how much is that going to be for?

BENSON (BUD) COHN: We are proposing to sell the percentage necessary to raise \$160 million plus the cost of the transaction and we estimate that

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percentage to be 6%.

REP. GELSI: So we don't know what that percentage is going to be in fact.

BENSON (BUD) COHN: Not precisely, but that's pretty close.

REP. GELSI: To the Secretary of OPM. Reg, you and I have been around long enough, and no disrespect to the consultants that are here, but did you ever see a consultant report come to the Legislature or the Office of Policy & Management that said we were going to lose money and it was a bad deal?

REGINALD JONES: If you are talking about the people we hired as consultants through the State of Connecticut.

REP. GELSI: Yes Sir, Yes Sir. Thank you.

REGINALD JONES: On the other hand as a former consultant for 30 years, I think these people have given us wise advise.

REP. GELSI: So have the people that wanted a football stadium in the City of Hartford, and a horse park in the City of Hartford

REGINALD JONES: Excuse me Representative Gelsi. That was a different administration.

REP. GELSI: Outside consultants, Sir, are outside consultants. If you show me a bad report then maybe I'll change my opinion some day but in twenty-five years of politics I've never seen a bad report. (indiscernible)

REGINALD JONES: Well if you've read this one, (Marty, hold that up a minute) I think this is the finest report I've ever seen in terms of thoroughness, professionalism, going out and doing due diligence. Going out and talking to the agents and gathering data. I don't think anybody can top the quality of this report.

And I say that because it was produced by my

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department. Other than that I had nothing to do with it.

REP. GELSI: Other than that Mr. Secretary, I'm going to send you some of my reports and I hope you don't use them.

MARTIN STAUFFER: Can I respond to this as a consultant involved in this--and I agree you don't see a lot of bad consultant reports because the reason for that is that most engagements are terminated before the report is issued.

That's unfavorable and plans are killed. That's not to say that all consultant reports produced the right answer. I mean that sometimes consultants are wrong.

But, getting to this project, I will tell you that during this implementation plan, that there were alternatives presented that at various times different people were abdicated.

That had those alternatives been presented as a plan, you probably would have seen some negative comments from some of us around the table because we would have opposed some of the alternatives.

Some of the alternatives we looked at, that initially looked very good, would have been, as he characterized it as "killing the goose that laid the golden egg." I mean, it would have been a sale of the Connecticut Lottery piece meal over an extended period of time in order to find these long term deficit reductions or Income Tax cut, which would have been an unwise decision by the State of Connecticut. So.

REP. GELSI: I would hope we would never be that stupid, Sir.

MARTIN STAUFFER: I would hope so too, but we--

REP. GELSI: No matter what the report said, I would hope we weren't. There was one time dollars do not run the State of Connecticut, and if we're going to

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sell off our best assets, then I'm going to tell you I don't want to be around here after the next couple or three years cause when that money is spent, somebody is going to be in big trouble.

NARTIN STAUFFER: If you heard my comments, I said earlier, that the worst thing that the State of Connecticut could do will be to sell the entire Lottery. That would be the worst decision.

REP. GELSI: And your remarks, your remarks also were Sir, were that if the consultants report really doesn't come out to what the buyer wants to do, he isn't there no more and you keep going to somebody who gives you some report that's going to tell you its a good report.

MARTIN STAUFFER: Hopefully, that's not true.

REP. GELSI: Advertising dollars, to the Secretary of OPM. As you know from past experience, generally the cutting back of advertising dollars is because of the members of the Legislature getting calls of people being insulted in the types of programs that we've put out there to con our citizens to buy lottery tickets.

We do understand, if those of us who either vote for it or not vote for it. That if this passes that we totally lose that discretion on how policy is going to be run in the State of Connecticut.

REGINALD JONES: I think I know what you're saying. I think it's a little more complicated then that. In other words, the policy will fall to the hands of nine appointed directors. Four of whom, will be appointed by Legislative leadership and two of whom will be appointed by the Governor.

Now having been around here as long as I have, which is not that long, but, you and I know that if pressure is exerted on that Board, because of views that advertisements are not tasteful or not considered productive, I think the Board would be responsive.

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Today the Board is 187 people and you would have to have your constituents run around and talk to a number of those people. Nine people can act more expeditiously in a sense in this kind of decision, I think, than 187.

But I must say to you, the need for good communication doesn't disappear with your passing this bill either.

REP. GELSI: But again, if the Legislature sticks their nose in their business, then you're probably not going to make the kind of money they anticipate that can be made.

REGINALD JONES: I think it depends on what they raise with us.

REP. GELSI: Okay.

REGINALD JONES: Some of it might impact our profits, some of it might be a form of consulting advice.

REP. GELSI: Has anybody looked at the past gambling operations that were private in the State of Connecticut, such as the dog track, the Jaijai's, all the other (indiscernible) that we approved in the Legislature. And year after year have had to start reducing and reducing the take because they all have gotten into financial trouble.

What tells us that our Lottery, and even if we enhance it and increase it, is never going to get into trouble. And the lobbyists and the consultants have nothing to do with that because nobody has a crystal ball.

Nothing says that four or five years from now, we're not in deep trouble and we're going to have to make cutbacks because we've got to answer to somebody that owns a percentage of this lottery, other than the State of Connecticut.

REGINALD JONES: You don't have to answer to anybody in that capacity; they are not cloners, they don't attend board meetings, they have no say. I would

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say this to you, Representative Gelsi, we don't know what'll happen two years from now, three years, four years or anything else.

We have to manage our Lottery operations. We have to manage it and the question is, will we make better management decisions as a corporation or as a Committee of the Connecticut General Assembly.

REP. GELSI: I'm sure other members have an awful lot of questions Mr. Secretary.

From experiences here in the State of Connecticut, many CEO's of private corporations will must surely come out with getting some big bucks, and every one of them was because they downsized and haven gotten rid of a whole lot of people.

So. I don't know if it's always good for us to run as a business. Maybe as stupidly as we run as a government may be better sometimes.

REGINALD JONES: May I just say this, I think in most of those cases we're talking about, manufacturing or financial services, businesses that were very labor intense.

I don't believe a consumer marketer with a staff of a hundred people is going to make us a lot of money by downsizing. I think that they're going to make us money by marketing.

REP. GELSI: My concern was that they weren't going to downsize but I would hate like hell to see them come out with what some of our CEO's are coming out with just because they've made us more money.

I'd rather pay somebody a salary to do a job for us and know what we're going to pay.

REGINALD JONES: Yeh. Let me just ask Rebecca Paul to comment on how many people she's downsized over the last three years to put \$500 million in the Georgia Treasury.

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And I wish they would stop spending it on basketball. Excuse me.

REBECCA PAUL: If I was a betting person I'd bet on (indiscernible).

Our staff is continuing to grow, as again, as I was suggesting to Representative Maddox. As we add more retailers we add more staff and as we grow we need people to take care of that growth, either be it financially or technically or marketing wise. So we are certainly in a growth move.

Now, if we lost retailers we might lose a handful of staff, but we continue to grow based on that and the employees--we implemented a game in like two months. To do that, most of the employees worked 15, 16, 18 hour days so that revenue could come into the State quicker so that you may raise more money.

They felt good about that. We didn't make them. But they wanted to stay and see that we could get that done because they got incentified, based on how much more we did in sales as a corporation.

REGINALD JONES: Thank you.

REP. NEWTON: Thank you. To Miss Paul. Let's talk about Georgia a little bit.

With this quasi you talked about start-up costs. What was the cost, and you said you paid it off within a certain period? How much was that start -up cost?

REBECCA PAUL: We had a \$15 million line of credit. We spent about \$4 million of it and we paid that back in 10 days.

REP. NEWTON: And you paid it all back? Would Connecticut have to do the same? No, I don't?

REBECCA PAUL: That's already operating. We had no employees, Sir. We had nothing.

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REP. NEWTON: Okay.

REGINALD JONES: It's not quite the same start-up situation.

REP. NEWTON: Okay. The other question. What is Georgia with this quasi? I assume that you have a quasi group that handles all your lotto, your instants, your quick-picks.

And you talked about an advertising and marketing where you send people to the gas stations and when a person walks into the gas station he gets \$18 worth of gas and you want him to get those \$2 to put in some sort of gaming. Every store I go to in the State of Connecticut, I see a Lotto sign, I see an Instant sign, I mean what are they doing that we're not doing. I don't know, maybe you can explain that to me.

OTT BROWN: The things that Rebecca is doing is that she is visiting her retailers every week. We visit our retailers every three weeks.

We have games that come out every two weeks, so we don't have point of sale materials up that we should. And we other, the Pepsi and the Coke guy that comes around every week and he tears down our stuff or places our stuff in different locations, and so we really need to get around at least once every two weeks.

REP. NEWTON: Is the reason that we don't get around due to manpower? Is that problem some of the reason why we do not get around or do we have more machines out there than we have people?

OTT BROWN: There's two things in my judgment. I would like to see us have a better relationship with our agents. We worked hard to do that and I'd like to see some better trained folks out there, some better compensated folks out there.

In addition to that, we just don't have the manpower. When we add new agents like her, we just visit them less frequently. That's all.

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REGINALD JONES: We have a hiring freeze Representative Newton.

REP. NEWTON: Oh, yeh, we're. Now based on the Sunday's paper, it didn't look we did much cutting since Lowell Wicker's day and John Rowland's days.

Let me just ask Rebecca a question. How many people are employed with your agency? I guess your agents or people you have to send out into the market. How many people do you employ today?

REBECCA PAUL: Direct employees who work for me are about 275 right now.

REP NEWTON: 275. And how many work for the State of Connecticut?

OTT BROWN: At the moment, the Lottery's closely defined as 62. A comparable number would be about 101, I think is what we figured out.

REBECCA PAUL: We're self contained. Connecticut isn't. So something that the Department of Revenue might do for them we do ourselves. Something your State Police might do for them we do ourselves. Something the Department of Special Services, Special Revenue would do for them we do ourselves.

REP. NEWTON: Let me just ask one more question. Reg, I know you're here because of the \$160 million. The money that we need to raise to offset the deficit that was put in the budget last year.

Let me ask this question. Should the State of Connecticut set up this quasi group, in this Bill, you say, I heard you tell Representative Maddox, that if we implemented some of those things that we could raise the kind of money that, let's say Georgia. Georgia's a much larger state than Connecticut, I'm sure of that.

What would you all need to do this job better that this Legislature could help you do? And I know you need the money Reg, I'm just trying to not

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look at that part right now.

REGINALD JONES: Ernie, I always need money.

OTTTBROWN: What I did say was that we needed the tools that are in that Legislation. I get concerned when I hear them say that, all you need is more budget money.

It isn't just money. It's the freedom to do what Rebecca does, and the freedom to motivate people, to have them have a stake in it, to expand when we need to, to make the business decisions when we need to. It's not just the budget. That seems to be the focus. It's probably that its the easiest one that fits.

REP NEWTON: Last question. If this is the case, and you all feel that the Lottery is making money, it's not losing any,

(GAP IN TESTIMONY. CHANGING FROM TAPE 2A TO 2B)

it can do better. Have you ever brought those considerations to this General Assembly? I've been here eight years and I cannot recall, outside of the Para-Mutuals, coming before us asking us to help them stay afloat.

I can't recall the Department of Revenue coming before us with the Lotto and asking us. This is what we need to do a better job. To increase and make more money for the State of Connecticut. The only ones I'm familiar with is the Para-Mutuals.

REGINALD JONES: I recall the day in reverse. You and I sat in the house and watched the ad of the retired man and the fishing boat and how he didn't save money he just won the Lottery.

And we moved on that right off. We asked that ad be taken off the television. So we are, I mean today in today's structure, you are one of 187 Directors. Now maybe once in awhile you make a good decision or a bad decision. The flexibility, nobody can play basketball with more than five

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people on the floor.

REP. SCHIESSL: Thank you Representative Newton.

BENSON (BUD) COHN: May I add one more thing on that?

REP. SCHIESSL: Please proceed now Mr. Cohn.

BENSON (BUD) COHN: In 1993 the Programs Review and Investigation Committee issued a report, which I think had some prompting from Special Revenue that the operation of the Lottery could be improved by putting it in the quasi-public. So its not a new issue to the Legislature.

REP. SCHIESSL: Our next listed speaker is Representative Demetris Giannaros.

REP. GIANNAROS: Thank you Mr. Chairman: Good afternoon and it looks like it's going to be a long afternoon for you.

I do agree with some of the comments that have been made by Representative Schiessl that we have some serious questions with regards to the IRS and the like.

And also the question that was brought up by Representative Maddox. I think it's a very serious financial investment question. Why not give 12% to our Pension Funds, rather than give 12% to some potential investors in the Lotto?

And by the way, 12%, the investment rate of 12% free of risk and free of taxation is one of the highest I know of.

REGINALD JONES: Do you read the same papers I do?

REP. GIANNAROS: Yes. In fact yeh, I would take it too. I'll turn over whatever assets I have. (Inaudible) There you go.

REGINALD JONES: I'm glad we're recording this.

REP. GIANNAROS: Mr. Cohn. Question, then. I guess Deputy Secretary (indiscernible) will relate to

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what I do next.

Did you say that, suggest that we are going to be increasing the revenue by \$50 to \$70 million? Is that what I heard before?

BENSON (BUD) COHN: Yes.

REP GIANNAROS: Okay. And did Ms Rebecca Paul make a statement that we shattered every prediction of per capita load of spending or something along those lines?

REBECCA PAUL: In Georgia, yes.

REP. GIANNAROS: In Georgia. Now what is the forecast based on? The \$50 to \$70 million, Mr. Cohn.

BENSON (BUD) COHN: It's based on the actual measures to increase lottery revenues that are outlined.

REP. GIANNAROS: But you're making some assumptions. Every forecast is a--

BENSON (BUD) COHN: Oh, every forecast is an assumption. Yes.

REP. GIANNAROS: And what are the assumptions. That there's going to be a net increase in a gambling type of expenditures.

BENSON (BUD) COHN: The assumption--

REP. GIANNAROS: Across the State I mean, across all gambling opportunities.

BENSON (BUD) COHN: No, we didn't address all gambling opportunities. We addressed the portion that could be captured by the Lottery. Particularly the instant games but not entirely the instant games, through the measures that are outlined in this testimony which were also in the report.

REP. GIANNAROS: Is it conceivable then that some of that additional forecast that spending on Lotto, even if its accurate? I haven't seen the assumptions to challenge the assumptions frankly.

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But if it is accurate, is it conceivable that some of that will be substitution spending from other types of gambling?

BENSON (BUD) COHN: It's possible.

REP. GIANNAROS: Okay. Is it conceivable that, or in fact you may have suggested that before, in your discussions as a panel, that some of that money that is being spent now, the new additional revenue that you are forecasting, that is spent on Lotto is being substituted from other spending on goods and services?

BENSON (BUD) COHN: Yes.

REP. GIANNAROS: ~~Okay~~ Okay. Would you, you suggested before, that I believe it was. I'm not sure it was you or someone else who suggested that.

I think it was Mr. Brown, suggested that Lotto is a very low laboring intensive, it's a very labor intensive operation.

BENSON (BUD) COHN: That's true. It's a large financial operation. Not labor intensive.

REP. GIANNAROS: So if, if some of the money that was spent on Lotto was taken away, at least some of it, taken away from expenditures on goods and services, such as restaurants.

Let's say, McDonald's, or at a bagel shop, or whatever, some other type of entertainment. The theater downtown, are we in fact, decreasing employment?. If those, are those perhaps a more labor intensive type of enterprises?

BENSON (BUD) COHN: It's rather speculative--

REP. GIANNAROS: Oh, I can tell you they are. There's no speculation about that.

BENSON (BUD) COHN: No it's been a very--

REP. GIANNAROS: It's very labor intensive.

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BENSON (BUD) COHN: It's speculative to determine where the substitution would come from. It might come from Coke and that might be labor in Georgia not labor in Connecticut. It's a--

REP. GIANNAROS: Well, usually. if people buy Coke in Connecticut they don't fly into Georgia. Do they?

BENSON (BUD) COHN: It's manufactured in Georgia.

REP GIANNAROS: The next question that I have. There was a statement made that the new marketing techniques, Mr. Brown, I believe.

Including coupons, some kind of a coupon system will encourage folks that have not been playing to play.

Should we be treating Lotto and gambling the same way we treat milk and butter?

OTT BROWN: No. I think that it's appropriate strategy to get the broadest face of players.

That strategy does not envision. for example, the existing players playing more. That strategy envisions a broader base. And, if in fact, you have a regressive tax, which has been suggested here, its probably a good social policy to have this broader base.

REP. GIANNAROS: Now, let's see, you said its a good social policy. Did I say it correctly?

OTT BROWN: I would say that we would want to have a broad base. Yes. To have all citizens participate in it.

REP. GIANNAROS: Let me just continue a few more minutes if I may Mr. Chairman and see how. how good of a social policy is it.

Is it the typical investment that we make when we take into account that there are, what we call negative externalities. Are you familiar with the term "negative externalities"?

