

SENATE COMMITTEE ON TRADE AND ECONOMIC DEVELOPMENT

March 08, 1999 Hearing Room B

3:00 p.m. Tapes 30 - 31

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 117 Public Hearing

SB 118 Public Hearing

SB 573 Public Hearing

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 30, A		
004	Chair Lim	Opens meeting at 3:10 p.m. and opens public hearing on SB 117.
<u>SB 117 PUBLIC HEARING</u>		

012	Carol Rives	Administrator. Reviews SB 117 which limits commissions paid to lottery game retailers who sell tickets or shares in traditional state lottery games to 7% of retail price of tickets or shares.
025	Chris Lyons	Director, Oregon State Lottery. Presents (EXHIBIT A) and testifies in opposition to SB 117. Explains that her testimony will focus on the provision of the bill that brings the lower volume retailers up to a minimum commission rate of 7%.
063	Lyons	Notes that effective July 1, 1999, the Lottery will be increasing the commission rates paid to its traditional lottery game retailers. Remarks that under the new structure, 376 of the 2,300 retailers will be at a base rate of 5%. Adds that these are retailers with a low volume sales levels that do not equal the Lottery service costs of approximately \$500 per week.
096	Lyons	Emphasizes that these retailers' sales levels do not justify or support a higher commission rate. Concludes that the Lottery Commission is in the best position to determine the levels of compensation for the lottery retailers.

124	Chair Lim	Points out that it is a small number of retailers that do not meet the minimum of \$500 per week, and asks what percentage of total sales volume these retailers represent.
138	David Hooper	Public Affairs Manager, Oregon State Lottery. Responds that these retailers account for approximately \$9 million per year, or 3% of total sales.
141	Chair Lim	Remarks that the Lottery should be providing a service to the retailers. Adds that these small retailers continue to contract with the lottery merely to service their customers.
161	Lyons	Responds that it costs more to service these retailers than the state realizes in income, and the new commission schedule proposed in SB 117 would make the situation worse. Suggests that in the private sector these retailers would not even have a business relationship based on low sales volume.
200	Chair Lim	Notes that the higher volume retailers receive a lower percentage commission rate under the tiered structure. Discusses the use of video poker proceeds to cover the administrative costs of retailers with lower sales volume.
229	Lyons	Responds that the new commission rate going into effect on July 1, 1999, will result in an average of 2.5% raise in commissions. Notes that if video games were eliminated, administrative expense would approach the statutory limit of 16% for the traditional lottery games.
261	Sen. Fisher	Asks how a retailer would support the Lottery.

273	Hooper	Responds that the retailer would provide information about the products, dedicate counter space, display point-of-purchase advertising and provide good customer service.
285	Lyons	Adds that the commission structure is geared to reward the retailer for producing a higher volume of lottery sales.
308	Sen. Fisher	Asks if the retailer is allowed to advertise.
310	Lyons	Answers that the retailer is not able to advertise video poker, but there are no restrictions on advertising traditional lottery games.
323	Sen. Fisher	Remarks that there seems to be a contradiction between advertising lottery products and the concern about gambling.
330	Lyons	Responds that the Lottery Commission treats the products differently because it is video poker that causes most of the gambling addiction problems.
351	Vice-Chair Gordly	Asks whether the implementation of the commission structure proposed in SB 117 would cause the state to lose money and whether the Lottery Commission is opposed to SB 117.
371	Lyons	Answers that the Lottery Commission is opposed to SB 117.
377	Sen. Corcoran	Asks how much the increase in commissions will cost.
381	Lyons	Notes that the increase in commissions will cost approximately \$8 million annually.

TAPE 31, A

006	Sen. Corcoran	Notes that this increase in commissions would apparently cause a decrease of \$16 million per biennium in total lottery proceeds.
008	Lyons	Responds that the loss in revenue due to the higher average commissions on the traditional lottery games will be offset by decreases in the commissions paid on video games. Summarizes that there would be a \$3-4 million reduction in the lottery funds available for transfer.
019	Sen. Corcoran	Asks about the total commission paid on video games.
020	Lyons	Answers that the figure is approximately \$135 million a year. Adds that the

increased commissions on the traditional lottery games are expected to stimulate sales, which would contribute to an increase in the amount of funds available for transfer.

