

SENATE COMMITTEE ON TRADE AND ECONOMIC DEVELOPMENT

January 20, 1999 Hearing Room B

3:00 p.m. Tapes 5 - 6

MEMBERS PRESENT: Sen. John Lim, Chair

Sen. Avel Gordly, Vice-Chair

Sen. Verne Duncan

Sen. Tony Corcoran

Sen. Bill Fisher

MEMBER EXCUSED:

STAFF PRESENT: Carol Rives, Administrator

Gary Roulier, Administrative Support

MEASURE/ISSUES HEARD: SB 255 Public Hearing and Work Session

SB 183 Public Hearing and Work Session

Overview of Oregon Lottery

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/#	Speaker	Comments
TAPE 5, A		
003	Chair Lim	Opens meeting at 3:12 p.m. and opens public hearing on SB 255.

SB 255 PUBLIC HEARING

014	Susan Browning	Administrator of Personal Tax and Compliance Division, Department of Revenue. Presents (EXHIBIT A) and testifies in support of SB 255 (page 1 of exhibit).
030	Chair Lim	Asks for clarification of what the bill accomplishes.
033	Browning	Clarifies that withholding applies only to individuals of state income tax on lottery prize payments of more than \$5,000. Adds that entities other than individuals, i.e., corporations, would still pay the tax through the estimated tax program.
045	Browning	States that the second issue addressed in SB 255 is the definition of net prizes, (page 1 of exhibit).
058	Chair Lim	Asks why the withholding is 8 percent.
060	Browning	Answers that 8 percent represents an average amount of income tax that the taxpayer would owe on the prize payment. Discusses with the Chair how adjustments would be made, the maximum income tax rate in Oregon (9 percent), and that only prizes in excess of \$5,000 would be subject to withholding.
084	Chair Lim	Asks if there have been any problems with collection in the past.
085	Browning	Answers that taxation of lottery prize payments was implemented in the 1997 Legislative Session, so it is still relatively new.
091	Sen. Fisher	Asks why the bill applies only to individuals, and not to partnerships, estates, trusts, etc. Discusses with Browning the differences of withholding tax for individuals versus the estimated tax program used by corporations, trusts, and partnerships.
167	Sen. Duncan	States that the Department of Revenue would have to change the form.
177	Sen. Fisher	States that it is a matter of fairness. Discusses with Browning whether there is federal income tax withheld on lottery winnings, whether this withholding applies to video poker winnings and to every lottery payment over \$5,000.
223	David Hooper	Public Affairs Manager, Oregon State Lottery. Points out that the largest video poker prize is \$600. Testifies in support of SB 255. Remarks that in the 14 year history of the lottery, of nearly 200 jackpot prizes claimed, only two were filed by corporations, partnerships, or trusts.

248	Chair Lim	Asks if this bill discriminates against individuals.
251	Browning	Responds that this is a service to the individual, to eliminate excessive tax burdens at the end of the year.
280	Chair Lim	Closes public hearing, and opens work session on SB 255.
<u>SB 255 WORK SESSION</u>		
284	Sen. Corcoran	MOTION: Moves SB 255 to the floor with a DO PASS recommendation.
289		VOTE: 5-0 AYE: In a roll call vote, all members present vote Aye.
	Chair	The motion CARRIES. SEN. CORCORAN will lead discussion on the floor.
312	Chair Lim	Closes work session and opens public hearing SB 183.
<u>SB 183 PUBLIC HEARING</u>		
320	Hooper	Presents (EXHIBIT B) and testifies in support of SB 183, (page 1 of exhibit).
375	Hooper	Continues testimony in support of SB 183. Remarks that during the validation process at the lottery retailer, there have been instances where the ticket was discarded or destroyed. Adds that SB 183 allows the Lottery Commission to create rules under which those prizes could be paid, as well as ensuring the security of the payment process.
417	Hooper	Describes the rule the Lottery envisions, which would include a background investigation by the Oregon State Police, holding the prize for a one-year period, and other safeguards.

TAPE 6, A

011	Sen. Duncan	Asks if any winners of large prizes have been affected by this problem.
012	Hooper	Responds that the Lottery currently has seven claims totaling \$7,700. Adds that the largest prize outstanding is \$1,500.
021	Sen. Corcoran	Asks if there would be a greater capacity for cheating under the provisions of SB 183.
024	Hooper	Responds that the Lottery has addressed the issue. Adds that the only case where this procedure would apply is when loss or damage takes place during the validation process, and the Lottery has an electronic record of that process.
041	Vice-Chair Gordly	Asks how the "by mail" redemption works.
047	Hooper	Responds that a winner can fill out a claim form and mail it in to the lottery. The lottery office validates the claim and pays the prize.
052	Vice-Chair Gordly	Asks whether the "by mail" redemption would be affected by SB 183.
061	Hooper	Responds that it would not have any impact.
068	Chair Lim	Notes that SB 183 is retroactive to 11/1/96.
071	Hooper	Responds that is correct. Adds that the retroactive date will allow the Lottery to pay outstanding claims.
074	Sen. Fisher	Commends the Lottery for correcting this oversight, and states his support for SB 183.
085	Chair Lim	Asks whether the legislature is allowed to make a law retroactive.
095	Hooper	Responds that the Lottery would probably not be allowed to impose a restriction retroactively.
098	Chair Lim	Closes public hearing, opens work session.

