

PA12-023

HB5182

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**JOINT
STANDING
COMMITTEE
HEARINGS**

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tmd/gbr BANKS COMMITTEE

March 6, 2012
3:00 P.M.

REP. TONG: Sure.

CHELSEA TURNER: Good afternoon Co-Chairman Tong and Duff, ranking members Frantz and Alberts and other distinguished members of the committee. My name is Chelsea Turner and I'm the Director of Government Regulatory and Operational Affairs at the Connecticut Lottery Corporation. To my right is our general council Lana Glovach and we're here today to testify in lieu of our president CEO who is unfortunately out sick.

We're here in support of House Bill 5182, AN ACT CONCERNING A TECHNICAL CHANGE REGARDING THE FINANCIAL SECURITY OF LOTTERY SALES AGENTS. Under Connecticut General Statutes, Section 12-813(c), the President of the Connecticut Lottery has the authority to impose surety bonds on our lottery retailers.

Surety bonds are used to ensure that the Lottery will be paid for any monies owed in the event a retailer encounters financial difficulties. Surety bonds may be required at the time of the initial application to become a lottery retailer or at a later date after our business relationship has already been established. Customarily, bond requirement occur as a result of poor credit history, failure to make timely payments or other issues that could affect the ability of the Lottery to collect monies owed.

As you may be aware, surety bonds is a three party instrument by which one party agrees to perform a second parties obligations to a third party. The surety's obligation to pay the third party is conditioned on the second party's failure to perform. And for this reason surety stands in the shoes of the

second party. Meaning that the surety has not only it's own defenses to claim, but the second party's defenses as well.

If a retailer with a surety bond defaults, the claim process is often lengthy, while the surety communicates with the second party in an attempt to determine if there are any defenses. As a result, payment is generally not prompt. In addition to surety bonds there are other forms of security in the marketplace to protect the lottery from a retailer's default in payment including letters of credit and cash escrow agreements.

First, in regards to letters of credit, there are various types, but essentially a letter of credit is a two party instrument between the issuer and the beneficiary. Unlike the surety bonds, the bank has the primary payment obligation without regards to the underlying contract between the lottery and its retailer. Usually letters of credit can be structured so that payment is prompt.

Further in regards to a cash escrow arrangement, the retailer provides the lottery with cash which the lottery holds as a security under the terms of a written agreement between the lottery and the retailer. And in these instances payment is normally prompt. While all of these forms of security have advantages and disadvantages, both the letter of credit and cash escrow typically provide greater protection and quicker liquidity to the lottery than a surety bond.

We have used these forms of security when we believe them to best protect the public's assets. While our enabling legislation is explicit in authorizing the lottery to use

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surety bonds, it does not presently provide explicit authority for us to use letters of credit and cash in escrow in lieu of a bond. Therefore we are requesting this change to make it clear that using these forms of credit to protect the State's asset is authorized and in the State's best interest.

As you know, the Connecticut Lottery Corporation is a quasi public state agency. Our mission statement begins with the primary goal of raising revenue in an entrepreneurial manner for the State of Connecticut. An important part of being entrepreneurial is being business friendly. Being flexible on the types of security that the Connecticut Lottery Corporation requires is also one easy way that the Connecticut Lottery Corporation can help our retailer -- retail partners achieve their business needs and, in some instances, even reduce their costs.

Bond premiums today can be very costly so letters of credit or a cash escrow agreement are sometimes financially beneficial to our retailers. Over 2,000 of our approximately 2700 retailers are small businesses and in this economy every dollar matters.

This business friendly bill would clarify our current statutes and codify existing practice. We have shared this proposal with our regulator. We hope you will help the Connecticut Lottery Corporation help our retail partners and help the State of Connecticut. Thank you for your time and attention. And we're happy to answer any questions you may have.

SENATOR DUFF: Thank you.

Representative Alberts.

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REP. ALBERTS: Thank you, Mr. Chairman.

And thank you, Chelsea for your testimony.
When the lottery commission requires a bond in
today's world, do you know what the face value
of that bond is?

CHELSEA TURNER: They generally start at \$15,000.

REP. ALBERTS: Okay. And then they -- and they
vary probably by the anticipated volume of
activity that you might be looking at?