038	Chair Lim	Inquires whether the total would be a net gain or loss to the lottery.
040	Lyons	Responds that the increased commission rates will result in a net gain for the retailer and a net loss for the lottery.
046	Sen. Duncan	Asks about the amount of loss or gain.
048	Lyons	Responds that the overall effect would be a net loss to the state of \$3-4 million.
062	Chair Lim	Asks what the dollar amount of loss would be if the commission rate for the retailers with low sales volume is increased to 7%.
070	Hooper	Responds that the total amount would be approximately \$360,000 per biennium in additional costs.
081	Sen. Fisher	Asks if there is any "skill" involved in playing video games versus the traditional lottery games.
103	Lyons	Responds that video poker is a "perceived" game of skill, but the randomness of the game removes any "skill" aspect from the game.
132	Chair Lim	Closes the public hearing on SB 117 and opens a public hearing on SB 118.

SB 118 PUBLIC HEARING

143	Rives	Reviews the provisions of SB 118 which allocates 3% of net proceeds from video lottery games to counties for community mental health programs for treatment of emotional and behavioral problems related to gambling.
155	Rives	Summarizes a proposed amendment which allocates 1% of net lottery revenues, creates a Problem Gambling Treatment Fund, and authorizes the appointment of an advisory council to make recommendations concerning fund distribution, program standards and program evaluation.
170	Mike McCracken	Director, Association of Oregon Community Mental Health Programs. Presents (EXHIBIT B) , a conceptual amendment that provides technical updates to the proposed bill.

191	George Dunford	Statewide Budget Coordinator, Department of Administrative Services (DAS). Explains the conceptual amendment offered by DAS which is a modification of HB 2156.
238	Dunford	Explains that Section 1(2) provides for quarterly transfer of payments rather than annual (page 1 of the exhibit).
290	McCracken	Notes that the DAS conceptual amendments are designed to remove the evaluation, fiscal reporting and accountability, and administrative and other services from the proposed advisory council to a qualified program manager.
312	Dunford	Discusses reasons to authorize a program manager and outlines the program manager functions.
327	Vice-Chair Gordly	Asks if this would be a contract employee.
330	Dunford	Responds that it could be a contract employee. Notes that there are few qualified people to fill this position in Oregon or in the nation.
345	Sen. Fisher	Asks about the references to lottery payments.
350	Rives	Explains that specific language will be added to every bill dealing with allocation of lottery funds to ensure that existing obligations are not overlooked.
367	Vice-Chair Gordly	Asks if the bill is designed to compensate Mr. McCracken to act as program manager.
380	Dunford	Responds that is anticipated, but adds that it gives the advisory council the authority to contract with any qualified individual.
391	Vice-Chair Gordly	Remarks that she has concerns with the fact that no treatment facility exists for youths with gambling addiction disorders.

TAPE 30, B

002	McCracken	Emphasizes that the bill provides for oversight.
010	Chair Lim	Asks if the counties could do the job.
012	McCracken	Responds that the legislature authorized approximately \$9 million in 1991 for the treatment of gambling disorders. Adds that the distribution to the counties was declared unconstitutional by the Oregon Supreme Court in 1994 and required that the funds be returned to the state. Research indicated that approximately \$2 million was spent on gambling addiction programs and \$7 million for other purposes.