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Basically what that is that some negative activity that you are involved in imposes costs on others on society that you're not incurring directly.

BENSON (BUD) COHN: I don't think that you can assume that all the externalities here are negative, because the revenue that comes in by way of the Lottery, the increased revenue goes for services that may create employment.

REP. GIANNAROS: Well, have you done a social cost of benefit analysis?

BENSON (BUD) COHN: We have and that's very helpful to do on something like this.

REP. GIANNAROS: Let me just mention a few items that should be considered perhaps as part of the costs of expending this enterprise.

The increased costs of divorces as a result of habitual or (I'm trying to think of the term now.) It's not fanatic gambling, but whatever it is-- compulsive, that's it, (thank you).

Abusive spouses and children; crime that certain individuals that get involved in this type of endeavor to continue to finance their habit; financial ruin in some cases and in some cases welfare dependence for those who have become financially ruined from gambling.

Would this be some of the costs that could possibly be accounted for through our State Budget?

On the spending side would these individuals fail in the context that I just mentioned?

REGINALD JONES: I don't believe so. I believe there are a number of other factors in all of those situations. We conceded there may be some element of compulsive gambling.

But the fact is, I believe most people who go into the convenience store each week, to pick up a

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lottery ticket, see it as part of their entertainment. It's like buying a package of cigarettes, and I don't believe you can trace these costs to our society of divorces, of abuse of children and all to the Lottery. I hate to say so, Sir.

REP. GIANNAROS: I guess I meant it, Mr. Secretary, in the context of somebody needing now, Social Services or perhaps joining the Welfare payments.

MARTIN STAUFFER: Can I add something. If you think about this, when we talk about compulsive gambling. If you think about people betting and losing a lot of money and incurring debts, it's pretty tough to spend a lot of money on instant lottery tickets to stand there and scratch off thousands of dollars. You can't do it.

And its pretty tough going into a grocery store and trying to buy a \$100. worth of lottery tickets when the jackpot is high. It takes them an hour and a half to print it out. They don't want to do it.

It's pretty tough to lose a lot of money. It's a lot different then going to jaijai or going to Foxwoods and betting a lot of money.

I mean, I would prefer the expertise to whether compulsive gambling occurs in lottery sales.

REP. GIANNAROS: I'm sorry. Are you finished? If the person is at or below poverty level, it only takes a few dollars for them to start becoming very needy and have the kinds of problems that I mentioned before. Does it not?

Another question that I have. If there is substitution in dollar spending, I assume that Lotto expenditures are primarily are collected from inside the State. There are very little outside.

If that is the case, I'm just trying to think in terms of revenue and spending. Have we considered all the elements I guess?

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If there is substitution that takes place, say if I'm spending my \$10 on Lotto, additionally over and above what I would have spent before, and I'm not spending those dollars, at the theater or the food shop, etc. Are we not reducing the profitability of those enterprises apart from the employment effects?

WILBUR ROSS: No. I think, Sir, you need to put it in proportion. What we are talking about is total Lotto expenditure. Total lottery spending represents 8/10's of 1% of the disposable income in this State.

It's very hard to forecast what the level of disposable income will be to within 8/10's of 1%. So the first thing is you're dealing with a rounding area.

The second thing is to the degree that the social ills are coming from. That they are apparently becoming important in the better educated part of the population because 16% of the population has college degrees.

For they constitute 25% of the lottery players. 10% of the population has college degrees being into the graduate level and they constitute 11% of the population.

So, just as we had before, the higher income bracket people in fact are the ones that are over represented. So are the better educated people. It may tell us more about the educational system than it does about some of the other social ills.

REP. GIANNAROS: Since you brought up the issue of what percentage of the population is involved in what.

The Table, figure 1 of this handout that we received, uh, this one here, makes a reference to the number of the percentage of the population that is in different income brackets.

The number of people in those income brackets. The percentage of the population that buys tickets

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within those income brackets and the number of individuals, is that the last known number of individuals that actually participated (in Lotto). Is that what the last column is? The last column to the right.

OTT BROWN: Yes. That's out of the survey. That's part of the survey. Not out of the population.

REP. GIANNAROS: But these figures do not reflect percentage of revenue collected by each income class. So its very hard to accept the statement that was made before. Isn't it true? This is not the revenue percentage collected by each income group.

OTT BROWN: It's the participation.

REP GIANNAROS: This is just participation.

OTT BROWN: Correct. Participation is a very difficult number to come to when you're asking somebody, "How much do you play." But we do have some information on that and its pretty flat.

REP. GIANNAROS: But is it not true that the lower income brackets percentage wise would be spending a higher percentage of their income on that?

OTT BROWN: Is it regressive of them I think is what you're saying?

REP GIANNAROS: Okay. So there--

OTT BROWN: And just like anything that you purchase, whether its shirts, coats, or lottery tickets. Yes.

REP. GIANNAROS: Okay, Thank you. But basically challenges a little bit of the statement that was made before.

But, in general, if you include the potential tax revenue loss from the substitution effect, if you adjust for the number of employees that would not be employed now if you were talking about substitution from labor intensive to less labor

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intensive.

If you include some of the social costs that would turn out to be tax payers payments, that is coming out of the spending side of the budget. Would then a marginal net social benefit or the marginal net benefit be the way you have described it before? From--

OTT BROWN: I mean, that's a huge circle and we use a lot of assumptions. That I mean--

REP GIANNAROS: Well, I guess the reason I'm asking these questions is because they need to be asked.

My constituents ask me these questions., In fact, some of them suggest that this past year we have become obsessed in the State with relation to raising revenue through gambling rather raising

revenue through real expansion of economic activity.

And I hope that we're not becoming addicted to gambling tax dollars or gambling at large.

Thank you.

REP. SCHIESSL: Thank you Representative Giannaros. Our next questioner is Representative Knopp.

REP. KNOPP: Thank you Mr. Chairman and I'd like to say goodbye to Secretary Jones.

REGINALD JONES: If I knew you were asking the questions I would have stayed.

REP. KNOPP: I'll put all those softballs in right away and a--let's see--

I wanted to ask Mr. Ross and Mr. Stauffer if I could. And I apologize if this was touched on earlier. I was at a different meeting. But, I need this as a introduction to my questions.

Is that the case that the proposal to sell partnerships in this new quasi-public entity

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is separable from the rest of their proposal.

That is, it would still be a good idea from the point of view of additional revenue to establish the corporation from your point of view to do the enhancements and additional advertising even if there were to be no sale of the partnership. Isn't that the case?

MARTIN STAUFFER: The answer is technically yes it could be done and if the quasi-public was done without the sale of partnership interest it would increase revenue to the State of Connecticut.

However, we don't believe, but let me say it another way. We believe that the sale of partnership interest produces the tension necessary for the quasi-public to maximize the revenue.

It is an obligation to the limited partners, even though they don't participate in management it is an obligation to maximize the profit while the State's in control.

So we think the sale of partnership interest will cause the quasi-public to operate in a more entrepreneurial fashion and maximize the revenue. But technically they're several.

REP. KNOPP: Would you like to answer the question at all Sir?

WILBUR ROSS: The reality is that when things are truly private ties, which to me involves the change in some form of ownership as well is that they tend to do better.

British Airways lost money almost every year that it was a government owned agency. Even though it was in the same kind of quasi-public category as we're talking here.

It hasn't lost money since it had outside investors in it. Same management.

PAA, which operates the airports, Heathrow, (indiscernible) and most of the other big British

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airports increased its workers productivity 30% in the first four years after it sold its share interest to the public.

British government had still been a shareholder until just a few weeks ago. So, you would be amazed at how much the fact of being an investor owned company, even in part, really does modify the behavior of the people in the business and the people operating it.

REP. KNOPP: But, the answer to my question, is yes they're separable even if from your (indiscernible) point of view--you were--

WILBUR ROSS: I'm sorry, Sir, but I don't believe you would have achieved the same operating result. is my response.

REP. KNOPP: But the questions of untying the hands and applying business practices and all that, applies to the quasi-public entity whether or not there are a sale of 6% of its assets.

WILBUR ROSS: That's correct. That's correct. They are theoretically separable however. If you separate them you don't end up with a balanced budget.

REP. KNOPP: I understand that, but all I'm suggesting is that but for the \$160 million revenue gap, there would be no need to sell an interest in this entity. To raise money, even though it might be a good idea to set up this entity, to increase revenue to the State in any event. Isn't that the case?

MARTIN STAUFFER: I think the answer is ignoring the \$160 million. Having private ownership in the entity produces a better result than not having private ownership in the quasi-public.

REP. KNOPP: And having the quasi-public produces a better result than not having the quasi-public. Isn't that so?

I would like you here as advocates and I respect that. But I think it's also the case that

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you know we need to find out some information even apart from your advocacy and I think the answer is that these elements are separable even if from your point of view its desirable not to sever them.

MARTIN STAUFFER: Yes.

REP. KNOPP: The second. The reason for asking it that way is that, really what we are talking about is someway to finance the one time revenue enhancement of a \$160 million.

And the point I want to address with my questions is that we have traces about how to finance that \$160 million. And I want to ask, therefore, my first question would be this.

Had I heard your testimony earlier, that we may not need to offer a 12% rate on the sale of these partnerships and hopefully it would be lower.

But assuming for the moment, based on your testimony, I assume you put that figure in there for a reason. That the 12%, \$160 million for fifteen years is the upward limit on the financing cost of that \$160 million.

That amount, if you take 12% interest of \$160 million over fifteen years, that comes out to \$288 million. Isn't that where we start off about how much it costs for us to obtain that one time \$160 million.

BENSON (BUD) COHN: That is a way of looking at it.

REP. KNOPP: Alright.

BENSON (BUD) COHN: Excuse me just a second. Rebecca needs to leave for the airport

REP. KNOPP: That's Bradley airport correct?

BENSON (BUD) COHN: And Ott needs to take her. So--

REP. KNOPP: By all means, thank you.

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REBECCA PAUL: I appreciate you all listening. Thank you.

REP. KNOPP: Thank you for your testimony. I don't have any questions for Mr. Brown so he is free to leave and take her if he'd like.

You, know, a lot of people ask very long questions and it I think it should have been briefer. I really need Representative Brown.

OTT BROWN: One qualifier if I may represent it, if not to be, idea of 288 and 2160. If this were a bond, and the 288 were contractual then it would be a totally accurate and fair measure.

However, the only thing that's contractual is the \$160 million. That's a real number. The rest are forecasts.

REP. KNOPP: Now that forecast could be lower or it could be higher.

OTT BROWN: It could be low, it could be high. It could be anywhere in between.

REP. KNOPP: In other words we have to make our decisions based on forecasts and what I want to get at is the comparability of different forecasts.

OTT BROWN: Right. And all I'm suggesting is that you may wish to make it really comparable to risk adjust the different forms of financing.

REP. KNOPP: Right. I probably don't have the sophistication to do that. And if you'd like to offer any way to handle that, I (indiscernible)

So the plan before us as I look at it has initially a \$288 million financing cost over a 50 year period if one starts with the estimate in the testimony as one possible outcome. That's what your figures say.

OTT BROWN: No, I don't think so, Sir. I think what,

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because that still leaves unanswered the question of the terminal value. The two components to the rate of the turn that one gets. One is the amount of cash that comes out each year. That's fairly measurable and that's tied to the forecast.

The second part is what will the holding be worth at the end of the period? Will it have any residual value, will it have a lot, will it have a little.

REP. KNOPP: I grant that.

OTT BROWN: And that's a very different question from the validity of the forecast.

REP. KNOPP: By the way, what does happen, at the end? How did you arrive at the fifteen year term in your testimony?

BENSON (BUD) COHN: The fifteen year just has to do with the life of the tax shield. That after about fifteen years, the tax shield is substantially gone.

REP. KNOPP: But there is no term limited on the partnership interest.

BENSON (BUD) COHN: Well that's a hypothetical question. (indiscernible)

REP. KNOPP: So there is no term at the end of which we will be able to sort of measure its value in a finite way. Unlike a bond. (indiscernible)

BENSON (BUD) COHN: Other than that at any terminal point you pick there is a theoretical market value at that point.

WILBUR ROSS: Right, then you'd have to discount that back to the present. So then the only thing that is for sure, is that the other party gave you \$160 million in the beginning. The reality is that party's return is unknown.

REP. KNOPP: Right. but I think that one thing to start with in your testimony if you say that these are

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very attractable, very attractive investments, 12% per year for up to fifteen years. That gives us one boundary to look at, the cost of financing the one time infusion of \$160 million.

WILBUR ROSS: It does.

REP. KNOPP: Alright, now, and I assume there is also an additional amount that we can't really calculate, which is that the extent to which the 6% that we sell, assuming it's that, performs very well, then there is some foregoing revenue to the State from that also.

BENSON (BUD) COHN: Well. That depends on how you answer the question as to whether you buy our hypothesis. That the business will in fact run better, being in part industrial. Notwithstanding that in a technical sense. management may have the same tools. It's just not the same.

REP. KNOPP: Can I ask, because I think what this argument will come down to, in part, is different philosophical policy arguments about how to finance the one time revenue enhancement of \$160 million.

It's acceptable to finance that by the sale of an asset. And to some people it is not. Some people may prefer to finance that one time revenue enhancement from some other way and, let me ask you this Bud, in terms of financing that.

What would the cost be to Connecticut today to go out on the short-term note market to borrow \$160 million, for let us say, a term of, let's say five years? Because you've said that after three years you expect the enhancement to generate additional revenue of \$100 million per year, above what we are getting now.

So let's give it the three years plus a couple of more. What would the cost be of borrowing comparable to the economical recovery fund type of note of the \$160 million?

BENSON (BUD) COHN: That's a good question, because the direct costs would be less, but the direct cost

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isn't the whole story.

REP. KNOPP: Okay. Well let's just deal with this in part. I can appreciate that you're here as an advocate. I respect your rights. What would the direct costs be?

BENSON (BUD) COHN: Now let me tell you what Part 2 is, cause it's important.

REP. KNOPP: Why don't you tell me what Part 1 is first?

BENSON (BUD) COHN: Okay.

REP. KNOPP: What would be the direct cost of financing \$160 million in short term notes at current interest rates by Connecticut today.

BENSON (BUD) COHN: Probably in the range of 5 or 6%. However, that would be viewed as a deficit, an additional deficit financing at the same time the economic recovery notes are still out.

And the other part of the picture is that we'd have a real rating problem, probably a down grade and that creates costs for all our other borrowing.

REP. KNOPP: Okay. Now, just because it's easier for me to do the calculations, let's just say its 5 to 6%. Let's assume it's 6%. Let's take the higher end of it.

If you finance \$160 million at 6% per year for fifteen years, then again without compounding, just simple interest, the financing cost of that is \$144 million. Whereas the financing cost through the limited partnership approach at 6%, I'm sorry, at 12% per year for fifteen years for \$160. That's \$288 million.

Isn't that something we should compare if the goal here is to get to the one time revenue enhancement. Now it may be that there is collateral damage doing it one way, which will jeopardize our rating, on the other hand the sale of the asset may generate collateral damage a different way.

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In that we may be losing revenue in the future from enhancements that may do exceedingly well. And will be giving the investors some (indiscernible) rate of return. There's not a comparison that's valid.

BENSON (BUD) COHN: In strict financial terms, it's valid, but the collateral damage in this case is real and substantial and we just don't dare do another deficit financing, especially before we've had the other one paid off.

WILBUR ROSS: Alright. This is the question that private sector company's face all the time. And in a (indiscernible) the cost of equity capital is always greater than the cost of debt capital, even in the private sector.

There's a fundamental difference though. Forecasts aren't always right and the one thing that's bad about that is that you've got to pay it back. The thing that's good about equity is you never have to pay it back.

So it's a fundamental difference as well in how much of a risk are you prepared to expose the citizens to. It's run independently of the rating industry.

REP. KNOPP: Let me ask you a third possibility. If as picking up on what Representative Maddox was discussing.

Which is, if as it turns out that your worst case becomes true, and if we have to offer some interest rate in the double digit somewhere, to sell these partnerships.

And why isn't then some negotiated investment by the Pension Fund or some other entity a way also to try to come up with financing for the one time \$160 million that's lower than the worst case you've presented.

BENSON (BUD) COHN: It's a possibility but there are a

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couple of things that work against that.

One is that, monkeying around with the Pension Fund is also a rating issue we don't want to open up. And also, the nature of this where there is this tax shelter for fifteen years.

However, beneficial a given return is, with that tax shelter. Excuse me. However beneficial that given return is, the Pension Fund doesn't need the tax shelter. It's going to be more beneficial to an outside investor who can use the tax shelter. So at any given rate, we should be able to do

better on the outside than it worth to the Pension Funds.

So, from both sides, its better not to muff with the rating agencies in terms of non-arms length transactions with Pension Fund money and its best to go where we're going to get, be able to do this at the lowest rate, which is going to be on the outside by going to the broad market of equity buyers.

REP. KNOPP: Let me ask one last question. Again, a fourth way of financing the revenue enhancement.

Did you examine the possibility of again, let us say borrowing the \$160 million up front and securing the repayment through dedicated revenues from the lottery?

