

House Judiciary Committee
Hearing on Gaming in Pennsylvania
Department of Revenue
Pennsylvania Lottery

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Overview of Presentation:

Thanks for inviting me here today to provide an historical perspective of the Pennsylvania Lottery. As requested, I will limit my remarks to Lottery games in Pennsylvania, as well as the United States. Let me begin by reviewing how we came to be.

Lottery Industry History:

Government run lotteries are not new. Their origins can be traced as far back as the Middle Ages.

Lotteries were held in England during the 17th century to build aqueducts and recover from wars.

In early Colonial America, lotteries flourished. In 1775, lotteries were authorized to raise money for the Colonial Army.

In the 1800s, lotteries helped build colleges such as Harvard, Yale and Princeton.

Up to and continuing through the Civil War, lotteries grew in popularity in the United States. However, it all came to an end as widespread fraud and corruption led to the banning of all US lotteries by the end of the 1800s.

It wasn't until 1964 that the citizens of New Hampshire voted to institute what we now refer to as the first modern U.S. lottery.

Today, there are 37 state-run lotteries, plus the District of Columbia. In addition, some states have joined forces to create multi-state lotteries -- the most successful being "Powerball."

Over the past twenty years, lottery games have evolved at a rapid pace. The old passive games -- where players matched pre-printed numbers to the lottery's numbers -- have given way to state-of-the-art computer generated games. A handful of the U. S. lotteries have also

moved to even faster paced games, like 5-minute Keno and video lottery terminals.

Today, there are basically five types of games offered by U. S. lotteries. They are:

- instant "scratch off" and break open pull tab games,
- daily three and four digit games,
- lotto and cash lotto games,
- keno and fast draw keno games, and
- video lottery terminal games.

In calendar year 1995, U. S. lotteries generated \$33 billion in sales, of which 35 percent was transferred to help fund a wide array of government programs.

Pennsylvania Lottery History:

The Pennsylvania Lottery was established in August of 1971. At that time, all Lottery proceeds were dedicated to providing property tax relief for the elderly.

The impetus for the creation of our lottery was basically twofold: First, there was a desire to provide tax relief for the elderly. Secondly, there was a belief that the Lottery would lead to a reduction in Pennsylvania's illegal numbers activity.

Pennsylvania Lottery Sales History:

On March 7, 1972, Pennsylvania sold its first lottery ticket. In 1975, we added instant "scratch off" games. Two years later, we launched our three digit game, the Daily Number. Our four digit game, Big 4, arrived in 1980. Finally, in 1982, we introduced lotto. Since then, every game introduction has been a variation of one of these games

In each of the fiscal years from FY 1974-75 through FY 1983-84, the Lottery experienced double digit sales increases. During that period, sales went from about \$100 million to more than \$1.2 billion.

By this time, the Lottery was funding property tax and rent rebates, free transit and shared rides, inflation dividends and prescriptions. Programs previously funded by the General Fund were also transferred to the Lottery Fund.

Then, starting in FY 1984-85, the balance in the Lottery Fund began to erode. We were paying out more than we were taking in. To complicate matters, sales leveled off, peaked in 1988-89, then declined for three straight years.

Preservation Efforts:

At that point, it was clear that actions needed to be taken to maintain and preserve the integrity of the Lottery Fund. Some of us may recall this period all too well. Fortunately, we did succeed in restoring solvency to the Fund. Here's how:

- Programs that were transferred from the General Fund to the Lottery Fund were returned;
- Programs, like the inflation dividend, were discontinued;
- Co-payments for the Shared Ride Program and the PACE programs were increased;
- The income eligibility limits for the PACE and Property Tax and Rent Rebate programs were frozen;
- The use of generic drugs was required in certain cases; and,
- The Lottery took steps to improve its marketing efforts.

Starting in FY 1991-92, the balance in the Lottery Fund began to improve and today, it is relatively stable. Our efforts to ensure its stability continue.

The Lottery's Mission:

Now, let's look briefly at what the Pennsylvania Lottery is all about. The Pennsylvania Lottery's mission is to sell lottery tickets in a manner consistent with the highest level of integrity and in such a manner as to maximize revenues available for funding programs benefitting older Pennsylvanians. We do this in a socially responsible fashion as befits our position as a division of state government.

Many parties have a stake in the outcome of our operations. They include older Pennsylvanians, retailers, players, vendors and suppliers, employees, formal policy makers, and citizens. In addition, many other parties serve as "watchdogs." They include the media, auditors, anti-gambling entities, unions, prospective vendors and suppliers, and competitors.

All of our actions are guided by basic principles that have served us well over the years: the value of people, technology, research, service and responsible management.

- We recognize that our success depends greatly on our ability to serve our customers.
- We strive to be recognized as an organization of the highest ethical standards.
- We strive for our customers' discretionary dollar, not every dollar.

The Lottery Organization:

Now let's look briefly at the Lottery organization. The Pennsylvania Lottery is not a commission. We are a bureau within the Department of Revenue. We report to the Secretary of Revenue, Bob Judge.

The Lottery currently has a staff of 185 employees, who report to five divisions: Marketing, Games Control, Administration, Security and Budget.

Our central office is in Middletown, and we have six field offices, which are located in Philadelphia, Wilkes-Barre, Harrisburg, Clearfield, Pittsburgh and Erie.