SB 183 WORK SESSION

101	Sen. Gordly	MOTION: Moves SB 183 to the floor with a DO PASS recommendation.
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VOTE: 5-0

AYE: In a roll call vote, all members present vote Aye.

Chair

The motion CARRIES.

SEN. FISHER will lead discussion on the floor.

117 Chair Lim Closes work session on SB 183, and opens informational meeting.

OVERVIEW OF OREGON LOTTERY

124 Hooper Remarks that the Lottery has addressed many issues in the last year regarding dominant use/dominant purpose and retail compensation. States that lottery revenues will be relatively flat in the current biennium and future biennia.

148 Vice-Chair Gordly Asks for written testimony.

153 Hooper Responds that he does not have written testimony, since he wanted to make himself available to the committee and did not know the committee's specific interests. Continues that the big change is that there are no forecasted beginning balances. There has been a significant drop in revenue available to the state due to passage of Ballot Measure 66, which allocates 15 percent of the lottery funds to state parks and salmon restoration projects.

185 Chair Lim Asks whether Ballot Measure 66 was for the recovery of salmon.

189 Hooper Explains Ballot Measure 66.

191 Chair Lim Asks for an explanation of the education endowment.

194 Hooper Explains that the endowment is an additional 15 percent of the lottery funds.

209 Sen. Fisher States that the legislature will probably try to back out some of general funds allocated.

211 Hooper Continues that new games, particularly line games, have been put on hold. Adds that the Lottery is working to enhance existing games.

243	Carol Rives	Administrator. Presents a letter from Sarah Gates (EXHIBIT C) which outlines lottery proceeds going to education
248	Chair Lim	Asks about advertising for lottery games.
251	Hooper	Responds that advertising is not allowed for video poker. Adds that the Commission will continue to advertise about problem gambling.
274	Duncan	States that past advertising using children was a problem.
281	Hooper	Responds that the advertising using children did raise many objections. Adds that the Commission decided that children will not be used in future advertising.
299	Vice-Chair Gordly	Asks if there have been any other changes in advertising policy during the interim.
304	Hooper	Responds that changes are not substantial, other than an emphasis on problem gambling.
314	Sen. Fisher	Asks about dominant use/dominant purpose.
321	Hooper	Responds that in 1994, the Lottery Commission adopted a rule that no more than 66.6 percent of total income of an establishment can come from lottery revenues. After a survey that showed that most establishments operated far below that percentage, the Commission lowered the threshold to 60 percent.
351	Sen. Corcoran	Asks for the correlation between earnings and the percentage paid to the lottery retailer.
368	Hooper	Responds that it varies widely.
371	Sen. Corcoran	Asks for percentages paid out to lottery sellers.
384	Hooper	Explains that video lottery retailers receive 35 percent of the first \$200,000 of net receipts (the amount remaining after payment of prizes), and 30 percent of any amount exceeding \$200,000. Remarks that after July 1, 1999, two additional tiers were added: sales in excess of \$400,000 would pay 25 percent and sales in excess of \$600,000 would pay 20 percent.
390	Sen. Corcoran	Asks for the percentage of retailers that exceed \$400,000 in total volume.

395	Hooper	Responds that only 15 percent of the lottery retailers would exceed \$400,000, and would therefore be affected by the additional two tiers.
401	Sen. Corcoran	Asks for the total number of lottery outlets.
407	Hooper	Responds that there are approximately 1,850 outlets.
409	Sen. Corcoran	Asks what the total compensation is for the video lottery businesses.
411	Hooper	Responds that the total compensation for the video lottery business in 1998 was approximately \$135 million.

TAPE 5, B

002	Sen. Corcoran	States that approximately \$20 million in revenue is taken in by businesses that are over the threshold of \$400,000. Adds that this revenue could have other uses.
011	Sen. Fisher	Asks for clarification of the percentages paid to retailers.
014	Hooper	Responds that the lower percentages paid for volumes exceeding \$400,000 do not apply retroactively to commissions already earned.
019	Sen. Fisher	States that he supports the idea that businesses are earning commissions rather than a larger percentage being taken by government.
032	Chair Lim	Asks about gambling habits.
036	Hooper	Responds that it is not his area.
042	Chair Lim	Asks if you can gamble using credit cards.
045	Hooper	Responds that all lottery sales are based on cash.
047	Chair Lim	Closes meeting at 4:12 p.m.

Submitted By, Reviewed By,

Gary Roulier, Carol Rives,

Administrative Support Administrator

EXHIBIT SUMMARY

A ñ Summary of SB 255, Susan Browning, 1 p

B ñ Summary of SB 183, David Hooper, 1 p

C ñ Letter, staff, 2 pp