BENSON (BUD) COHN: That was one thing we looked at.

REP. KNOPP: Can you describe how this Committee would evaluate the financing cost of that approach?

BENSON (BUD) COHN: It's similar to what you were talking about before. But it has the same issue with it in terms of rating because it is a deficit financing from the rating perspective.

REP. KNOPP: And even though that might be secured by the improvements in the Lottery based on the enhancements.

BENSON (BUD) COHN: Yes, because the way the rating agencies look at it is that its revenue that if it weren't intercepted for debt service it would go to the general fund. So they'd look at it as just a gimmick to try to hide a deficit financing.

REP. KNOPP: Even though those enhancements might not be made otherwise? In other words, if you're talking about the current lottery and its current revenues that would seem a reasonable approach.

If you were talking about a way to finance the enhancements, they're going to produce a substantial \$100 million a year within three years, it would seem that that's a way to finance the investment in the enhancements.

WILBUR ROSS: There is no investment needed for the enhancements. This money, the \$160 million, is not going for the enhancements. The \$160 million is going out of the system.

To borrow money to make the revenues grow, would be one thing. That probably would not give the rating agency a problem. But to borrow money and subordinate the state's claim on the lottery revenues, which are some 3% of your total budget. So it's a (indiscernible) number which you would now be subordinating this outside vendor. It's a very different kind of a proposition from what Georgia did borrowing a very small sum to make the Lottery grow.

REP. KNOPP: They borrowed for the start-up costs.

WILBUR ROSS: Yeh, but a trivial amount and for a very limited period. That kind of exercise, I think would not make an agency problem. But a lot for a non-business trip is to solve the one time deficit would.

MARTIN STAUFFER: May I interject something. I guess the best analogy for what you're talking about, which is looking at the alternative of financing, and if obviously the State were willing to put its full faith in credit, to repay the \$160 million and the interest on it, and they could borrow it at 5

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or 6%.

But lets take the point that you just made about looking at the enhancement. If the State were to go out and issue a note, that said interest and repayment of principal would only come from the increased profits of the Lottery. Could the State borrow that at 6%?

I'd ask Mr. Ross, but I'm sure the answer is no.

WILBUR ROSS: No.

MARTIN STAUFFER: That the risk of that is to significant so you couldn't borrow it at 6%. The rate that you may have to pay may be 12% or 15% because its real speculation from the speculation then the equity interest.

So the right analogy, the right analysis, would be to look at what the cost would be if you paid only, pay for it only from the enhancement.

REP. KNOPP: Well it seemed to me that determining the risk on how well the enhancements produced from the future revenue, is exactly the risk analysis that an equity investor will go through before buying one of these limited partnerships. Isn't that the case?

BENSON (BUD) COHN: That's right.

REP. KNOPP: Exactly the same. If your analysis is as valuable as Secretary Jones said it was, then I'd imagine that 12%, that you told us, is not far off in either case.

The difference being that in one case we own 100% of the asset, in the other case we own 94%.

Isn't that true?

WILBUR ROSS: Yeh, I mean there was a difference in terms of the tax shelter but (discernible) cut out buying tax free bonds is similar.

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But not to minimize the tax shelter, the \$160 million purchase price produces a reduction of the buyer's Federal Income Tax by about \$64 million. That's a significant return to the potential buyer that they get for buying the equity interest. And they get that over a period of 15 years.

REP. KNOPP: Thank you very much.

REP. SCHIESSL: Thank you Representative Knopp. The next speaker is Representative Staples.

Representative Staples is not in the room. We'll move on to Representative Beals.

REP. BEALS: Thank you Mr. Chairman. It seems to me that this entire proposal is based on an assumption that it is desirable to persuade the Connecticut residents to spend more of their money on Lottery tickets. Is that a fair statement?

BENSON (BUD) COHN: I think that a fair statement is that if we're going to operate a Lottery we should operate it effectively.

REP. BEALS: And since we do in this State allow, as we sell lottery tickets not only in convenience stores but also in grocery stores, those sales would be in competition not just with junk food but with real food. Correct?

WILBUR ROSS: I think its speculative to think that people would buy lottery tickets instead of food.

REP. BEALS: Well if you're trying to compete for limited dollars. Well, okay I'll move on to the other area of my concern.

It looks to me, looking at this Figure 1, that we've discussed at the lower end some, as if people who are not doing their fair share in terms of buying lottery tickets are the people with income over \$100 thousand.

And there was some mention of broadening the base. Would any of the promotion that is envisioned in this be targeted at people with

incomes over \$100 thousand?

WILBUR ROSS: Ott is the only one that can answer that. But that is certainly represented as the most under-represented segment of the market. And it's obviously one that could afford it. So in theory it should be one that could be penetrable.

REP. BEALS: How would you see that being done?

WILBUR ROSS: It isn't that you would advertise differently to the person earning over \$100 thousand. It's just the idea that is an under-represented segment. And, therefore, there's

more potential in it's an affluent segment so there's that more potential for it.

MARTIN STAUFFER: I suspect that certain products like the "Powerball" probably has a higher potential of selling a "Powerball" ticket to somebody that earns over \$100 thousand.

That the winning of that produces a meaningful change in their lifestyle. Whereas winning an instant ticket doesn't produce the same gratification.

So there are products that may appeal more to the wealthy people than the existing products.

REP. BEALS: Looking at Section 8 of the Bill, I'm not sure I know what all of these terms mean. But could somebody there explain to me how different instant ticket vending machines and automatic (indiscernible) machines are from slot machines and some of those other video things.

GEORGE WANDRAK: Yes. An instant vending machine is a machine that just dispenses.

REP. BEALS: It dispenses the ticket. I still have to scratch off.

GEORGE WANDRAK: (INDISCERNIBLE) rather for an example a slot machine, you would put money in and you would pull the handle and you continue to play, and

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continue to wager on the slot machine.

This is, you put your dollar into the vending machine, it simply dispenses the ticket and then you play the game as you normally would.

REP. BEALS: Okay. What about these automatic wagering machines? That is also mentioned in Section 8.

GEORGE WANDRAK: I'm sorry I can't hear you.

REP. BEALS: Section 8, refers to sub-paragraph 6, to instant ticket vending machines (indiscernible) and automatic wagering systems or machines. Can anyone explain to me?

GEORGE WANDRAK: That would be the on-line system. The on-line system that we currently have.

We have an on-line vendor who runs the on-line games for us, the Lotto and Cash Lotto and so forth.

REP. BEALS: So this is something we are already doing?

GEORGE WANDRAK: Yes that's what we are doing. That's correct. Except you don't own them you are leasing them through the operator of the on-line system. And the new entity could have the option of purchasing and owning the machines and reducing the cost paid to the on-line operator that produces a better result to the State of Connecticut.

REP. BEALS: Well, I guess that leads to my next question. And this was touched upon earlier by Representative Maddox and perhaps other questioners.

But there was a reference to a number of different things that failed to be desirable. You can't do now under current law and I was looking specifically at Page 12 of the packet which I believe is part of Mr. Brown's testimony.

Can anyone tell me whether those things are all things that cannot be done under current law?

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BENSON (BUD) COHN: I don't think the issue was that they couldn't be done under current law. The issue was that they take a small investment of money that has not been available to the Lottery to do them, which would be available if the quasi-public could--

REP. BEALS: So its again, it's a question of the State Budget process. Somebody said, it isn't just the money that's a problem so my other part of the question is;

What is it in current law besides the budget process that is keeping the current lottery from operating like a business? And I believe that Representative Maddox requested this information too, and if it's easier to present it on a piece of paper then now, that's fine.

BENSON (BUD) COHN: Well, we can give you a summary of that but let me also. Actually there is a summary on the back of the testimony, a two pager on the benefits of the quasi-public.

But let me try to summarize. In addition to the budgetary flexibility, there is the Personnel flexibility that permits hiring to occur based on people's capacity to do the type of jobs that are needed and more importantly to give them incentives to build a salary structure, a pay structure. Rather, that is part salary and part bonus based on performance which you can't really do in the State system.

But what you need to do, in which private companies typically do to motivate people to sell and to work.

Another element of it is any technological advance, any purchasing, any acquisition that a State agency has do, goes through so many approvals that takes so long that it is hard to adapt quickly to new opportunities in terms of technology or the case that keeps getting repeated, relatively to our Lottery is that there was an opportunity to reduce telephone costs by \$700 thousand.

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It took an entire year to get all the approvals to do that. There are all these three types of efficiencies and there may be others. Personnel structure, salary budget and procurement. There is also the possibility, this is unprovable.

But human nature what it is, if you're an Ott Brown running the Connecticut Lottery, with a thousand things to do, and you have an idea that might be worth \$200 thousand, but it's going to take you two years of effort through the system, you move onto something else. You may bother.

The quasi-public creates an atmosphere where you can go to your Board if you have an idea, you can justify it and you can do it. And that in itself should motivate managers to come up with ideas and to get them implemented quickly.

REP. BEALS: But the thing about renaming and re-launching different games, is that something that requires approvals of State Agencies?

BENSON (BUD) COHN: No.

REP BEALS: Okay you can sit down. Your mention of Personnel flexibility brings me I think to my last question, which is I think it's been mentioned that the employees might participate in the State Pension Plan but would not have any of the other benefits that State employees have.

BENSON (BUD) COHN: They would not be technically State employees.

REP. BEALS: They would not be State employees. My question is. Is there anything in here that would, that addresses the question, whether they would have health coverage?

BENSON (BUD) COHN: They also, the authority has the option of picking up the same health coverage as the State.

REP. BEALS: Oh, they could buy into the State Health Plan.

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BENSON (BUD) COHN: Yes.

REP. BEALS: But they might not and might not have any health coverage? That's also an option?

BENSON (BUD) COHN: It's extremely unlikely that they'd have no health coverage because you can't compete for employees if you don't.

REP. BEALS: Well you can if they're part-time. People do.

BENSON (BUD) COHN: Not if you want to run a good professional operation.

REP. BEALS: It's been done more and more. Thank you.

SEN. NICKERSON: Thank you very much. Let's see.

(GAP IN LISTENING - CHANGING FROM TAPE 2B to 3A)

SEN. NICKERSON: What's left of them of our panel of experts, we thank you very much for appearing. We appreciate your patience and look forward to seeing you not soon again.

REP. HESS: Thank you very much for this opportunity.

SEN. NICKERSON. We appreciate it. We turn at last to the public who has also been very patient and have a number of speakers who signed up and wish to testify on this.

The first speaker from the public is Mr. Marvin Steinberg of the, looks like, Council on Compulsive Gambling. Is that correct?

He had to leave, okay.

Mr. Michael Sartori. Can't read the initials. A&R?

MICHAEL SARTORI: Good afternoon. My name is Michael Sartori. I'm the President of the Administrative and Residual Employees Union. We are affiliated with the Connecticut State Federation of Teachers. We represent about 3,400 State employees, including

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about 120 who work at the Division of Special Revenue.

We are opposed to the proposal to set up a Connecticut Lottery Corporation.

I submitted written testimony which I hope you will read and just let me summarize some of our objections.

First of all, you're going to sell 6% of the Corporation to balance the budget for next year. But, the increased revenues will not be enough to cover the revenues lost, due to the tax cut. Will you be selling off more shares in the future to balance the budget?

Second, the increased revenue is based on the assumption that you can match the performance of the Massachusetts Lottery. That's an enviable goal but Massachusetts has the highest per capita sales of any of the thirty-seven lotteries in the nation. And I might mention that their lottery is run by a State agency.

Connecticut already does better than most of those other lotteries. I've appended some figures to my testimony and one of the things I was noticing, I was checking figures for Georgia, which our representatives from the Division of Special Revenue seem to be so high on, with their quasi-public corporation.

And I noticed their per capita sales, for fiscal year 1995, were about the same per capita as Connecticut is doing right now, with the State agency.

I think that we can probably generate more revenue if we did some more aggressive marketing and did more games, but you may be overly optimistic in thinking that you can match the Massachusetts Lottery.

If you want to increase revenue from gambling, go ahead and do it but don't give up 6% of your revenues to private investors.

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A couple of years ago, we sold off-track betting to help balance the budget. And according to an estimate of the Connecticut Policy and Economic Councils, the State has lost \$11.3 million in revenue. In spite of the fact that the "handle" at OTB increased from \$139 million to \$224 million.

We would have been better off if we had made the necessary changes to increase Off Track Betting or Off Track Betting sales, and kept the increased revenues for ourselves.

Third, the proposal may have an adverse impact on the State's bond rating, costing us more to borrow money in the future.

Fourth, At a time when we are usually seeing mergers and consolidations to reduce administrative overhead, why are we splitting off a portion of the Division of Special Revenue and setting up a new entity?

Have there been any problems with the Division of Special Revenue regulating the Lottery? And is it really going to be more efficient if you set up this new corporation?

Finally, if you do set up this new corporation, we strongly object to our employees losing their existing status as State employees, and losing their rights to collective bargaining.

State employees will be laid off. They may be rehired by the new corporation. Is the purpose of prohibiting them from collective bargaining to ensure they will be paid less and receive lesser benefits? And once freed from the strictures of the merit system, will the corporation offer its executives, higher salaries while keeping workers' salaries as low as possible?

REP. BEALS: Please summarize.

MICHAEL SARTORI: Well, I did provide a rather lengthy testimony and we have been waiting an awfully long time. So, okay.

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I would urge you to reject this. Reject the concept of balancing the budget by selling off assets, jeopardizing our bond rating, and don't force your existing employees to trade good jobs for bad.

REP. BEALS: Thank you.

ANNIE CHITTENDEN: My name is Annie Chittenden, I'm from Madison and I'm here on behalf of the Problem Gambling Task Force.

We're a State-wide citizens group and we're concerned about people who are going to be hurt by Lottery advertising and increased marketing of Lottery games.

Right now, a woman on Public Assistance may be standing in a check-out line with a loaf of bread and a \$20 food coupon. And she may lose all of her leftover change to her daily instant lottery picks.

UCONN Sociology Professor, Mark Abrahamson has told the Gaming Commission that our daily lottery "primarily attracts, poor, longterm-unemployed and less educated" players. Lottery directors across the country know that millions of low-income families see "the big win" as their only way out. If this weren't true, we wouldn't concentrate the placement of our lottery outlets in our poorest neighborhoods.

Duke University researchers found that Americans in the lowest income brackets spend four times the percentage of their income on gambling than those in the highest income groups. And they have concluded: "the lottery is responsible for inducing about one-quarter of the adult population who would not otherwise do so, to participate in commercial gambling."

In his book, "The Luck Business", Dr. Robert Goodman, cites research that indicates that nearly half of all lottery sales are to people with incomes under \$25 thousand. And he calls lottery marketing the "coercion of circumstance."

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Goodman says that instant lottery games "produced a giant leap forward in problem gambling" and he calls instant tickets "paper slot machines." And the reason is that they provide "immediate gratification without even the energy required to choose a lottery number."

Connecticut's problem and pathological gamblers are also impacted by lottery ads and they are not the only victims of gambling addiction. Families and businesses are being destroyed.

While many of us find it hard to believe that the lottery creates gambling addiction, those who are in over their heads know better. And the counselors who are treating them right here in Connecticut know better. The Connecticut Gamblers' hotline receives calls from people hooked on "instant" games who are as much at risk as those calling from the casino. They face temptation right in their own neighborhoods every single day.

We have the second-highest rate of compulsive gambling of any state surveyed and research shows that 60% of compulsive gamblers commit crimes to support their habit. We pay for business losses, incarceration, law enforcement, judicial processing, domestic violence, and support for families who have lost their homes, and we also pay with suicides that are not recognized as such because they're carefully staged to protect loved ones from the shame of debt and addiction.

This Lottery Bill neither adequately nor specifically addresses these costs. If you believe, instant lottery sales, increased lottery sales serve our best interests, we urge you to adopt responsible public policy.

We urge you to place restrictions on all gambling advertising to protect our most vulnerable citizens.

We urge you to provide funding for public education and prevention programs.

And to provide adequate funds for the gambling

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treatment which is already needed throughout the State.

Thank you.

REP. BEALS: The lottery outlets are placed in the poorest neighborhoods. Do you have any information on that as to what towns they're in? For example, anything--

ANNIE CHITTENDEN. I can provide information for you. I don't have it with me at this moment.

REP. BEALS: Thank you, no further questions.

ANNIE CHITTENDEN: I'll send it to you.

NANCY EGGEN: Good afternoon, my name is Nancy Eggen, and I'm representing the Connecticut Conference of the United Church of Christ.

The Conference is made up of 268 churches with 108,000 members. I am here to voice concern regarding SB54.

Since 1974 the Social Resolutions adopted by the Connecticut Conference have opposed State sponsored lotteries. We continue to uphold the position we have historically taken. Lotteries are not now, nor have they ever been, a socially responsible mechanism for raising revenues for the State.

We have considerable reservations about the State promoting and profiting from an activity that is clearly deleterious to the health of some of its citizens. Thus, we oppose any measure that could allow for the expansion of lottery gambling. We believe that SB54, if enacted, poses the very real possibility for the expansion of lottery gambling in Connecticut.