Our operating budget is about \$50 million, which includes advertising. The Lottery also relies heavily on the services of four major vendors who provide advertising, instant ticket printing, on-line hardware and software support and ticket deliveries.

We currently offer six on-line games and a wide variety of instant ticket games. Our on-line games include the Daily Number, Big 4, Wild Card Lotto, Keystone Jackpot and Cash 5. Our instant tickets include such games as Bonus Bingo and Win \$1,000 a Week For Life.

All of our on-line games cost \$1 per ticket, while the cost of instant tickets ranges between \$1 and \$5.

Lottery Retailers:

Today, our retail network consists of on-line retailers and 2,905 instant only retailers. One-half of our entire retail network is located in the Pittsburgh and Philadelphia areas.

There's one on-line terminal for every 2,775 Pennsylvanians, and one every 10 square miles. In Philadelphia, there's one terminal every 2 miles. In Clearfield, there's one every 40 miles.

We view our retailers as our business partners. They represent the front line of our operations. This year, they will earn more than \$80 million in commissions and bonuses for selling our products.

Lottery Players:

The average lottery player is 43 years old, married, has at least a high school education, is employed and has a household income in excess of \$30,000. The main reason that he plays is to win.

Lottery Programs:

Pennsylvania is the only state in the nation that targets all of its lottery proceeds to programs benefitting older Pennsylvanians.

The Pennsylvania Lottery raises the money for these programs. We do not administer the programs. Here's a list of the programs that we fund:

- PACE or the co-pay prescription drug plan. Under PACE, eligible persons pay only a small portion of their prescription cost.
- Property Tax and Rent Rebates. Here, eligible older Pennsylvanians qualify for grants up to \$500.
- Free or reduced fare mass transit rides during non-peak hours or weekends and holidays.
- Shared Rides, where the older Pennsylvanian pays a portion of the fare.
- Area Agency on Aging Programs, including in-home care, senior center activities and home delivered meals.

Again, if you would like more details on these programs, I suggest you contact those agencies responsible for administering these programs, or I will be happy to secure the information for you.

Current Sales:

This fiscal year, for the first time ever, our sales will exceed \$1.6 billion, placing us approximately 6th in overall sales among state-operated lotteries. About 54 percent of our total sales will come from our two daily numbers' games. The remaining sales will be split equally between our instant ticket games and our lotto-type games.

Where does each lottery sales dollar go? The answer to this question may help to explain how we differ from other forms of gaming.

- On average, 50 cents of each sales dollar goes back to the players in the form of prizes.
- 40 cents goes to programs which benefit older Pennsylvanians.
- 7 cents goes to retailers and vendors who sell and print our tickets.
- The Pennsylvania Lottery operates on about 3 cents of every sales dollar, making us one of the most efficiently run lotteries in the nation.

Lottery's Role in Our Current Environment:

I would like to conclude my remarks by making a few general statements concerning the Lottery's role in our current gaming environment.

We pass no judgment on whether or not gambling should be expanded in Pennsylvania, but we think it is essential that our Lottery be represented in such discussions. That's why we are grateful that you invited us here today.

Although we have much in common with the pari-mutuel industry in Pennsylvania and we stand together on many issues, it is important to note that lotteries are fundamentally different from casinos and to a lesser

extent pari-mutuels. Let me first list some of the things that we have in common:

- We are heavily regulated.
- We have all achieved a high degree of public trust.
- We all raise revenues for public programs.
- We all like to think that our games are entertaining.

Now, more importantly, let me point out how I think we differ:

- Casinos and pari-mutuels are privately owned. We are not. We are a public entity.
- Casinos and pari-mutuels are regulated from the outside. We are charged with the responsibility of regulating our own games, and are audited from a host of outside regulators.
- The pace of casino games is fast. Wagering on pari-mutuel races occurs at a slower pace. Our games, with the exception of instant games, are drawn just once a day. The pace of our Lottery games is slow.
- Finally, all of our arguments for existence are economically based. Casino's argument goes something like this: jobs, economic development and revenues. Pari-mutuel's argument is primarily jobs and economic development; tax revenues are not at the top of their list here in Pennsylvania. Our argument is primarily revenues. We generate funds for programs that benefit older Pennsylvanians.

Conclusion:

Pennsylvanians can be especially proud of their lottery. Since its inception in 1972, the Lottery has generated more than \$9 billion in benefits for older Pennsylvanians.

The Pennsylvania Lottery is working in our communities, reducing the high cost of prescription drugs, providing reduced fare and free public

transportation, easing the burden on homeowners and renters and supporting local senior citizen centers.

The Pennsylvania Lottery is also working to maintain its reputation as one of the most efficiently run organizations in the nation. Last fiscal year, we returned 97 cents of each sales dollar to the community in the form of benefits, prizes and retail commissions.

We have had our fair share of setbacks over the years, but for the most part the Lottery has been a solid success.

As we enter our 25th year -- our silver anniversary year -- we are faced with many challenges. How do we continue to grow sales in a responsible fashion? What role will we play in an expanding gaming environment? How will we meet the growing needs of those older Pennsylvanians who depend on the Lottery to maintain their quality of life? How will we respond to the ever changing marketplace?

Whatever the challenges, be assured that we are committed to face the future with confidence and integrity.

Thank you.