CHELSEA TURNER: It depends on the credit. It
depends on if it's a chain store. So for --
if it's a blanket bond policy that would, you
know, bond for multiple stores or if it's an
individual small store.

REP. ALBERTS: Okay.

CHELSEA TURNER: So it depends on a variety of
factors.

REP. ALBERTS: In the research, do you know what it
costs right now for something like that for a
surety bond to be issued for someone at that
level?

CHELSEA TURNER: I'm going to let Lana speak to
that. She might know -- we can find out for
you. But one of the things I do know is that
the bond premium can often exceed \$15,000.
So, sometimes -- sometimes the cash escrow
agreement is actually even cheaper than the
bond premium amount.

REP. ALBERTS: Right.

CHELSEA TURNER: And that's one of the reasons
we're seeking this change.

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REP. ALBERTS: I -- and that's why I was asking because I think that one of the points you do mention here it's not -- it's not emphasized enough, is the cost of it. Because for a letter of credit commonly the practice is to charge about 2 percent of the fact amount. So, something in the order of a \$15,000 amount might end up costing \$300.

CHELSEA TURNER: Right.

REP. ALBERTS: Maybe something di minimus maybe \$500. But certainly nothing to what, you know, right now may be paid. So, I -- I think this -- this bill has proposed has a lot of merit. So, thank you for your testimony.

CHELSEA TURNER: Thank you.

REP. ALBERTS: Thank you, Mr. Chairman.

REP. TONG: Thank you, Representative.

Anybody else?

Thank you.

CHELSEA TURNER: Thank you.

REP. TONG: Is Senator Musto here yet?

Okay. We will move to the public portion of our hearing now. Denis Caron.

Good afternoon.

DENIS CARON: Good afternoon, Senator Duff, Representative Tong. I'm here to speak in opposition to Senate Bill 159, AN ACT CONCERNING THE REPEAL OF THE PROVISION AUTHORIZING FORECLOSURE BY A HOLDER OF A NOTE

HB 5072



To: Senator Duff, Co- Chair
Representative Tong, Co-Chair
Senator Frantz, Ranking Member
Representative Alberts, Ranking Member
& other distinguished members of the Banks Committee

From: Anne M. Noble, President and CEO, Connecticut Lottery Corporation
860-713-2816, anne.noble@ctlottery.org



Re: Support for HB 5182: AAC a Technical Change Regarding the Financial Security of Lottery Sales Agents

Date: March 6, 2012

Good afternoon Co-Chairs Duff and Tong, Ranking Members Frantz and Alberts, and other distinguished members of the Banks Committee. My name is Anne M. Noble, and I am the President and CEO of the Connecticut Lottery Corporation. To my right is Lana Glovach, our General Counsel. We are pleased to be here today in support of House Bill 5182, An Act Concerning a Technical Change Regarding the Financial Security of Lottery Sales Agents.

Under CGS § 12-813(c), the President of the CT Lottery has the authority to impose surety bonds on our lottery retailers. Surety bonds are used to ensure the Lottery will be paid for any monies owed in the event a retailer encounters financial difficulty. Surety bonds may be required at the time of the initial application to become a lottery retailer or at a later date after our business relationship has already been established. Customarily, bond requirements occur as a result of poor credit history, failure to make timely payments or other issues that could affect the ability of the Lottery to collect monies owed.

As you may be aware, a surety bond is a three party instrument by which one party (the surety) agrees to perform a second party's obligations (the retailer) to a third party (the Lottery). The surety's obligation to pay the third party is conditioned on the second party's failure to perform and, for this reason, sureties "stand in the shoes" of the second party, meaning that the surety has not only its own defenses to a claim but the second party's defenses as well. If a retailer with a surety bond defaults, the claim process is often lengthy while the surety communicates with the second party and attempts to determine if there are any defenses. As a result, payment is generally not prompt.

In addition to surety bonds, there are other forms of security in the marketplace to protect the Lottery from a retailer's default in payment, including letters of credit and cash escrow agreements. First, in regards to letters of credit, there are various types but essentially a letter of credit is a two party instrument between the issuer (a bank or other financial institution) and the beneficiary (in this case, the Lottery). Unlike the surety bond, the bank has the primary payment obligation, without regard to the underlying contract between the Lottery and its retailer. Usually, letters of credit can be structured so that payment is prompt.