It is very unclear what the balance of power between the State and the proposed Lottery Corporation would be. While SB54 allows for accountability to the State, it also allows that the proposed corporation "shall have comprehensive

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and extensive powers, as generally exercised by corporations engaged in entrepreneurial pursuits."

Section 8, subsection 6, grants the corporation the power to introduce new lottery games, modify existing lottery games, utilize existing and new technologies, and determine distribution channels for the sale of lottery tickets.

Thus, the Lottery Corporation, mandated by the state to increase lottery revenues to the General Fund, has the power to create additional games and expand lottery options. For example, the video lottery terminals.

Other states have traveled this path before us. In 1989 the state of South Dakota, faced with lottery revenue shortfalls, expanded its lottery margin by introducing the first video lottery terminal, electronic gambling machine in the country.

Within four years, South Dakota had more than 10,500 VLTs in operation in bars, restaurants, convenience stores and truck stops throughout the state. In 1994, nearly 50,000 VLTs were being operated throughout the country, effectively creating mini-casinos in every community in every state that sponsors them.

Other states facing lottery revenue shortfalls have expanded their instant lottery ticket markets. For example, in 1993 instant lottery tickets accounted for nearly 65% of lottery sales in Massachusetts.

Tom Cummings, Director of the Massachusetts Center for Compulsive Gambling, refers to instant tickets as "paper slot machines;" the player knows immediately whether he or she has won, and can play again immediately. Cummings also states that instant tickets have produced a large increase in problem gambling, due to their widespread availability.

Howard Shaffer, Director of Harvard Medical

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School's Division on Addictions has classified gambling as an addictive behavior with all the properties of a psychoactive substance.

Problem gambling is the fastest growing addiction in the United States, due to the rapid expansion of legalized gambling opportunities in 48 states. The most readily available form of legalized gambling is state-sponsored lotteries.

For some people, playing the lottery is a harmless diversion; for a growing number it is a life-altering addiction.

As a promoter of the lottery, our state government finds itself in a strange and contradictory position which makes it difficult to carry out its role of protecting the public.

While government once regulated gambling in order to guard against gambling operators who might take advantage of its citizens, the state's growing dependence on gambling revenues has exerted pressure to increase revenues. But, at what cost will we do this?

The loss of control posed by a privatized Lottery Corporation and the potential for the radical expansion of gambling opportunities, compels us to oppose SB54.

Expanded lotteries are not a good vehicle for increasing revenues for the state; the social costs incurred by the growth of problem gambling are just too high.

REP. SCHIESSL: Questions from the Committee? Seeing none. Thank you for your testimony.

NANCY EGGEN: Thank you.

REP. SCHIESSL: The next listed speaker is Alan Wilensky.

I guess we're going to hear from the agents after all today. I'm glad you're here. I'm looking forward to your testimony.

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After Alan Wilensky, Tom Baral.

TOM BARAL: I'm here.

REP. SCHIESSL: Fabulous, you're making my night.

Alan Wilensky, Tom Baral followed by Dennis O'Neill.

ALAN WILENSKY: We didn't expect to make your night. We thought it was going to be afternoon.

REP. SCHIESSL: You don't come here very often do you.

ALAN WILENSKY: Yes I do unfortunately.

REP SCHIESSL: Okay, thanks.

ALAN WILENSKY: Good afternoon, my name is Alan Wilensky, I'm here representing the Connecticut Package Stores Association. I am the agent. We represent approximately-- We represent approximately 1,000 stores in the State of the 4,000 agent based.

TOM BARAL: My name is Tom Baral also a member of the Package Stores Association. President of the Connecticut On-Line Association. Also an agent operating three machines in one store.

I'm not here to oppose or support the sale of the State Lottery but to recommend that this Committee to lock-in the agent's commission.

The current commission is 5%. It has been since the inception of Lottery. The agent's need to be compensated for the time it takes in educating customers, promoting new games and most of all selling lottery tickets.

The time spent promoting and selling lottery tickets is time taken away from our primary businesses.

I commend Mr. Ott Brown for his innovative ideas for promoting new games, introducing multiple variations to games and free giveaways. He has

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brought more excitement to the State Lottery system in the past two years, despite a poor economy and successful Foxwoods Casino.

He recognizes the need to reward agents through Agent incentive programs and most of all keeping the current commission at 5%.

I'd also like to state that part of what's going to be, what we're afraid of, or we expect to happen with this privatization is the possibility of paying terminal fees, line fees and even supply fees. Which ultimately will affect our commissions.

ALAN WILENSKY: Most of what we're concerned about is the protection of the Agent base in all of this. As Mr. Baral said, that we're neither opposed nor in favor of this particular piece of Legislation.

But we are concerned for the 4,000 Agents that do contribute greatly to the income of the State of Connecticut. And we do not wish to become a controllable cost.

Should this move forward we ask that the State would be the overseer in the commission rates as it is written in the Statute.

REP. SCHIESSL: Thank you. I have just some questions that relate to some of the topics we addressed earlier today.

But. Was your association contacted in connection with the development of this proposal? Have you been involved in an active work relationship with the Office of Policy and Management or the Division as to the impacts of these proposed changes on Agents in particular?

ALAN WILENSKY: No, Sir.

REP. SCHIESSL: No, Okay. Do you know if any of your individual members indicated to you that they were consulted by the State in terms of the impact of this particular proposal on their ability to do

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business?

ALAN WILENSKY: Not that I know of. No.

The quarterly meetings that Mr. Brown referred to have happened in the near past. But that's a relatively new occurrence within the--

REP. SCHIESSL: One question I have and I'm having trouble getting an answer to relates to, is how much of your lottery sales business occurs with out-of-state customers.

I'm curious to know whether your individual members who run their businesses along the border, or your association generally could develop some information about whether or not there are any cross border purchasing phenomena.

Do people in Massachusetts typically come in to buy Connecticut tickets or Rhode Island or New York?

TOM BARAL: The one thing I can answer is that there is one Agent on the Enfield/Massachusetts border who is probably one of the top Agents in the State.

So I would say that a fair amount of business is brought in from Massachusetts.

ALAN WILENSKY: So much of it is determined on a weekly basis.

Whether you have people who live outside the State, other than Massachusetts, New York or Rhode Island, who work in Connecticut, who purchase tickets from the State and certainly the percentage of tickets purchased is dependent upon the size of the jackpots.

So if Connecticut's Lotto is bigger than Massachusetts, then certainly. If it got up to \$25 or \$35 million as it did a few years ago, there was travel across the border in order to purchase our tickets.

REP. SCHIESSL: Okay. Another question has to do with,

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you know, you're on the front lines and you're also Revenue collectors for the State. And we're grateful for your efforts. I understand you do receive a commission for that, but it is a valuable and important revenue source for us here in the State.

The question is. a lottery ticket purchase has been characterized as a throw away for use as entertainment dollar. Is that in fact your experience or do you have customers who will come to your establishment for the sole purpose of making lottery purchases.

Does one drive the other or vice-versa?
What's the predominant?

ALAN WILENSKY: I think they're both kinds of sales. There are people who, for whatever reasons, from my particular location I don't see some of the darker side that has been brought up to a great extent today.

There are some people who for a hobby or for entertainment, do purchase lottery tickets. It is a form of entertainment for a lot of people.

No one ever holds a gun to anybody's head, in order to come into my store, either to buy liquor or buy lottery tickets. So there are other people who have a steady day-to-day activity of purchasing tickets and as the lady from Georgia said, "There are the people, who, when they have a little change left over, they have a dollar and it's not doing anything they purchase the ticket.

And certainly again they, whichever game is the highest jackpot, whether they go on-line or if there is a new game out, that's interesting they'll throw it to that.

REP. SCHIESSL: One of the changes, one of the things introduced into the Georgia Lottery system that I don't think we have here yet is something called Instant Ticket Vending Machines.

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Do you have any knowledge or familiarity with it?

TOM BARAL: We were kind of introduced to it, Ott Brown kind of mentioned it at one of the breakfast meetings and I was adamantly opposed to it because for the first time in actually the past couple of years, the State has finally been able to put a security system into the Instant Tickets, where they cannot be stolen and then cashed somewhere else.

Either the Agent loses money or the State loses money. I think when you put these machines back out there, you're going to entice people to steal again and you're going to create that open area where we can be cashing stolen tickets.

ALAN WILENSKY: On their side, I don't typically speak for the Department side (indiscernible)

The Instant Ticket Vending machine is typically designed to be used at airports and unattended areas.

We in the association typically oppose VTMs. There is no oversight. Minors can purchase them and there are a lot of reasons why those particular machines are not desirable from our aspects.

REP. SCHESSL: I suppose I should inform you that based on information I received from the Division they do intend to explore the installation of an Instant Ticket Vending Machine network as one of the so-called technological and other improvements that could be implemented rapidly through privatization.

I guess they have the power to do that anyway I suppose.

ALAN WILENSKY: The Department has been talking about it for about two or three years.

REP. SCHIESSL: But your association would stand in opposition to that for obvious reasons.

ALAN WILENSKY: Well we believe that it hurts the Agent

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base whose getting the commissions on the tickets that are sold. At the airports, I don't think it benefits much of the Agent base at that point (indiscernible).

REP. SCHIESSL: Well I know on behalf of myself and the members of the Committee, we'll be more than happy to hear how you and your members are reacting to the particular changes proposed by the Division or by this quasi-public entity if this Bill becomes law.

Thank you for your testimony. Are there further questions from the members of the Committee?

Thank you gentlemen:

The last speaker I have on my list is Dennis O'Neill. The ever patient one. The floor's yours, Sir.

DENNIS O'NEILL: Good afternoon, Mr. Chairman, members of the Committee.

My name is Dennis O'Neill, I am the spokesperson today for the American Federation of State, County and Municipal Employees, Council 4 based in New Britain.

We represent approximately 32,000 public employees across the State and 16,000 municipal employees and 16,000 State employees, including many who work in the Division of Special Revenue.

I'm here today in opposition to SB54. We would urge this Committee, we think it's a bad Bill and a bad idea. We would urge this Committee to kill this Bill here in Committee.

There are numbers of reasons why we feel that this is a bad Bill. We'd certainly like to (discernible) ourselves with the comments of the Administrative and Residual Union. They very much allusionate, I think, some of the problems that are inherent in this and some of the reasons that we are opposed.

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In particular, if we look at what has happened with the privatization of the off-track betting parlors. Those off-track betting parlors were set up to fail so that they could be sold and taken off the State's books.

When we were trying to save our members who worked there, we talked and talked and talked and pointed out that if the ability to do what they now do were given to the Off-Track Betting parlors,

that they would be able to return a greater amount to the State's Treasury.

And as A&R has demonstrated that, in fact, has to pass. The State has lost out on some \$11 million that would have been part of our Budgetary process. So just on that level we think that this will cost, in the long run, cost the State of Connecticut an awful lot of money.

We also believe that it is simply very bad public policy to be selling off all or any portion of a strong public asset which generates for the General Fund on an annual basis some \$250 million plus or minus, depending on how the year goes. And simply in order to finance a tax cut.

We have heard a panel up here deny over and over and over again that there is any link between this tax cut that was passed without any money to finance it last year except this, and this proposal.

But I know all of you who watch what was goes on in the Congress of the United States see a similar panel of white males sit in front of a Congressional Committee and swear under oath that nicotine is not addictive. So I ask you to consider (that is sort of an analogy).

If we sell 6% of the Lottery in order to finance this \$100 million or \$200 million tax cut, and \$100 to \$200 million is off the books in terms of the tax cut next year, and the year after, and the year after, it seems to me, and I'm not an economist, but it does seem to me that either this

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Lottery is going to have to generate another \$160, \$200, \$300 million annually or we're going to have to sell more of it annually to finance this, what is an annualized tax cut. I don't think that's a good idea.

Further, I'd like to speak on how and why. And how does one turn a profit in a privatized or in any particular operation. It seems to me that there are only three ways that a private firm this

quasi-public firm, such as is, is going to be able to return more of a profit for the State.

And that would either be through laying-off some of its workers, reducing the employee costs, reducing the 5% pay that we pay out to the State Agents, that we had heard about. They're opposed to. And when I say lay-offs, I mean making the operation by laying the people off, is theoretically more efficient. Or by increasing sales.

Now those of you who were here during the Weicker Administration may remember the Christensen & Cummings report on gambling in the State of Connecticut, in which it was stated that the Connecticut Lottery--

Thank you, I've waited an awful long time.

That the Christensen & Cummings report, and as certain know that consultants can't be wrong, but the Christensen & Cummings report that was commissioned by the State of Connecticut characterized Connecticut State Lottery as one of the most efficient such operations in the United States of America.

So for this private or quasi-private kind of operation to generate greater profits for the State through greater efficiencies seems to be less than likely.

We would hope certainly that this operation did that by going forward with this we would not be reducing the amount of pay-out to our Agents who

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carry out the State's policies here across the width and breadth of our State.

Lastly, then that we have just increasing sales. I heard Secretary Jones at the beginning of this afternoon speak to the needs to remove the operational constraints over the Lottery.

But it does seem to me, if I'm not mistaken, that those operational constraints were placed upon the Lottery by this General Assembly. Not this one in particular, but by previous General Assemblies.

We may all remember, Captain Lotto from some years ago who drew the Lotto numbers at Whaler's games. The idea being to publicize, to advertise, and to sell Lottery tickets. We may have all remembered just recently the Lottery advertising in very poor taste talking about our high school prom days, which was quickly pulled.

What authority are you willing to give up to this quasi-public agency? It has been apparently a public policy of the State of Connecticut to limit its efforts to finance the operations of the State of Connecticut on the backs of those who gamble.

In particular, those demographic groups which are unlimited in their income potential.

I would like to just respond to Representative Hess' comments that they all get money their money back and nobody loses money. I'm not quite certain how that happens. If only 48%, this Bill talks about 48% I believe of the lottery intake being given back out to the public. Well if that 48% then 52% is going some place else. It's not going back to the demographic group who are buying these tickets.

I don't quite follow the logic as to how nobody's losing money here and nobody gets hurt. And certainly the lower the income, the greater the impact on losing even 48 cents or 52 cents out of every dollar you spent. So I would dispute that argument as well.

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I would also dispute the fact that there's a need to separate the oversight function from the actual administrative function. Unless I have missed a major scandal somewhere, or even a minor scandal somewhere, to the best of my knowledge, Mr Brown has run as clean an operation as one would find anywhere.

I don't see the need, and I would challenge anybody to demonstrate the need to separate these and create two new bureaucracies.

I have two more things and then I'll either answer questions or I'll go home.

I want to specifically refer to what I find terribly objectionable in this Bill. In this particular Bill. Which is Line 182, 183, 184 and 185.

Any person who is covered by a Collective Bargaining Agreement as an employee, with the Division of Special Revenue who becomes employed by the corporation shall no longer be covered by such Collective Agreement.

Now I've heard that, that that's quite okay because these people will not be State employees. Yet it seems to me that those same people who sat here saying that, are telling you, this Committee, that it is (indiscernible) that they must prove to the "Powerball" officials, to the officials at the Internal Revenue Service, to the officials of the Federal Communications System that this indeed will remain a State property, that this indeed will remain a State function.

And then to turn around and tell us that we don't have any rights under the State Employee Relation Act. Well, I'm certainly not delighted with it. I'm almost speechless but you know that hasn't happened in a long time.

And at the same time this Bill is telling us that these non-State employees, however, may well be covered under the State Pension Plan under the State Health Care Program.

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We have a problem with all of this kind of language. If we are not able to be covered under the State Employee Relation Act, will these employees be able to collectively (indiscernible) and be able to unionize and collectively bargain under the National Labor Relations Act?

Will their pensions be covered by (indiscernible)? There are an awful lot of questions that have to be answered before anyone thinks of moving this kind of language forward.

Will you aggregate the 40 hour work week that the Federal Government has instituted? Will you aggregate overtime payments? Will you aggregate minimum wage? For the people who work for this quasi-public organization. I would certainly hope that this enlighten body would see through this ruse.

And lastly, I didn't see in this Bill, and I'm real curious, how is this going to be sold? Is it going to be like stocks sold on an open market? I mean could, I heard Representative Maddox, and my Representative I might add, come up with what I thought was a very interesting question.

Why doesn't the State, and if you're going to do this, why don't we keep this in House? Why doesn't the State Pension Fund own this. And if you're going to return 12% risk free.

Give it to somebody else, who's going to take that money out-of-state. Down to Wall Street in New York or Japan or somewhere else. When you can reduce the amount of money that you have to come up with to fund the State Pension Fund.

Bud, was that \$288 million I heard to pay for a \$160 million deal. So at any rate I mean I think there are enormous questions that need to be, just in this Bill, it is a terrific flaw of legislation and I think you all have to answer a whole lot of questions with relation to that.

I think the most serious thing you have to answer is what is the public policy in the State of

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Connecticut views of this gambling. How much more do you want to take our of Hartford, New Haven and Bridgeport and Waterbury and New London and Norwalk.