044	Sen. Duncan	Asks whether it was necessary to find and identify the money in order to have it returned to the state.
048	McCracken	Responds yes and adds that without proper oversight it is difficult to make the treatment programs effective. Notes that it is critical to set statewide standards and develop accountability.
075	Sen. Duncan	Asks about the allocation figures for 95-98.
080	McCracken	Answers that the \$9 million authorized by the legislature in 1991 is fully accounted for. Adds that the 95-97 and 98-20 allocations are for \$2 million a year.
092	Chair Lim	Asks why the distribution of monies was declared unconstitutional.
099	McCracken	Responds that distributions were made from funds reserved for administrative expenses of the Lottery Commission and the Supreme Court ruled that gambling treatment programs were not an administrative expense.
107	Chair Lim	Asks if the counties support the concept of a program manager.
110	McCracken	Responds that the counties acknowledge the need for a program manager and know they have to meet standards and performance targets.
143	Lyons	Comments that the Lottery Commission supports the concept of dedicating lottery proceeds to treat gambling addiction.
171	Chair Lim	Asks whether the amounts proposed in SB 118 would be enough to combat gambling addiction.
180	Lyons	Responds that the proposed funds are sufficient.
187	Sen. Duncan	Asks for the success rate for those entering treatment.
194	McCracken	Responds that 60% of those who complete treatment are successful in remaining abstinent from gambling.
211	Chair Lim	Closes SB 118 public hearing and opens public hearing on SB 573.

SB 573 PUBLIC HEARING

220	Rives	Summarizes SB 573 which requires the Director of the Oregon State Lottery to
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grant approval for sale of lottery tickets when a lottery game retailer purchases a place of business from another lottery game retailer.

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| 265 | Lyons | Presents (EXHIBIT C) and testifies in opposition to SB 573. Notes that background investigations of lottery game retailers are critical to ensure the security and integrity of the lottery. Adds that lottery contacts are not transferable. |
| 305 | Lyons | Explains the "Sale of business" rule adopted by the Oregon Lottery in 1996. Adds that this rule has minimized lost revenue for both the retailer and the state (page 1 of the exhibit). |
| 334 | Lyons | Outlines proposed efforts to streamline the application and approval process, including the use of temporary contracts (page 2 of the exhibit). |
| 369 | Vice-Chair Gordly | Asks about the implementation of the "temporary contract" and whether the Lottery was working to streamline this process prior to the introduction of SB 573. |
| 381 | Lyons | Responds that the streamlining process has been under study by both the lottery and the Oregon Liquor Control Commission (OLCC) for approximately six months. |
| 403 | Vice-Chair Gordly | Asks what language in Section 2 of SB 573 jeopardizes existing regulatory requirements. |

TAPE 31, B

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| 002 | Lyons | Responds that SB 573 directs the lottery commission to approve a contract and does not adequately address the importance of background checks. |
| 017 | Vice-Chair Gordly | Asks whether background checks are an existing requirement. |
| 021 | Lyons | Responds that the statutes require that information be disclosed but do not require that the investigation be complete prior to issuing the contract. |
| 029 | Chair Lim | Asks whether any losses have occurred. |
| 033 | Lyons | Responds that even with thorough background investigations the lottery suffers losses from retailers who take state money. |
| 044 | Chair Lim | Asks how much was lost in the last biennium. |

047	Lyons	Responds that she does not have the exact figures but is aware of instances where retailers have taken \$25-40,000.
056	Sen. Fisher	Asks about permission for background checks.
059	Lyons	Responds that the retailer contract requires self disclosure but there is no process to update files on an annual basis.
073	Sen. Fisher	Remarks that the annual update should be an investigation.
078	Lyons	Answers that the statute also requires an investigation of a "control person" employed by the lottery retailer, but the lottery does not have a system for annual investigations.
092	Sen. Fisher	Asks whether lottery retailers operate more than one business.
099	Lyons	Responds that many retailers have multiple locations.
103	Chair Lim	Asks what areas are investigated when doing a background check on a lottery retailer.
108	Lyons	Answers that the statute is clear in what is to be investigated. Adds that when the lottery was created there was particular concern regarding organized crime. Emphasizes that the retailers handle approximately \$1 billion in state money each year.
125	Chair Lim	Asks who conducts investigations for the Lottery Commission.
127	Lyons	Responds that the state police conduct the investigations under contract.
138	Chair Lim	Closes the public hearing and adjourns the meeting at 4:44 p.m.

Submitted By, Reviewed By,

Gary Roulier, Carol Rives,

Administrative Support Administrator

EXHIBIT SUMMARY

A ñ SB 117, written testimony, Chris Lyons, 5 pp

B ñ SB 118, conceptual amendments, George Dunford, 2 pp

C ñ SB 573, written testimony, Chris Lyons, 2 pp