Further, in regards to a cash escrow arrangement, the retailer provides the Lottery with cash, which the Lottery holds as security under the terms of a written agreement between the Lottery and the retailer, and in these instances, payment is normally prompt.

While all of these forms of security have advantages and disadvantages, both a letter of credit and cash escrow typically provide greater protection and quicker liquidity to the Lottery than a surety bond. We have used these forms of security when we believed them to best protect the public's assets.

While our enabling legislation is explicit in authorizing the Lottery to use surety bonds, it does not presently provide explicit authority for us to use letters of credit and cash in escrow in lieu of a bond. Therefore, we are requesting this change to make it clear that using these forms of credit to protect the state's assets is authorized and in the state's best interests.

As you know, the CT Lottery Corporation is a quasi public state agency. Our mission statement beings with the primary goal of "rais[ing] revenue in an entrepreneurial manner for the State of Connecticut." An important part of being entrepreneurial is being business friendly. Being flexible on the type of security that the CT Lottery Corporation requires is also one easy way the CT Lottery Corporation can help our retail partners achieve their business needs and, in some instances, reduce their costs. Bond premiums today can be very costly so letters of credit or a cash escrow agreement are sometimes financially beneficial. Over 2000 of our approximately 2700 retailers are small businesses, and in this economy, every dollar counts.

This business friendly bill would clarify our current statutes and codify existing practice. We have shared this proposal with our regulator, the Department of Consumer Protection, and they have not indicated any concerns. We hope you will help the CT Lottery Corporation help our retail partners help the state of Connecticut.

Thank you for your time and attention and we are happy to answer any questions you may have.

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GENERAL ASSEMBLY
HOUSE**

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Clerk will prepare the tally.

Representative Fritz, for what reason do you stand?

REP. FRITZ (90th):

Thank you, Madam Speaker.

In the affirmative, please.

DEPUTY SPEAKER KIRKLEY-BEY:

Please cast a vote in the affirmative for Representative Fritz.

The Clerk will announce the tally.

THE CLERK:

House Bill 5279 as amended by House "A."

Total number voting	147
Necessary for adoption	74
Those voting Yea	147
Those voting Nay	0
Those absent and not voting	4

DEPUTY SPEAKER KIRKLEY-BEY:

The bill as amended passed.

Will the Clerk please call Calendar Number 141.

THE CLERK:

On page 39, Calendar 141, Substitute for House Bill Number 5182, AN ACT CONCERNING A CHANGE REGARDING THE FINANCIAL SECURITY OF LOTTERY SALES AGENTS,

favorable report by the Committee on Public Safety.

DEPUTY SPEAKER KIRKLEY-BEY:

Representative Tong, you have the floor, sir.

REP. TONG (147th):

Good afternoon, Madam Speaker.

I move acceptance of the Joint Committee's favorable report and passage of the bill.

DEPUTY SPEAKER KIRKLEY-BEY:

The motion is adoption of the favorable report and passage of the bill.

REP. TONG (147th):

Thank you, Madam Speaker.

This bill very simply expands the nature of security that the lottery corporation may accept from lottery sales agents, the small businesses that sell lottery tickets.

It expands from just requiring security bonds to other forms of security, like lines of credit, provides a lottery corporation with more flexibility and the small businesses of our state that sell lottery tickets more flexibility in providing that security. And I urge passage of the bill.

Thank you, Madam Speaker.

DEPUTY SPEAKER KIRKLEY-BEY:

Will you remark? Will you remark further on this bill?

Representative Alberts.

REP. ALBERTS (50th):

Thank you. Thank you, Madam Speaker.

I too rise in support of this bill. It is, as the chairman has outlined, a very good bill. It provides additional forms of security for the Connecticut Lottery Corporation to have in terms of making it available to its agents. So I urge my members to support the bill.

Thank you.

DEPUTY SPEAKER KIRKLEY-BEY:

Thank you, Representative.

Representative Fritz, your button is still pushed. Did you want to remark on this? I don't think so.