While at the same time we're talking about turning about turning them into economic zones, that's free zones, let us just call them Lottery zones, and leave it at that.

I thank you for your time and I urge this Committee to kill this Bill. I'd be delighted to answer any question or debate into the wee hours if you'd like.

REP. SCHESSL: Thank you Mr. O'Neill. I do have something. It's actually something I want you to react to.

I asked OPM to comment on where the present inefficiencies were in the operation of the Connecticut Lottery.

As a reaction to that program have you studied it. Seem to give them high grades and I as a former member of program review I recognize the integrity of the staff of the Committee and the quality of their work product.

The OPM suggested three areas. One Budgeting, One Procurement and the third which I thought might be of interest to you is Personnel.

They indicated to me in their response that these Instant games were require Telemarketing, Order Packaging, Order Distribution, Games, Specific point of sale material.

It says, and this is what I wanted you to react to. The Lottery needs to compete with the private sector for qualified, and motivated professionals in marketing sales and systems operations.

In order to do that they need to be able to offer incentives for revenue performance. It is the lotteries belief that a professional highly

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motivated work force will be the single most important factor in the Lottery achieving its revenue goals for the next three years and beyond.

React to that if you will within the context of the current work force in the Lottery Division.

DENNIS O'NEILL: I think I have to (indiscernible). You opened up a can of worms Mr. Chairman that you might not have wished to open up. Because I have to speak to the motivation of the entire State work force.

This administration has taken particular delight and it seems to me in bashing State employees of all strikes. Of making promises to us and then breaking those promises. Of telling us that we absolutely promise that we will in fact honor arbitrated awards that come before this building, or into this building. And of course had that word broken.

I don't know how one can expect employees who have not had a pay increase since 1993 who did not have a pay increase from that time because we had made an agreement with the Weicker Administration to extend our contracts that expired in 1989 in order to help the State out of its huge budget problems.

We were rewarded by agreeing to extend our contracts with no additional monies. We were awarded with a whip by being given a chance to have a wage reopener in 1993-1994 fiscal year. At which point, Bill (indiscernible) came before the Appropriations Committee and said, "Well we have no money and so we're not going to give it to you." Let's go back to negotiations and re-negotiate and then this Administration comes in and negotiates with six years of zero general wage increases.

And in the desire apparently to have our people work longer hours for no money. If you want to talk about a motivated work force, this is not the way to get one. It is not the way to get a highly motivated work force every time you turn around and threaten furloughs and lay-offs.

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This is not the way to achieve that. Now if you're suggesting to me that by creating a quasi-public quasi-public or whatever we want to call it, organization, then you will be able to bring in employees who will not be covered by Collective Bargaining who will have a better deal than the people who are currently covered by Collective Bargaining and therefore will be more highly motivated and better workers.

I would suggest to you that I don't see that as reality. I would also just like to state for the record that we object very strongly to why would I suggest that the current work force is not highly motivated, is not highly responsible, is not highly professional.

I defy the authors of that report, for that statement to prove it.

REP. SCHIESSL: Thank you Mr. O'Neill. I share your perspective on language as well.

DENNIS O'NEILL: Thank you Mr. Chairman.

REP. SCHIESSL: Representative Piscopo. Good evening.

REP. PISCOPO: Just a quick comment I guess in defense for Marilyn Hess who has been here all hearing and had to leave.

I think she was just asking to verify the numbers in the consulting reports. She didn't make the point where all the money goes back to the demographics but just a certain percentage of it.

DENNIS O'NEILL: I was under the impression that Senator Jepsen's concerns about the demographic groups that have lower income levels and the fact that he believes, as I do, I might add, that gambling is a regressive way to raise revenue for the State.

I mean this kind of gambling is a regressive way to raise revenue for the State. I mean, Senator Jepsen made that statement and I believe (indiscernible) what I heard Representative Hess say was that these demographic groups when they get

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the money back is when somebody wins. And somebody's going to win \$10 million.

So everybody who falls within the demographic group of making between zero and \$15,000 a year somehow that demographic group is made whole. Because one of its people wins \$10 million.

Well I would suggest to you that I believe that's faulty logic and I believe she was incorrect and I would be happy to tell you and I didn't want to, I didn't ask her to leave.

REP. SCHIESSL: Thank you. Representative Belden followed by Representative Beals.

REP. BELDEN: Thank you Mr. Chairman. I don't quite necessarily agree with all of your perspectives.

DENNIS O'NEILL: Oh, I'm not surprised Representative.

REP BELDEN: I'm glad you understand that, but the quandary I have and I think many legislatures have, and that is that I'm old enough to have been around long enough that, I remember Captain whatever his name is--

DENNIS O'NEILL: Captain Lotto.

REP BELDEN: And I actually drew the Lottery in an outside green in Shelton back in the 1970's when they roamed the State.

I'm also old enough to remember the numbers racket that was permeated throughout the total existence of my community and every business in my community, and the Irish Sweepstakes and all the other things that go on.

There are certain things that occur in this world that have occurred since the recorded word. Among them gambling and the appropriation of a certain portion of people's money. Normally those in the lower income strata to try to in a one shot deal better themselves.

And we can be the heroes the State of

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Connecticut. We can say we don't want to have gambling or that we think it should be this way or that way. But at the present time we are competing nationally, and perhaps internationally with the Irish Sweepstakes money or the numbers money, or the Massachusetts Lottery money, etc., etc.

So I don't think we're going to see gambling going away and I think that the issue here is how do we best approach that. I heard some mumbling earlier about piece work. Which is a very interesting subject to me because I'm very familiar with that.

I actually worked under piece work in the 1950's.

DENNIS O'NEILL: I picked tobacco Sir.

REP. BELDEN: And I know some of the motivation that goes with that.

DENNIS O'NEILL: I know.

REP. BELDEN: So I hope maybe there are some good ideas in what was presented and certainly there are some ideas that are not so good.

DENNIS O'NEILL: Are you looking for a response from me Sir?

REP BELDEN: Pardon me.

DENNIS O'NEILL: Were you looking for a response from me or was it a statement?

REP BELDEN: Well, it's kind of a statement because, but if you have a suggestion as to other ways to handle revenue resources other than gambling, those would-

DENNIS O'NEILL: Well I would suggest that drugs and prostitution aren't going anywhere either.

REP. BELDEN: You're right, but we do have--

DENNIS O'NEILL: They're here, I mean.

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REP. BELDEN: We did legalize the tax on drug sales.

DENNIS O'NEILL: But you yourself I don't believe are about to propose a Bill that would legalize drugs in Connecticut so we can sell it and make a profit.

REP. BELDEN: Well I'm not prepared to do that but I have publicly spoken on that issue and asked that it be looked at.

DENNIS O'NEILL: I don't happen to agree with you on that issue, Prostitution as well. That's another issue. Thank you.

REP. SCHIESSL: That's another big issue. It sure is. Perhaps we should go off the record at this point.

Representative Beals, the floor is yours.

REP. BEALS: Thank you Mr. Chairman. You've made your organization's opposition to this proposal pretty clear.

Do you have any sense that your members would prefer to have the tax cuts that were enacted last year rescinded?

DENNIS O'NEILL: The truth is, I have not at this particular point in time done a survey on our members as to these tax cuts.

I believe that my members, with those in particular who work for this Department would as soon keep their jobs as get another what, \$2.30 a week or bi-weekly as a result of the Income Tax cut.

A single person is going to get \$.95 a week and a family of two or more will get \$2.30 a week back. And that's my understanding what the Income Tax cut amounts to.

REP. BEALS: Pretty small.

DENNIS O'NEILL: Pretty much and give or take a little bit. I believe that for the \$.65 a week that it will cost them, they would prefer to keep their

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jobs and their Collective Bargaining Contracts.

REP. BEALS: Okay, that's the employees in this particular agency. (indiscernible)

DENNIS O'NEILL: Yes. I would suspect that statewide when the people are looking at an Income Tax cut which has to be paid for; other than through this method then you're beginning to talk about a \$200 million hole in this particular budget that may actually result in layoffs.

I would suggest to you that my members would rather not have an Income Tax cut if that's going to result in them being laid off.

REP. BEALS: Thank you.

DENNIS O'NEILL: And I think that from me I'm making that statement just as a matter of sort of a relative logic. That its \$.65 to \$2.00 a week to \$3.00 a week that they might get by having their Income Tax reduced isn't going to offset the fact that they don't have a job, health care or the pension.

REP. BEALS: Thank you.

DENNIS O'NEILL: You're welcome.

REP. SCHIESSL: If there are no further questions. Thank you for your testimony Mr. O'Neill.

DENNIS O'NEILL: I want to thank you for staying and listening to me.

REP. SCHIESSL: I have no further speakers listed for me. Are there any other individuals who would like to make a statement at this time?

Seeing none, I declare this hearing adjourned.

(Whereupon, the hearing was adjourned)

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Speaker 2

TESTIMONY
BEFORE THE
JOINT COMMITTEE ON FINANCE, REVENUE, AND BONDING
REGARDING

SB 54
AN ACT ESTABLISHING THE CONNECTICUT LOTTERY CORPORATION

PART I

REGINALD L. JONES, JR.
SECRETARY
OFFICE OF POLICY AND MANAGEMENT

Good afternoon. Thank you for this opportunity for my lottery team and me to describe to you why the enactment of SB 54, An Act Establishing the Connecticut Lottery Corporation, will bring positive benefits in both the short and long term.

The testimony will be in several parts:

First, I will lay out the key objectives of the proposal and how those objectives are to be met. Then Bud Cohn, OPM's Executive Finance Officer and **director** of the lottery project, will describe the major elements of the proposal. **He will also** note some changes that are needed in the bill. Next, Rebecca Paul, President of **the Georgia Lottery Corporation**, will testify regarding the importance of freeing **the lottery** operation from its current state structure. Wilbur Ross, Jr., Senior Managing **Director** of Rothschild, Inc., will discuss the considerations in marketing the partnership **interests**. Marty Stauffer, a partner in the Coopers & Lybrand Hartford office, will discuss **how we** reached the conclusions we have recommended.

In addition to those testifying, Don Downes, my deputy, David **Warren** of the Treasurer's Office, Burton Alter of the law firm of Carmody & Torrance, **George Wandrak** of the Division of Special Revenue and Linda Yelmini of the **Department of Administrative Services** are here to help us answer your questions.

As many of you will recall, when the budget act was adopted last **session**, it included a provision that required OPM to prepare an implementation plan for **the full** or partial privatization of the Connecticut Lottery. The budget adopted for **fiscal year 1996-97** assumed that such privatization would yield an immediate **\$200 million** in addition to the already-anticipated lottery revenues.

The approach we took was to find ways to improve the lottery **operation** and the net income to the state, while meeting the financial objectives **assumed in the enacted budget**. We wanted to grow the enterprise, rather than cannibalize it as **some have** claimed.

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The proposals embodied in Proposed Substitute Bill Number 54 include the following:

1. Transfer of the operation of the Connecticut Lottery to a new Connecticut Lottery Corporation, so that it can operate more like a business, thereby improving lottery revenues.
2. Improved lottery oversight by the Division of Special Revenue
3. Organization of a lottery partnership, with the Connecticut Lottery Corporation as the controlling general partner.
4. Sale to passive investors of limited partnership interests totaling about 6 percent to passive investors to meet fiscal year 1996-97 fiscal needs.

The proposals embodied in the bill reflect the following considerations:

1. They recognize that the lottery differs from almost all other state revenue collection functions in that it depends upon voluntary, rather than involuntary, participation by the public. The lottery must function **like** a business to be successful. It must be structured as much as possible **like** a business if it is to function like one.
2. Although the lottery management is doing quite well **despite** the straitjacket within which it now functions, we believe we are **missing out** on at least \$100 million a year in net lottery revenues because of the **operational** constraints that have been imposed.
3. That \$100 million in additional revenues is net of the **relatively** small amount of new money that would have to be invested to achieve **such fresh** revenue. That investment has, nonetheless, not occurred and will likely **not** occur under the current structure, which places responsibility for the **expenditure** side with one committee in the Legislature and responsibility for the **revenue** side with a second committee.
4. By creating a quasi-public corporation and by permitting **investment** of lottery revenues to generate even more revenues, the value of the **lottery can** be enhanced. In fact, the state can sell a very small interest needed to help **balance** the FY 1996-97 budget and still receive lottery revenues \$50 to \$70 million **per year** higher than projected under the current operation. In short, the **lottery can** bring in substantially more revenue to the state general fund if we **untie the** hands of management.
5. Although the lottery is a business, it is a public business. **The revised** structure is designed to improve rather than relax accountability. The **separation** of the lottery operation from the Division of Special Revenue means the **separation** of lottery

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regulation from lottery operation. This will undoubtedly strengthen day-to-day oversight. Policy control by the Executive and Legislative branches will be exercised through appointment of the board of the Connecticut Lottery Corporation.

Business looks to the bottom line to judge the success of its efforts. The bottom line on the lottery proposals is we can improve revenues, we can improve operations, we can improve real accountability, we can raise the money we need to help balance the budget for the coming year, and we can still have more money than we would have every year thereafter.

I would now like to call on Bud Cohn to more fully describe the proposals.

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TESTIMONY
BEFORE THE
JOINT COMMITTEE ON FINANCE, REVENUE, AND BONDING
REGARDING

SB 54
AN ACT ESTABLISHING THE CONNECTICUT LOTTERY CORPORATION

PART II

BENSON R. COHN
EXECUTIVE FINANCE OFFICER
OFFICE OF POLICY AND MANAGEMENT

Good afternoon.

Senate Bill 54 is the result of an exhaustive process of research, investigation, financial modeling and discussion. With the participation of the Division of Special Revenue and the State Treasurer's Office, and the hard labor by Carmody & Torrance, Coopers & Lybrand and Rothschild we:

- o Defined all of the plausible options for full or partial lottery privatization;
- o Financially modeled the most promising possibilities;
- o Extensively investigated the state and federal laws that might apply;
- o Made informal inquiries to the IRS and other federal authorities to test theories;
- o Delved into the operational concerns and constraints; and
- o Pursued ideas for operational improvements.

The result of this work is a two-stage plan that addresses all of the considerations outlined by Secretary Jones. In stage one, beginning July 1 of this year, the regulation of the lottery and the operation of the lottery would be separated. The Division of Special Revenue would regulate the lottery; a new quasi-government corporation - the Connecticut Lottery Corporation - would be established to operate the enterprise.

The Connecticut Lottery Corporation would be governed by a nine member board. Four public members would be appointed by the legislative leadership. Two members would be appointed by the Governor and the OPM Secretary and the State Treasurer would be ex officio members. The Executive Director of the Division of Special Revenue would serve as an interim ex officio member for one year only, at which time he would be succeeded by an additional gubernatorial appointment. This arrangement is necessary to ensure that there will be no interruption in lottery operations and revenues.

As of July 1, 1996, the operation of the lottery would be transferred to the Connecticut Lottery Corporation. The three ex officio members, or their designees, would constitute a quorum until the rest of the members were appointed. The board would manage the

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lottery within the parameters included in the current statutes regarding permitted games, minimum payouts and commissions for lottery agents. It is expected that an interim operating plan, interim budget and interim procurement procedures will be ready for board adoption on the effective date.

The Connecticut Lottery Corporation would be off-budget. It would contribute its revenues to the general fund, net of operating expenses. It would no longer compete with governmental services for scarce appropriations. It would invest funds in a business-like manner to return a higher profit for the benefit of the state general fund.

The first order of business for the Corporation would be to begin implementing a series of revenue enhancements that we expect will add over \$33 million to the lottery's FY 1996-97 bottom line revenues. By the end of three years, these enhancements should add nearly \$100 million per year to the corporation's bottom line. It will take about three years to build to that level. Ot Brown will shortly describe how this can be achieved. Our financial modeling indicates that \$100 million in added net revenues would add about \$600 million to the market value of the lottery.

While the business is being built, preparations for a sale of limited partnership interests would proceed. First, the Connecticut Lottery Partnership would be organized. In such a partnership there is typically a general partner, which retains full operating control of the enterprise, and there are limited partners. The limited partners are passive investors who play no role in the management.

In this case, the Connecticut Lottery Corporation would be the managing general partner and would retain full operating control. Thus, the state, through the Connecticut Lottery Corporation, would retain control of the lottery.

Prior to the sale of limited partnership interests to outside investors, required rulings from the Federal Communications Commission and the Internal Revenue Service will be sought. The lottery team has thoroughly reviewed the issues involved and anticipates no surprises with regard to obtaining the necessary rulings. However, having them in hand reduces the perception of risk by investors and increases what those investors would be willing to pay for a share of the lottery.

Late in fiscal year 1996-97, after the revenue enhancements have begun taking hold and after the federal rulings are in hand, limited partnership interests sufficient to raise the required \$160 million will be sold. Again, the buyers will be passive investors and will have no role in lottery management. They must, however, have confidence at the outset that the lottery will be run in a business-like manner or they will not invest.

It is estimated that only about 6 percent of the equity in the lottery would have to be sold to raise \$160 million. It is important to remember that even by selling that small interest, the enhancements and the new entrepreneurial structure will mean the market value of the 94 percent of the lottery that the state will retain would be worth far more than the 100

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percent we now hold. Further, because of the enhancements and new structure, the net revenue to the general fund each year will be between \$50 million and \$70 million higher than is anticipated under the current structure over the next 10 years.

The bill would also impose a 10 percent tax on net lottery revenues, effective when the passive investors come into the picture. This is comparable to the taxes on other gaming in the state. If the tax is not imposed at the beginning, it would be unlikely that it could be imposed later.

When the lottery report was released in January, we indicated that there was a high probability that the Powerball consortium, which is hostile to privatization, would eject us. We, therefore, included in the plan sufficient time to organize a competitor before sale of partnership interests. That would have taken until late in fiscal year 1997-98. Interim financing, pending the sale, would have been required to bring the money into FY 1996-97.

However, when the Powerball group read our report and realized that the state would remain in full control of the lottery, it removed any objections. We will be staying in Powerball. We can accomplish the sale of partnership interests within fiscal year 1996-97. We will not be doing any interim financing. The bill has been redrafted to reflect this.

Overall, the key points to remember are as follows:

1. The lottery can earn \$100 million more per year than at present if the hands of the managers are untied so they can operate it more like a business.
2. The establishment of the Connecticut Lottery Corporation, as structured in the bill, would introduce and permit such flexibility.
3. Only a very small interest in the lottery would be sold - about 6%
4. Because of the bottom line increase of \$100 million per year, the state would continue to receive \$50 to \$70 million dollars per year more revenue after the sale of the small interest than if we changed nothing.
5. As managing general partner, the state, through the Connecticut Lottery Corporation, will remain in full operational control of 100% of the lottery.
6. Without the Connecticut Lottery Corporation structure, there can be no sale to meet fiscal year 1996-97 budget needs. Few buyers would want to invest in a venture that has not been set up to operate like a business.
7. The entire plan has been carefully thought out and investigated. It can be accomplished by the end of fiscal year 1996-97.

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I would now like to turn the floor over to Rebecca Paul, President of the Georgia Lottery Corporation, to speak about the advantages of the corporation form over the state agency form. Rebecca has managed lotteries in both state agency and corporate forms.

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TESTIMONY
BEFORE THE
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REGARDING

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AN ACT ESTABLISHING THE CONNECTICUT LOTTERY CORPORATION

PART III

REBECCA PAUL
PRESIDENT
GEORGIA LOTTERY CORPORATION

Honorable Committee Members:

It is my pleasure to provide you with information on the Georgia Lottery Corporation (GLC). The GLC is a unique organization by lottery industry standards and I would like to share with you some of the history of how our structure was developed.

The GLC was created by the Georgia General Assembly in 1992 as a public corporation. The legislation that created the lottery was part of the Governor's legislative package that session and had been carefully developed by his staff. In determining how best to structure the organization, the Governor's office took a comprehensive look at every lottery in the country. They were interested primarily in isolating problems and pitfalls that other lotteries had suffered and were determined not to repeat those in Georgia. Recognizing that the lottery was unlike any other service associated with state government, the Governor's office developed a set of goals. These included allowing the lottery to operate in an entrepreneurial fashion, keeping the lottery as far away from political influence as possible, and ensuring that lottery profits would exclusively benefit education.

These goals were realized by crafting legislation to create the lottery as a public corporation, not a state agency. The legislation clearly specifies that the GLC would receive no state money for any part of its operation, not even during the start-up period. This required us to secure a line of credit from a financial institution as our first order of business. Therefore, from the very beginning we were not treated as a part of state government. This separation not only served to establish the position of the lottery as a corporation, but it assured that the lottery would not be competing with other state agencies for funding. We have always been totally self-supporting and have never received any government funding. Furthermore, we are not involved in the appropriations process in any way for any part of our operation.

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The Governor further assured the entrepreneurial nature of the lottery by appointing a Board that had clearly defined private-sector experience. It was important to him that the Board provide the direction for the lottery in a way that utilized a private-sector approach to management and marketing. The seven member Board of Directors contains a mix of professional business people, and no politicians. They serve staggered terms so that, except for the initial appointments, no one governor can appoint a majority of members until he or she has been in office four years.

One of the responsibilities of the Board is to select and appoint the President of the lottery. This serves to insulate the staff from the winds of political change and provides for a continuity in management and direction, which is all too rare in the lottery industry. In addition to this responsibility, the Board has the authority to adopt and amend operating policies and procedures and budgets without any oversight or intervention from the executive or legislative branches. This allows us the flexibility to respond to changes in technology or market conditions at any time during the fiscal year, instead of waiting until the next legislative session for a budget amendment. For an industry that is driven by technological innovation and market demands, this is crucial.

The legislation also exempts the GLC from state purchasing and personnel requirements, and allows us the flexibility to operate competitively in a consumer market environment. The intention was to make sure that procurement decisions were based on what makes the best business sense, just like any other corporation. We have the flexibility to recruit a work force on our own and to reward them based on systems we have developed. Our salaries are competitive with private sector marketing companies because that's who we compete with for employees. We have the ability to offer incentive payments and the versatility to reward employees based on performance. Such policies and procedures do not fit into the traditional state merit system of personnel administration.

The legislation also created the educational programs that would receive lottery profits and specified that lottery funds would supplement, not supplant, existing education appropriations. Because of this provision, the only discretion the General Assembly has over spending lottery profits is how to allocate them between the three programs created in the enabling legislation. This has also served to give a clear corporate identity to the lottery. The earmarked programs are so popular with the public and are so readily identified as lottery-funded that we see a large number of people who don't mind as much if they win or lose the lottery because they are helping education. The programs that benefit from the lottery are: 1) a pre-kindergarten program for four-year olds, 2) the HOPE scholarship programs, which allow all Georgia high school graduates with at least a B average to receive a full tuition, books and fees scholarship to any Georgia college or technical school, and 3) a capital outlay program for technology in primary and secondary schools. These programs are so widespread that almost everyone in the state either benefits from them directly or knows someone who does.

The GLC is an enormous success. We have shattered past sales records, and we have seen a steady increase in sales each year. Our success is due to a number of factors, not

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the least of which are the hard work and dedication of the staff and good marketing decisions. But I would submit to you that a great deal of our success is because of the foresight of the framers of our legislation. We truly do operate in an entrepreneurial manner and have the flexibility to make good business decisions in the way we deal with our staff, our retailers, and our vendors. We are, of course, a "public" corporation and are subject to some of the same scrutiny as any public agency, such as open records and open meetings laws. We are also subject to the mandates of the enabling legislation regarding our finances and returns to players, the state, and the retailers. In addition, we have a Legislative Oversight Committee which monitors our operations and progress and provides the crucial element of public accountability. Even so, we enjoy an environment where we can focus on our goal of funding those three educational programs without undue bureaucratic entanglement.

The people of Georgia approved the lottery in a 1992 referendum by barely 51%. On January 16, 1996, the GLC returned its one billionth dollar to education and has recorded over \$3 billion in total sales. A lot of things have made that happen, but it all began with the right framework.

I would be happy to answer any questions you may have or provide you with any additional information at your convenience. I wish you much success in your endeavors.

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TESTIMONY
BEFORE THE
THE JOINT COMMITTEE ON FINANCE, REVENUE, AND BONDING
REGARDING

SB 54
AN ACT ESTABLISHING THE CONNECTICUT LOTTERY CORPORATION

PART IV

OTHO R. BROWN
UNIT CHIEF
CONNECTICUT STATE LOTTERY

Good afternoon Senator Nickerson and Representative Schiessl, and members of the Finance, Revenue and Bonding Committee. I thank you for this opportunity to speak to you on behalf of the Connecticut Lottery Corporation enabling legislation.

My name is Otho Brown, and I am Lottery Unit Chief for the Connecticut Lottery. I have been working with Connecticut Lottery since November of 1993.

I am here to speak to you about the proposed marketing initiatives in the "Connecticut Lottery Privatization Implementation Plan". The initiatives are basically broken down into two categories: those intended to create awareness about the Lottery and its games, and those intended to refresh and/or renew our games.

The initiatives intended to create awareness are as follows:

* Expanding the couponing program - Couponing is a way of inducing trial of a product. Many people have never played the Lottery or only know one or two of our games. They may be intimidated by not knowing how to play a game or are simply unaware of the game. By offering a free trial, we can introduce those people to our games and hopefully broaden the base of our players.

Because couponing requires continuing reinforcement to be effective, the Lottery must have consistent funding for the program. Currently we are using unclaimed prize money to fund the prizes in coupon games. That approach is in line with our Lottery Regulations, which require unclaimed prizes be returned to our players in the form of other prizes. However, the Lottery's unclaimed prize fund is often viewed as an attractive source of funding for other State programs, without regard to the impact that alternate use will have on future Lottery revenue contributions.

* More consistent promotion of jackpots - Sales for our Lotto and Powerball games are driven by the size of our jackpots. The larger the jackpot the greater the sales,

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provided we have enough advertising money to inform players about the size of the jackpot. However, under our current funding structure, we have been in the situation where, if we have a couple of large jackpots during the first half of the fiscal year, we do not have sufficient funding to adequately advertise our jackpots during the second half of the year.

* Increase Agent Incentive Programs and Lottery Field Representative visits to Agents - The Agent location is where our Lottery sales take place. The better presence we have at the Agent location, the more aware our players are about our games. It is important to our success that our Agents view the Lottery as a valued product in their store. We must develop a good relationship with our Agents and enlist their support in the marketing of our games.

In order to do that we must have Field Representatives that are professional in their job and motivated to provide service. They should understand that they have a stake in the success of the Lottery and should be rewarded for their considerable contribution.

The initiatives intended to refresh and renew the operation are as follows:

* Increase Instant ticket introductions - Instant ticket game sales peak approximately two to three weeks after introduction. In order to take advantage of those peaks it's important to have multiple game launches approximately every two weeks. To maximize each game's success, it is also important to have game specific, point-of-sale and/or media advertising for each game.

* Rename and re-launch Cash Lotto and add new play type to the Daily Game - Similar to our Instant games, on-line games get stale over time. In order to retain players, it is necessary to add features and refresh the games. However, to be successful, these changes must be supported with appropriate advertising, promotions and public relations programs.

The above initiatives are the methods that the Lottery proposes to employ to increase our revenue contribution to the State's General Fund. The means by which we will accomplish these objectives is to change the way we do business. We must become a more consumer-driven organization, with employees and agents believing they make a real contribution to our success. They must also believe they have a stake in that success and that they will be rewarded for their contributions.

If you make the changes that are recommended in the privatization plan, the results projected by the plan can be achieved. I firmly believe that the \$100 million in increased annual contribution to the State's General Fund can be achieved if we move the lottery to a quasi-public corporation.

I would add that none of the marketing initiatives described in the plan target any particular ethnic or income group for the projected growth in Lottery revenues. The

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Connecticut Lottery's market research, as well as a recent international study conducted by the Irish National Lottery, confirm that the demographics of lottery players are virtually identical and proportionate to the demographics of the general population (see attached Lottery player demographics). The privatization marketing plan envisions continuing that widespread appeal.

Thank you again for this opportunity to address you.

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FIGURE 1
 LOTTERY PLAYER CHARACTERISTICS VS. 1990 CT CENSUS DATA

	1990 CT Census Data		1994 Lottery Players	
	%	N	%	N
Gender				
Male.....	49%	1,592,873	49%	194
Female.....	51%	1,694,243	51%	206
Total.....	100%	3,287,116	100%	400
Age				
18-24.....	14%	345,433	6%	22
25-34.....	23%	583,882	25%	99
35-49.....	28%	711,235	39%	151
50-64.....	18%	451,078	18%	72
65+.....	18%	445,907	12%	48
Total.....	100%	2,537,535	100%	392
Marital Status				
Married.....	56%	1,408,889	61%	240
Separated.....	2%	43,846	2%	7
Divorced.....	8%	202,054	9%	34
Widowed.....	8%	196,670	6%	24
Single.....	25%	640,884	22%	86
Total.....	100%	2,537,749	100%	391

(continued)

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FIGURE 1 (Continued)

LOTTERY PLAYER CHARACTERISTICS VS. 1990 CT CENSUS DATA

	1990 CT Census Data		1994 Lottery Players	
	%	N	%	N
Highest Level of Education				
Less Than 12 Years.....	21%	520,356	7%	26
High School Diploma.....	30%	758,784	29%	111
Associate Degree/Some College/Technical School*	25%	620,993	29%	112
College Degree.....	16%	393,514	25%	97
Graduate Degree.....	10%	243,686	11%	42
Total.....	100%	2,537,333	100%	388
Employment Status**				
Employed.....	95%	1,701,300	91%	284
Unemployed.....	5%	91,500	9%	29
Total.....	100%	1,792,800	100%	313***
Household Income				
< \$15,000.....	15%	187,314	10%	33
\$15,000 to \$30,000.....	19%	233,507	20%	64
\$30,000 to \$50,000.....	26%	315,903	31%	99
50,000 to \$75,000.....	22%	267,344	22%	70
\$75,000 to \$100,000.....	9%	113,529	13%	41
> \$100,000.....	9%	112,646	4%	14
Total.....	100%	1,230,243	100%	321

* From the 1990 Census data, 'some college' was combined with 'associate degree', while in the 1994 CT Lottery survey, 'some college' was combined with 'technical school' for this table.

** State of CT employment data is from the CT Department of Labor.

*** An additional 54 people in the CT Lottery Survey were retired, however these data are not reliably available for the state of CT. The labor force data does not include those who are not actively seeking employment (i.e., persons who are retired, in school, taking care of children at home, and persons who have no interest in working).

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TESTIMONY
BEFORE THE
JOINT COMMITTEE ON FINANCE, REVENUE, AND BONDING
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PART V

WILBUR L. ROSS, JR.
SENIOR MANAGING DIRECTOR
ROTHSCHILD, INC.

Good afternoon, Chairman Nickerson and Chairman Schiessl and members of the Committee. Thank you for the opportunity to present Rothschild's views regarding the proposed partial privatization of the Lottery. Rothschild has been the leading privatization adviser to governments worldwide in each of the last five years. We have advised on over 120 major privatizations in 35 countries, and it is clear to us that privatization of the Connecticut State Lottery makes sense.

The plan submitted by the Office of Policy and Management is sound. It provides for a new quasi-public corporation to become the sole general partner in the Lottery with passive investors buying a 6% limited partnership interest. It will provide Connecticut with \$160 million of privatization proceeds that will never have to be repaid and yet will provide the State with more recurring cash flow each year on the new 94% of ownership that it would have earned under the old 100%. This result should not be surprising. There are many functions government performs well, but product innovation and consumer marketing are not among them. These are commercial, not governmental areas of expertise.

To accomplish the economic objectives, it is necessary to establish a quasi-public corporation. The quasi-public will act as the general partner for the limited partnership investors. This is essential in order to insulate product planning and marketing decisions from annual legislative initiatives. It is also necessary so that we can market equity to private sector investors. It is Rothschild's opinion that leaving the Lottery as a direct agency of the State would make it impossible to market the equity at a price remotely as high as we have proposed, if at all.

We can talk all we want about running the Lottery in an entrepreneurial fashion in the current structure, but investors know about the repeated decisions to hold advertising to an uneconomically low budget, thereby unnecessarily constricting revenues. Inadequate advertising in Connecticut is one reason why your neighboring lottery in Massachusetts

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captures two and one-half times more the percentage of disposable income as the Connecticut Lottery.

Because the limited partners would be passive in nature and would have no formal decision-making power, it makes it even more important that the day-to-day management is shielded as much as possible from politics. Do you really think investors would buy equity in Estee Lauder or General Mills or Coca Cola at a high price if the Legislature set their advertising budgets, staffing and compensation levels? I do not.

A well-staffed, quasi-government general partner will be saleable to investors on the terms presented, namely a tax free cash return of 12% per year for up to 15 years on the offering price. This structure, plus the uniqueness of owning equity in a highly profitable state lottery, offset the fact that a quasi-public entity, not a for-profit corporation has ultimate control. Indeed, based on the volume of inquiries received by Rothschild, many other states and cities are considering similar structures for their proposed privatizations.

Other elected officials are attracted to the Lottery partnership structure for several reasons. First, there is so little downside. Unless you believe that the quasi-public will somehow reduce the Lottery profits, the worst that will happen is that the State will keep 94% of the benefits plus \$160 million in cash. The only upside sacrificed is the excess over \$160 million for 6% of the company. But the fact remains that the State will gain almost \$16 in value for each \$1 of value gained by the investors.

Second, the quasi-public corporation preserves control permanently over the Lottery even if at some later date the State decides to sell more of its equity.

Third, the partnership structure assures that none of the State's share of Lottery profits ever will be subject to Federal income taxation and that the passive investor will pay little or no tax for many years to come.

To sum up, the main points that I can leave you with today are two-fold - the Lottery privatization plan as presented is a highly marketable proposition, and the quasi-public form is essential to the plan's success.

We respectfully urge you to give the plan approval.