Will you remark further of the bill that is before us? Will you remark further of the bill that is before us? If not, staff and guests please come to the well. Members take your seats. The machine will be opened.

THE CLERK:

The House of Representatives is voting by roll

call. Members to the Chamber. The House is taking a roll call vote. Members to the Chamber, please.

DEPUTY SPEAKER KIRKLEY-BEY:

Have all members voted? Have all members voted? Please check the board to see your vote has been properly cast. The machine will be locked.

Once again, have all members voted? Please check the board to see your vote has been properly cast. The machine will be locked. And the Clerk will prepare the tally. The Clerk will announce the tally.

THE CLERK:

House Bill 5182.

Total number voting	147
Necessary for adoption	74
Those voting Yea	147
Those voting Nay	0
Those absent and not voting	4

DEPUTY SPEAKER KIRKLEY-BEY:

The bill is adopted.

Are there any announcements or points of personal privilege?

Representative Morris.

REP. MORRIS (140th):

Thank you, Madam Speaker.

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**CONNECTICUT
GENERAL ASSEMBLY
SENATE**

**PROCEEDINGS
2012**

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1961 - 2275**

mhr/gbr
SENATE

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May 1, 2012

Is there objection? Seeing none, so ordered.

SENATOR LOONEY:

Thank you, Mr. President.

Mr. President, Calendar Page 13, Calendar 5 --
Calendar Page 13, Calendar 367, House Bill 5150, move
to place the item on the Consent Calendar.

THE CHAIR:

Without objection, so ordered.

SENATOR LOONEY:

Thank you, Mr. President.

Also Calendar Page 13, Mr. President, Calendar 368,
House Bill 5182, move to place on the Consent
Calendar.

THE CHAIR:

Without objection, so ordered.

SENATOR LOONEY:

Thank you, Mr. President.

Continuing on Calendar Page 13, Calendar 371, House
Bill 5314, move to place the item on the Consent
Calendar.

THE CHAIR:

Without objection, so ordered.

SENATOR LOONEY:

Thank you, Mr. President.

Mr. President, Calendar Page 14, Calendar 372, House
Bill 5329, move to place on the Consent Calendar.

THE CHAIR:

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THE CHAIR:

Without objection, so ordered.

SENATOR LOONEY:

Thank you, Mr. President.

Mr. President, would now ask the Clerk to read the items on the Consent Calendar and then if we might move to an immediate vote on that Consent Calendar.

THE CHAIR:

Would the Clerk please identify those items placed on our Consent Calendar?

THE CLERK:

On page 6, Calendar 241, House Bill 5315; page 12, Calendar 366, House Bill Number 5124; page 13, Calendar 367, House Bill Number 5150. Also on page 13, Calendar 368, House Bill Number 5182; on page 13, Calendar 371, House Bill Number 5314; on page 14, Calendar 372, House Bill Number 5329; and, on page 15, Calendar 379, House Bill Number 5364.

THE CHAIR:

Those items, having been identified as our Consent Calendar, the machine will be open, and Senator -- Senators may cast their vote.

Clerk, please make the announcement.

THE CLERK:

Immediate roll call has been ordered in the Senate.
Senators please return to the Chamber. Immediate roll call has been ordered in the Senate.

THE CHAIR:

Have all Senators voted? Have all Senators voted?
Please check the board to make certain that your vote

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is properly recorded. If all Senators have voted, the machine will be locked.

Mr. Clerk, please take a tally.

THE CLERK:

On today's Consent Calendar.

Total number Voting	34
Necessary for Passage	18
Those voting Yea	34
Those voting Nay	0
Absent, not voting	2

THE CHAIR:

Consent Calendar is passed.

Are there any announcements or points of personal privilege? Are there any announcements or points of personal privilege?

Senator Gerratana.

SENATOR GERRATANA:

Thank you, Mr. President.

Mr. President, tomorrow there will be a Public Health Committee meeting outside the hall of the House at 10:30 a.m.; that's tomorrow, Wednesday, May 2nd.

Thank you, Mr. President.

THE CHAIR:

Thank you, madam.

Are there further announcements or points of personal privilege? Are there further announcements or points of personal privilege?