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BEFORE THE
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PART VI

MARTIN E. STAUFFER
PARTNER
COOPERS & LYBRAND

Good afternoon. Thank you for the opportunity to speak to you on behalf of those at Coopers & Lybrand L.L.P. who acted as financial advisers to the Office of Policy and Management in the development of a privatization implementation plan. It is our belief that the enactment of SB 54, An Act Establishing the Connecticut Lottery Corporation, and the implementation of the privatization plan is clearly beneficial to the State of Connecticut. It will result in increased revenue for the State both in the short-term and in the long-term.

In the development of the privatization plan, the task force and the professional advisers thoroughly evaluated many alternatives. In order to evaluate the various options, we developed economic approaches (receipts tax, income sharing, seller financing, etc.) and structural approaches (general partnership, corporation, limited partnership, etc.). After each of the alternatives were explored and evaluated, we narrowed down the choices. To survive this evaluation process, an alternative had to meet certain threshold criteria:

1. The financial results to the State, both short-term and long-term, of the alternative had to be better than the current operation of the lottery;
2. The alternative had to ensure the maintenance of the integrity of the lottery;
3. The lottery had to continue to be operated in the public good and be subject to necessary regulatory and legislative oversight;
4. Any legal, tax or other impediments needed likely favorable resolution.
5. A sale of an interest in the lottery had to be achievable at a price and terms that both buyer and seller would find attractive.

At the end of the evaluation process, there remained an alternative that met the objectives of the State and was presented as the "Privatization Implementation Plan" prepared by the Office of Policy and Management. This recommendation encompasses a two-step

approach, with the creation of a quasi-public corporation and the subsequent sale of a limited-partnership interest.

As part of the public debate, some may question the benefits of the creation of the quasi-public corporation. I would like to comment on that aspect of the plan first. The Connecticut Lottery is a profit-making business whose reason for existence is mainly to produce the maximum revenue to the State of Connecticut. This obviously must be achieved while maintaining the integrity of the games and always operating in the best interest of our state's citizens. It became evident to us during the evaluation process that our State's lottery maintained the highest integrity and the public good has always been uppermost in the decision process of the lottery. We can also be proud that our State's lottery is considered one of the better operated lotteries in the United States.

What also became apparent to us during the evaluation process was that the operation of a profit-making business subject to governmental budgetary constraints, governmental bureaucracy, and even political pressures is causing our lottery to be far less successful financially than it can be. We are leaving a significant amount of money on the table.

For example, the lottery's major business operation is marketing, yet the advertising budgets are set based upon state budgets and not the level of advertising that maximizes profits without sacrificing the public good. Other examples may be the inability to evaluate owning instead of leasing computer terminals, introducing agent incentives to increase sales, or executing a telephone contract that would reduce cost to the state.

It is our belief that these are but a few of many examples by which the Connecticut Lottery could increase profits without jeopardizing the public good. The quasi-public corporation enables the long-term maximization of profits that will not be achievable or sustainable when run as part of our general government.

The second step of the plan involves the sale of a limited partnership interest in the lottery. This step is important and beneficial to the State as well. The quasi-public corporation would remain within the full control of the executive and legislative branches of government. That assures the maintenance of integrity and public control. But in our opinion, there is a clear long-term benefit of having the passive minority private ownership because it would provide creative tension to help maximize profits.

For example, this maximization of profits may come from making business decisions to invest in the ownership of computer terminals without going through the state budgetary process. It may also include evaluating the lottery advertising budget based upon what is appropriate for the lottery and not on balancing the state budget. In short, the private limited-partnership interest creates the appropriate profit-making pressure without sacrificing public control.

Another aspect to the privatization plan is the ability to fully implement this plan within certain time frames. There are a number of legal and tax issues that need to be addressed

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and could not be done before legislative approval of the plan. We have been involved in the identification of tax issues that need be addressed in order to have successful implementation of the plan. The plan has been structured to use approaches that are most likely to win federal income tax approvals. Although all of the extensive tax research could not be done prior to legislative approvals, it is our opinion that favorable tax rulings are likely to be obtained within six to nine months for all critical issues. With the tax rulings and other legal issues resolved, the sale of the limited partnership interest can take place prior to June 30, 1997.

In conclusion, Coopers & Lybrand has participated in a thoughtful and thorough analysis of alternatives for the privatization of the Connecticut Lottery. As we have said before, it is our opinion that the worst thing the State could do would be to sell the entire lottery. However, the next worst thing the State could do would be to do nothing at all. It is our opinion that the implementation of the privatization plan presented would result in significant increases in revenue to the State of Connecticut general fund in future years. Therefore, we believe that Senate Bill 54 should be approved.

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The Benefits of a Quasi-Governmental Lottery Corporation

The Quasi-Government Lottery Corporation structure is a relatively new organizational concept for lotteries in the United States. Worldwide, the quasi-government corporate structure is the dominant type of organization for government-run lotteries. For example, all of the Canadian lotteries and most of the European lotteries have very successfully adopted the corporate structure.

The first lottery in the United States to adopt the quasi-government corporate structure was the Kentucky Lottery, on April 4, 1989. Since Kentucky's introduction of the corporate lottery structure, two additional lotteries have adopted the quasi-government structure — Louisiana and Georgia. A fourth lottery, New Mexico, will commence operations as a quasi-government corporation in the Spring of 1996.

Even though corporate-structured lotteries have only been in existence in the United States since 1989, they have achieved the same level of success as the Connecticut Lottery (started in 1972) when comparing per capita sales as a percentage of disposable income. In fact, the Georgia Lottery has exceeded Connecticut's per capita sales as a percent of disposable income by 30% after just two years of operation.

There appears to be a variety of reasons that a government-run lottery functions better as a corporate entity. First, government organizations are principally designed to regulate and deliver services, while lottery operations are essentially retail sales operations. The lottery operates in a retail sales environment competing for wagering and entertainment dollars with other retail operations. In order to compete effectively, the lottery needs to be able to make budgetary and investment decisions based on the revenue returned from its investments. And, the lottery must be able to make those decisions in a timely manner in order to take advantage of business opportunities.

As part of state government budgeting and operations, the lottery must compete for funding with other important services that are more closely aligned with the core purposes of government. Even though funding for lottery operations provides additional funds for State services, the Lottery's budget appropriations are viewed as expenditures that reduce other services' appropriations, rather than as investments that increase revenues. Also, within the General Assembly, appropriations are the responsibility of one committee and revenues are the responsibility of another. This has worked against recognition of the fact that appropriations for lottery technology and promotion are investments that generate revenue, rather than expenditures.

A second reason that a quasi-government corporation can better operate a lottery is its ability to compensate employees based on performance. Performance compensation has been used effectively by the private sector for years to accomplish revenue goals. Those same performance compensation methods can be used successfully by a lottery to accomplish its revenue goals. However, government personnel policies, which have been developed over the years to manage a

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bureaucracy that primarily regulates and delivers services, do not allow for performance-based compensation. And, quite appropriately, the Division of State Personnel is reluctant to change its personnel policies to accommodate the lottery, when such a change might have implications for the entire personnel system.

A third argument for a new structure is the need for the lottery to react rapidly to changing market conditions. When there is the need to install more telemarketing work stations to accommodate increasing instant ticket sales or the need to install a new telecommunications network to obtain cost-saving and greater reliability, the current State operating structure requires a variety of slow approval processes involving a variety of state agencies. Such processes are so time consuming that marketplace opportunities can be delayed or even lost. Such delays cost revenues.

Finally, under a quasi-government corporate structure, the flexibility to operate as a private-sector company can be obtained, while maintaining government control and accountability. The Connecticut Lottery Corporation will be regulated by the Division of Special Revenue (the same agency that has oversight responsibility for other forms of gaming in the state), and overseen by a Board of Directors that is appointed by the Governor and the General Assembly.

The genesis of the proposal for lottery privatization in Connecticut was the charge from the General Assembly, included in last session's budget act, for OPM to prepare an implementation plan for such privatization. A motivation behind that charge was the need for a large infusion of cash to keep the fiscal year 1996-97 general fund budget in balance. That need still exists. It will be met through the sale to passive investors of limited partnership interests in the lottery. The Connecticut Lottery Corporation will be the managing general partner. It is essential to the marketability of the limited partnership interests that the investors feel comfortable with the management structure. They will not feel comfortable with the inflexibility inherent in a state agency management structure.

LOTTERY REPORT FACT SHEET

THE TASK

During the 1995 legislative session, the General Assembly passed Public Act 95-160, which in part required the secretary of the Office of Policy and Management (OPM), in cooperation with the Division of Special Revenue, to have an implementation plan prepared for the partial or total privatization of the state lotteries.

The Legislature directed that the report include in part recommendations on the mechanism by which the state could achieve the maximum total return from any privatization, the valuation of the lottery to the state, the potential for retirement of state debt from any sale, and terms, conditions, and procedures necessary for the plan's implementation. As part of the approved biennial budget for the state, the Legislature included revenues of \$200 million from the partial or full sale of the lotteries to be earned in the 1996-97 Fiscal Year.

THE TEAM

The Interdisciplinary Team assembled by OPM had some of the best and brightest minds from the public and private sectors. It included OPM staffers from many of its divisions, the Governor's Legal Counsel, the Deputy Executive Director of the Division of Special Revenue, the Assistant Treasurer for Debt Management, outside legal counsel from Carmody & Torrance, and outside financial consultants from the investment banking firm of Rothschild Inc. and the accounting and consulting firm of Coopers & Lybrand.

THE STUDY PROCESS AND SELECTION

Issues that had to be faced when investigating privatization and lottery enhancement included: (1) Converting the lottery to a private entity would make it subject to numerous federal taxes; (2) Structuring any privatization to IRS rules to allow for tax deductions; (3) FCC rules barring private lotteries from advertising; (4) Possibility of expulsion from the Powerball consortium if all or parts of the lottery were privatized; and (5) Ways to enhance the overall performance of the lottery.

The team examined four main privatization options: (1) Privatizing the lottery through a corporate structure; (2) Privatizing through a partnership structure; (3) The sale, lease or franchise right to operate the

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lottery to a private firm; and (4) The creation of a quasi-public corporation to run the lottery. It settled on a combination of the second and fourth options.

The corporate option was rejected for a number of reasons: (1) The portion that the state held would eventually be subject to federal corporation taxes, (2) The entire enterprise would be saddled with \$2 billion worth of debt, and (3) There are serious IRS questions that might force the state to immediately sell off 80 percent of lottery. That would have conflicted with the expected FCC requirement that the state retain 50 percent under the corporate structure to advertise on the public airways.

The team rejected the management option because of FCC rules. In order to allow for advertising on public airwaves, the FCC would require the state to retain significant control and oversight. In effect, it would have veto power over the private manager's decisions. Given those restrictions, the team concluded there would be few private entities willing to make a substantial upfront investment. Even if one could be attracted, too much of the ongoing revenues in the outyears might have to be offered the private manager to make it a wise investment from the state's standpoint.

The team rejected using any proceeds from any privatization to pay off debt service because the lottery is a high-return asset and the proceeds would effectively be used to pay down low-interest debt. The advisers concluded that paying off unfunded liability in the pension system would be a better use of the proceeds because it would be invested permanently at a better rate of interest. But such a use would still be risky because there is no guarantee that the return would be as high as the return from the lottery.

In determining the present value of the lottery assuming no changes or enhancements, the advisers assumed 3 percent growth through 2005 and 1 percent thereafter. In determining the value of the lottery through the corporate, partnership and favored two-stage approach, the three-year enhancements were factored in as were growth rates of 3 percent through 2005 and 1 percent thereafter. In all cases, the introduction of Keno was ruled out.

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The team determined the following valuations:

	Discount rates		
	7.67%	10.5%	12%
Status quo	\$4.09 bil	\$2.83 bil	\$2.42 bil
Corporate	\$4.33 bil	\$3.19 bil	\$2.77 bil
Partnership	\$4.50 bil	\$3.29 bil	\$2.85 bil
2 stage	\$4.73 bil	\$3.47 bil	\$3.01 bil

The team found that the two-stage approach had the highest overall value and that the lottery is worth at least \$600 million more under the two-stage than the status quo model no matter what reasonable discount rate was used.

The team projected the following net revenues to the general fund after expenses for the two-stage and status quo approaches:

Fiscal Year ending	Lottery Contributions to General Fund After Expenses (Millions)									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	
Status Quo	245	256	264	272	280	288	297	306	315	
Proposed	428	309	323	328	342	353	363	374	386	
Increased revenue	183	53	59	56	62	65	66	68	71	

The lottery unit currently has 61 full-time and 12 part-time staff. Total lottery revenues for fiscal 1994-95 were \$671 million. Net revenues to the general fund after expenses for 1994-95 were about \$222 million. Projected lottery revenues for fiscal 1995-96 are \$718 million. Projected net revenues to the general fund after expenses for fiscal 1995-96 are \$237 million.

THE UNTAPPED MARKET

The team found evidence of an untapped market in Connecticut for lottery sales. It compared Fiscal Year 1993-94 lottery sales as a percentage of disposable income in both Connecticut and Massachusetts. It found that lottery sales as a percentage of disposable income in Massachusetts is more than 2.5 times higher than in Connecticut, 1.9

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percent vs. .7 percent. If Connecticut were to achieve the same per capita sales already existing in Massachusetts, total lottery sales in Connecticut would be about \$1.5 billion. The team found that Connecticut is weak compared to Massachusetts in its instant games sales.

THE PROPOSAL STAGE ONE

The quasi-public Connecticut Lottery Corporation, which would begin operation on July 1, 1996, would be able to set its own advertising budget, and, in general, react to market forces more quickly to the benefit of the bottom line.

While the quasi-public would have full management prerogatives over most all activities, it would be regulated by the Division of Special Revenue, much like jai alai and other pari-mutuels, and have legislative, gubernatorial and ex-officio members of the board. Thus, there will be a good balance: entrepreneurial spirit and limited government oversight. The quasi-public would reimburse DSR for regulatory costs.

The board of the quasi-public would be made up of the Executive Director of the Division of Special Revenue (for one year only), the Office of Policy and Management Secretary, the State Treasurer, all as ex officio members, as well as two gubernatorial appointments and one each by the Senate President Pro Tem, Speaker of the House, Minority Leader of the House, and Minority Leader of the Senate. After one year, the Special Revenue Director will be replaced by another gubernatorial appointment.

The quasi-public would, in all likelihood, continue to contract out the current privatized services, and would have discretion to contract out and privatize other services. Indeed, it is envisioned that the quasi-public would privatize other portions of the operation of the lottery, perhaps including the day-to-day operation and coordination with other private vendors.

Some current lottery staff likely would be retained for regulatory purposes at the Division of Special Revenue: Others would be able to seek employment at the new quasi-public. The transition would take about one year.

The quasi-public's first task would be to begin implementing revenue enhancements recommended by the team, which would not only add new revenues to the general fund but boost the lottery's market value. Suggested enhancements include: introducing 12 new instant games and increasing advertising, promotion and coupon promotions of them; better

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promotion of lotto jackpots through more advertising; and relaunching the Cash Lotto game and promoting it better. Lottery agents would not receive less than the current 5 percent commission. In fact, the quasi-public may offer inducements and incentives to high performing lottery agents.

The team envisions three years worth of enhancements, so that annual sales and annual net revenues after expenses grow by \$325 million and \$99 million, respectively, between Fiscal Year 1995-96 and Fiscal Year 1998-99.

STAGE TWO

The CLC will set up a partnership structure and market a limited partnership interest toward the end of fiscal 1996-97. It is estimated that only about a 6 percent interest in the lottery will be sold to investors because enough of the planned revenue enhancements will be underway.

The CLC would be the general partner and continue to direct the operation of the lottery. The limited partnership would not be represented on the board and have no formal say in the operation of the lottery. Under the partnership structure, the state would be exempt from the federal corporate tax and most other federal taxes. Federal and state taxes would apply to limited partners, but the limited partners would be able to shield their interest from state and federal corporate taxation for up to 15 years.

The quasi-public will have to get formal rulings from both the FCC and IRS to complete the limited partnership sale. The team does not anticipate any problems getting those by the end of FY 1996-97. This will also provide the time to ensure that the partnership is properly marketed and that the State gains the most from the sale.

While the Powerball consortium had earlier been antagonistic to privatization of state lotteries and threatened to expel Connecticut if it privatized any portion of its lottery, it has since reversed itself. It has indicated that it would allow Connecticut to remain a member of the group.

It is important to remember that because of the revenue enhancements and the new entrepreneurial structure, the market value of the 94 percent of the lottery that the state will retain will be worth far in excess of the value of the 100 percent it holds now. Further, because of the revenue enhancements and new structure, net revenue to the general fund each year will be well in excess of the money projected under the

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current structure. The state will receive \$50 million to \$70 million more annually over the next decade.

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and it is the message

Revisions to the Lottery Privatization
Plan

Elimination of the Proposed 18-Month Note

When the Multi-State Lottery Association, which operates Powerball, learned of the proposal to privatize the Connecticut Lottery, it indicated that Connecticut would no longer be permitted to participate.

After release of the privatization report, the association reversed itself and indicated in writing that Connecticut could continue to participate in Powerball provided that a ruling was obtained from the FCC that the Connecticut Lottery continued to be one that is "conducted by a state." Since the proposals in the report were designed explicitly to meet the requirements for such a ruling as presented to us informally by the FCC, such approval is assured.

The two-year time frame from legislative approval to sale of the partnership interest that was proposed in the privatization report was for two purposes: 1) To provide sufficient lead time to organize a Powerball alternative, and 2) To provide as much lead time as possible to build the value of the lottery prior to sale. The first was essential to the sale because the interstate game represents so much of the current value.

An 18-month note was proposed to balance the FY 1996-97 budget pending sale of the partnership interest in FY 1997-98.

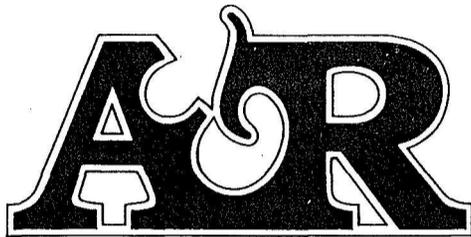
Since there is no longer a need to organize a Powerball substitute, the two-year lead time is no longer needed. The sale of the partnership interest can occur within FY 1996-97 and the 18-month note is no longer necessary.

The shortening of the lead time for building the value could be dealt with by: 1) Selling a slightly larger partnership interest than the 6% estimated in the report, or 2) Guaranteeing the buyer a return based upon the estimated bottom line when the revenue enhancements have been completed.

The accelerated sale is contingent upon the state getting the required FCC and IRS rulings in the expected time frame. The state is confident that it can obtain those rulings and that the sale can occur within FY 1996-97.

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Spencer-9



**Administrative and Residual Employees Union
Local 4200, AFT, CSFT, AFL-CIO**

141 Washington St., Hartford, CT 06106 ■ Telephone (860) 241-9086

S.B. 54 - An Act Establishing the Connecticut Lottery Corporation

Testimony of Michael Sartori, President,
Administrative and Residual Employees Union

We are opposed to this bill for a number of reasons. The major problem with it is that it will provide a one-shot infusion of revenue to balance the State's budget. What about future years? We have already passed an income tax cut, the costs of which can be covered by selling a 6% share in the Connecticut Lottery Corporation to private investors. This proposal assumes the Connecticut Lottery Corporation will increase lottery revenues, but not enough to cover revenues lost from the tax cut. Will we resort to selling off more pieces of the lottery in the future to cover this shortfall?

And how certain can you be that lottery revenues will increase as much as predicted? The report prepared by the Office of Policy and Management and the Division of Special Revenue compares Connecticut's lottery sales with those in Massachusetts, and suggests that Connecticut can achieve per capita sales comparable to those in Massachusetts. In fact, Massachusetts has the highest per capita sales of any of the thirty-seven lotteries in the nation. I have attached a list of total sales for all State lotteries in 1995. As you can see from this list, Connecticut already does a lot better than many other states; it may be difficult to achieve the level of sales in Massachusetts.

This is not the first time we have sold an asset to balance the budget and lost future revenue in the process. A couple of years ago we sold our Off Track Betting operation for \$20 million.

In the last year of State operation, the State received approximately \$6 million in revenue (DRS/Division of Special Revenue, Off Track Betting Unit Statement of Operation for the Fiscal Year Ended June 30, 1993). Last year, the State received revenue of approximately \$4 million from the private operator (DRS/Division of Special Revenue Parimutuel Facilities Statement of Operations and Summary for the Twelve Months Ended June 1995) in spite of the fact that the "handle" at OTB had increased from \$139 million to \$224 million. A recent report from the Connecticut Policy and Economic Council estimates that the state has lost \$11.3 million dollars so far as a result of the sale of OTB (CPEC Budget Watch, January 1996).

If you decide that you want to raise revenue by increasing gambling, then go ahead and do it. But don't sell off a portion of your assets, keep the 6% share in State hands and keep the additional

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6% in revenue. Also, keep in mind that the 6% share could be purchased by out-of-state investors, taking those funds out of the Connecticut economy altogether.

Another factor to consider is the State's bond rating. While the proposal to borrow money until shares in the Connecticut Lottery Corporation are sold has apparently been dropped, balancing the budget with one shot revenues is still a concern for potential bond purchasers. If our bond rating goes down and we have to pay more to borrow money, this will have a further adverse impact on the State's finances.

We also have a number of concerns about setting up a separate Connecticut Lottery Corporation. Generally, we are seeing a trend toward merger and consolidation of State agencies to achieve economies of scale and reduce administrative overhead. Does it make sense to set up a separate quasi-public corporation and duplicate administrative services currently being provided by the Division of Special Revenue? Are we really going to achieve any improved efficiencies by doing this? By all accounts, the current Connecticut lottery operation is one of the more efficient ones in the nation operating with low administrative costs.

Current employees of the Division of Special Revenue face potential lay-off because of the creation of the new corporation. They may be rehired by the new corporation, but they will lose their seniority and existing status as State employees. They may also lose their existing pension and health insurance benefits, and they will be prohibited from collective bargaining. What possible rationale is there for inflicting this kind of treatment on State employees? Why can't they retain their existing status as State employees?

One of our major objections to privatization is the tendency to replace good jobs with decent benefits with lower paying jobs with lesser benefits. The only reason I can see for denying employees collective bargaining and continuation of their current status is to pay them lower wages and provide cheaper benefits. Is it also the intention of the Connecticut Lottery Corporation, once freed of the stricture of the merit system, to offer its executives much higher salaries while keeping workers' salaries as low as possible? This unfortunately is too often what passes for "efficiency" in some private corporations.

In conclusion, I would urge you to reject the proposed legislation. Reject the quick fix of selling a valuable asset to balance the budget. If you want to increase gambling revenues, go ahead and do it, but don't give up 6% (or more) of your enhanced revenues to private investors and don't jeopardize the State's bond rating. And don't throw away the careers of loyal state employees and force them to trade good jobs for bad.

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U.S. LOTTERIES' UNAUDITED FY95 SALES BY GAME (\$millions)

	Pop. (M)	Instant	Pull Tab	3- Digit	4- Digit	Lotto	Cash Lotto	Power ball	Keno	VLT	Other	Total Sales
Arizona	4.1	77.2				97.1	92.9	18.8				286.0
California	31.4	572.0		57.2		974.5		123.8	421.5		23.2	2,172.2
Colorado	3.7	180.9				163.0			7.9			351.9
Connecticut	3.3	260.1		131.0	64.1	170.1		45.3				670.6
Delaware	0.7	19.5		36.3	15.9		31.3	11.0				114.0
D.C.	0.6	25.5		92.0	57.2		50.0	9.5				234.2
Florida	14.0	528.7		307.1	145.3	911.7		346.8				2,239.5
Georgia	7.0	430.9		608.3		281.8	1.2	99.8				1,422.0
Idaho	1.1	57.9	1.7			4.2	19.5	5.6				88.9
Illinois	11.7	630.8		358.4	123.7	386.6		130.1				1,629.6
Indiana	5.7	311.4	1.0	25.7	24.3	74.7	157.9	15.6				610.7
Iowa	2.8	103.9	32.5			12.6	48.9	9.7				207.6
Kansas	2.5	58.2	1.0	4.5			55.1	15.3	37.3			171.4
Kentucky	3.8	270.7	10.1	72.8	16.8	45.7	72.7	23.6				512.3
Louisiana	4.3	124.1		37.4		100.7	38.8	4.2				305.3
Maine	1.2	97.0		4.7	3.2	42.2		6.0				153.2
Maryland	5.0	157.0		351.7	157.4	102.8		32.2	238.1			1,039.2
Massachusetts	6.0	1,793.0		414.3		199.1		81.0	299.5		27.2	2,814.1
Michigan	9.5	424.9	8.4	393.6	238.8	291.2		51.6	18.9			1,427.4
Minnesota	4.6	206.8		13.3			92.7	21.5			1.6	335.9
Missouri	5.3	184.1	27.7	40.1		33.5	106.8	19.8				412.0
Montana	0.8	7.3				5.2	14.5	5.8				32.8
Nebraska	1.6	39.2					37.4	2.5				79.1
N.H.	1.1	88.0		7.7		29.2		16.1				141.0
N.J.	7.9	267.8		474.7	264.1	459.1		109.9				1,575.6
N.Y.	18.2	666.1		689.4	415.8	839.4		334.2	83.6			3,028.6
Ohio	11.1	1,032.8		446.2	101.8	437.8		100.4			63.3	2,182.2
Oregon	3.1	121.4	7.0		3.7	48.7	38.8		111.3	331.1	8.5	670.6
Pennsylvania	12.1	313.6		631.2	252.0	272.0		96.6			26.4	1,591.8
Rhode Island	1.0	20.9			31.2	4.0	4.1	57.5	24.9	192.0		334.6
S. Dakota	0.7	16.0				2.3	12.4	4.0		126.0		160.7
Texas	18.4	1,717.3		141.1		1178.8						3,037.2
Vermont	0.6	52.0		1.1	1.0	14.3		3.2				71.7
Virginia	6.6	281.3		255.4	94.4	225.2		45.9				902.2
Washington	5.3	119.8		18.1		208.9		39.1	15.0			401.0
W. Virginia	1.8	61.5	0.2	12.1	4.8		50.6	9.0	14.9	28.1		181.2
Wisconsin	5.1	310.2	10.0	27.7	2.2	32.4	88.2	48.1				518.8
FY95 Total	223.7	11,629.9	99.5	5,653.1	2,017.6	7,648.9	1,013.8	1,943.4	1,273.0	677.2	150.2	32,106.6
FY94 Total	222.3	10,028.2	106.3	5,240.6	1,904.3	7,087.5	823.7	1,753.5	980.0	494.2	111.2	28,529.1
% Increase		16%	-6%	8%	6%	8%	23%	11%	30%	37%	35%	13%

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Problem Gambling Task Force

190 Neck Road, Madison, CT 06443 • (203) 245-4925

Page #34
Speaker 13
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35:20

To: The Committee on Finance, Revenue & Bonding
From: Annie Curtis Chittenden for the Problem Gambling Task Force
Date: March 19, 1996
Re: Lottery Advertising & Associated Costs

The Problem Gambling Task Force is a state-wide citizens' group. We are concerned about people who are hurt by lottery advertising.

Right now, a woman on public assistance may be standing in a check-out line with a loaf of bread and a \$20 food coupon, losing the "left-over" change to her daily lottery picks.

UConn sociology professor, Mark Abrahamson, has told the Gaming Commission that our daily lottery "primarily attracts poor, longterm-unemployed and less educated" players. Lottery directors across the country know that millions of low-income families see "the big win" as their only way out. If this weren't true, we wouldn't concentrate the placement of lottery outlets in our poorest neighborhoods.

Duke University researchers found that Americans in the lowest income brackets spend four times the percentage of their income on gambling than those in the highest income groups. They concluded: the lottery is "responsible for inducing about one-quarter of the adult population who would not otherwise (do) so, to participate in commercial gambling."

In his book, *The Luck Business*, Dr. Robert Goodman, cites research indicating that nearly half of all lottery sales are to people with incomes under \$25,000. He calls lottery marketing "coercion of circumstance."

Goodman says that instant lottery games "produced a giant leap forward in problem gambling" and calls instant tickets "paper slot machines," providing "immediate gratification without even the energy required to choose lottery numbers."

Connecticut's problem and pathological gamblers are also impacted by lottery ads and they are not the only victims of gambling addiction. Families and businesses are being destroyed.

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Problem Gambling Task Force to Committee on Finance, Revenue & Bonding
Page 2

While many of us may find it hard to believe that the lottery creates gambling addiction, those who are in over their heads know better. The counselors who treat them know better. The CT gamblers' hotline receives calls from people hooked on "instant" games who are as much at risk as those calling from the casino.

We have the second-highest rate of compulsive gambling of any state surveyed and research shows that 60 percent of compulsive gamblers commit crimes to support their habit. We pay for business losses, increased law enforcement, judicial processing and incarceration. We pay for domestic violence and support for families who have lost their homes. And we pay with suicides that are not always recognized as such because they are carefully staged to protect loved ones from the shame of debt and addiction.

This Lottery Bill (No. 54) neither adequately nor specifically addresses these costs. If you believe increased lottery sales serve our best interests, we urge you to adopt responsible public policy.

- Place restrictions on all gambling advertising to protect our most vulnerable citizens.
- Provide funding for public education and prevention programs
- Provide adequate funds for the gambling treatment which is already needed throughout the state.

Thank you.

Referral Resources:

1. Robert Goodman; *The Luck Business*; The Free Press division, Simon & Schuster, Inc.; 1995.
2. Charles T. Clotfelter & Philip J. Cook; *Selling Hope, State Lotteries in America*; Harvard University Press; 1989.
3. Mark A. Siegel, PhD, Alison Landers, BA, & Carol D. Foster, MLS, editors; *Gambling: Crime or Recreation*; Information Plus Publishers; 1994 ed.

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36:15
39:15

Testimony
in Opposition to SB 54



"An Act Establishing the Connecticut Lottery Corporation"

March 18, 1996

Hello. My name is Nancy Eggen and I am representing the Connecticut Conference of the United Church of Christ. The Conference is made up of 268 churches with 108,000 members. I am here to voice my concern regarding Senate Bill Number 54, "An Act Establishing the Connecticut Lottery Corporation."

Since 1974 the Social Resolutions adopted by the Connecticut Conference of the United Church of Christ have opposed state sponsored lotteries. We continue to uphold the position we have historically taken: lotteries are not now, nor have they ever been, a socially responsible mechanism for raising revenues for the state. We have considerable reservations about the state promoting and profiting from an activity that is clearly deleterious to the health of some of its citizens. Thus we oppose any measure that could allow for the expansion of lottery gambling within the state. We believe that Senate Bill 54, if enacted, poses the very real possibility for the expansion of lottery gambling in Connecticut.

It is very unclear what the balance of power between the State of Connecticut and the proposed Lottery Corporation would be. While Senate Bill 54 states that "such corporation shall continue to be accountable to the Governor, the General Assembly and the people of the state" it also allows that the proposed corporation "shall have comprehensive and extensive powers, as generally exercised by

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corporations engaged in entrepreneurial pursuits." Section 8, subsection 6, grants the corporation the power "to introduce new lottery games, modify existing lottery games, utilize existing and new technologies, and determine distribution channels for the sale of lottery tickets, including but not limited to, instant ticket vending machines, kiosks and automated wagering systems and machines." Thus, the Lottery Corporation, mandated by the state to increase lottery revenues to the General Fund, has the power to create additional lottery games and expand lottery options by introducing video lottery terminals and other lottery technologies, such as interactive home lottery betting, without the approval of the state's residents.

Other states have traveled this path before us. In 1989 the state of South Dakota, faced with lottery revenue shortfalls, expanded its lottery margin by introducing the first video lottery terminal (VLT) electronic gambling machines in the country. Within four years, South Dakota had more than 10,500 VLTs in operation in bars, restaurants, and convenience stores throughout the state. By the early 1990s VLTs were available in Oregon, Louisiana, Montana, West Virginia, and Rhode Island. In 1994, nearly 50,000 VLTs were being operated in bars, restaurants, convenience stores, truck stops, and racetracks throughout the country, effectively creating mini-casinos in every community in every state that sponsored VLTS.

In 1991, the Minnesota State Lottery proposed an experiment in interactive television betting in a joint plan with the Nintendo Company and the Control Data Company to test market lottery betting at home. After heated political opposition from the governor and some state legislators, the proposal was defeated.

Other states facing lottery revenue shortfalls have expanded their instant lottery ticket markets. For example, in 1993 instant lottery tickets accounted for nearly 65 percent of lottery sales in

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Massachusetts. Tom Cummings, Director of the Massachusetts Center for Compulsive Gambling, refers to instant tickets as "paper slot machines;" the player knows immediately whether her or she has won, and can play again immediately. Cummings also states that instant tickets have produced a giant leap forward in problem gambling, due to their widespread availability.

Howard J. Shaffer, the Director of Harvard Medical School's Division on Addictions has classified gambling as an addictive behavior with all the properties of the psychoactive substance. Problem gambling is the fastest growing addiction in the United States, due to the rapid expansion of legalized gambling opportunities in 48 states. The most readily available form of legalized gambling is state-sponsored lotteries. For some people, play the lottery is a harmless diversion; for a growing number of people, it is a life-altering addiction.

As a promoter of the lottery, our state government finds itself in a strange and contradictory position which makes it difficult to carry out its role of protecting the public. While it once regulated gambling in order to guard against gambling operators who might take advantage of the citizens, the state's growing dependence on gambling revenues has exerted pressure to increase revenues. But at what cost will we do this?

The loss of control posed by a privatized Lottery Corporation and the potential for the radical expansion of gambling opportunities, compels us to oppose Senate Bill 54. Expanded lotteries are not a good vehicle for increasing revenues for the state; the social costs incurred by the growth of problem gambling are just too high.