

HOUSE COMMITTEE ON STATE AND FEDERAL AFFAIRS

January 21, 1991 Hearing Room E 8:30 a.m. Tapes 7 - 8
MEMBERS PRESENT: Rep. Bill Markham, Chair Rep. Larry Sowa, Vice-Chair
Rep. Marie Bell Rep. Mary Alice Ford Rep. Tom Novick Rep. Carolyn Oakley
MEMBER EXCUSED: Rep. Lonnie Roberts STAFF PRESENT: Randall Jones,
Committee Administrator Carolyn Cobb, Committee Assistant MEASURES
CONSIDERED: None

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TAPE 7, SIDE A

003 CHAIR MARKHAM: Calls the meeting to order at 8:38 a.m.

006 CHAIR MARKHAM: Announces the committee members are invited to tour the Lottery Commission facilities after adjournment of the meeting.

011 JIM DAVEY, DIRECTOR, OREGON STATE LOTTERY - Gives history of the Oregon Lottery. - Research shows that 80% of the people of Oregon support the lottery as long as the money is going for a good purpose. - Reviews initial sales figures. - Lottery legislation says the lottery cannot spend more than 16% for operations, must pay out 50% of dollars in prizes, balance goes for economic development. - First few years the 16% limitation for operations was exceeded, but we have paid that back, plus the \$8 million received from the general fund to start up the lottery. - Went from generating about \$28 million in a low year to generating over \$50 million in each of the last three years. - Describes games currently being offered.

109 CHAIR MARKHAM: Will you go into other sports related games when football is House Committee on Stab and Federal Affairs January 21, 1991
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over? 111 DAVEY: Sales have been good in post-season play, will conclude with the Super Bowl. We were in basketball, but lottery players seem to prefer football. 126 REP. FORD: Please explain problems with sports action games. 128 DAVEY: In view of the amount of wagering done on professional sports across the country, we were surprised the leagues so vehemently opposed Oregon's game - Describes suit filed by the NBA. - Since basketball wagering was not successful anyway, we agreed with NBA not to continue the game for at least five years. - We are going to try to put something together with the Portland Trailblazers to support Oregon athletics. 168 REP. FORD: Did legal actions generate extra legal costs for the lottery? 174 DAVEY: So far legal fees are estimated to be about \$100,000 which will have to come out of our administrative costs. 185 CHAIR MARKHAM: Is the Sports Action game a pool within itself? 190 DAVEY: It is definitely a stand-alone game. If risk gets too high, we will devise some way to limit that risk. Even though some weeks, there may be more winners, so far it has balanced out without a problem. 201 REP. NOVICK: Sports Action money supposed to go to athletics, how does that work? 205 DAVEY: The law provides that Sports Action money goes to meet any short-fall in the other games first, then goes to support athletics. There is a major problem with the public understanding why this is happening. It would help if law was changed to dedicate the money to athletics. 226 REP. NOVICK: How much money has

actually gone to athletics? 228 DAVEY: About \$457,000. 236 REP.
OAKLEY: Is there any possibility those dollars might be returned to
athletic departments if the other lottery revenues improve? 243 DAVEY:
Yes, that was the provision in the bill that if we ever exceed the
forecast, that money will be paid back. 262 REP. BELL: Many citizens
have told me they have always thought the lottery supported education.
Have you had any thought of changing direction toward education? 276
DAVEY: I don't know why people concluded that. - It would take a change
in the constitution to rededicate the funds.

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- Substantial money has gone for education such as for new buildings at
higher education institutions. - Dedication of lottery funds to
education before measure 5 would not have caused people to see a
significant, if any, drop in their property taxes. - There is a question
as to whether it has really helped education in other states. 332 REP.
BELL: Community Colleges cannot really expand on the budgets they have
to help displaced workers. 342 DAVEY: Governors recommended budget has
several million dollars of lottery money to the community colleges.
365 DAVEY: Throughout the country, in the last 12 to 18 months,
lottery sales were flattening out and many were declining. - Last year
Oregon had a five percent increase in sales, California and Washington
had about a five percent decrease in sales. This fiscal year Oregon
sales are off about nine percent. - Public is looking for larger prizes.
Are considering some new games to promote sales, although there are not
a lot of new games on the horizon. 412 REP. BELL: Don't you think a
change in direction, if that was used as part of the media advertising,
would make a big difference in sales? 423 DAVEY: Most players play to
win something, so we are concentrating on reinforcing winning. They do
play for the fun and excitement and the benefits of the game. If you
have something you can focus the benefit, its a lot easier for us to
make games that will target the benefit. 435 REP. FORD: How do you
select the placement of the machines? TAPE 8, SIDE A 024 DAVEY: We want
locations that will be a good deal for both the lottery and merchant. We
try to work with any store that is not achieving profitable results. 046
REP. FORD: What ongoing costs are involved? 043 DAVEY: Each location
costs averages of cost of about \$60 per month depending on how far they
are from Salem. There is about a \$5,000 investment in each terminal. 060
CHAIR MARKHAM: How many machines a month do you pull that are not
making it? 063 DAVEY: I haven't seen any letters for a long time on
pulling terminals. 071 REP. BELL: Have you considered giving the
merchants the option of sharing more of the cost in order to keep the
terminal?

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072 DAVEY: We haven't. We may want to do that.

081 CHAIR MARKHAM: They could still offer the other games even if they
lost the terminal?

082 DAVEY: Yes, we don't have the major investment we have in the on-line games. The glamour games are the big lotto games, so that is what they want to have.

087 CHAIR MARKHAM: Please outline your hierarchy, how many people you employ, etc.

089 DAVEY: We are governed by a five member commission appointed by the governor and confirmed by the senate. - We have a director appointed by the governor, confirmed by the senate. - We have approximately 120 employees all over the state. - Kiosks are being set up in the major shopping malls in the state.

121 REP. BELL: Could you comment about video poker in the state of Oregon? 126 DAVEY: We estimate Oregon has 5,000 to 6,000 video poker machines which are legal for amusement purposes only, not to gamble on. It is estimated that there is gambling going on with about \$100 million a year left in the machines for the operators and proprietors of those games to split. In South Dakota has generated far greater sales than lottery has in Oregon. We do have the authority to implement that type of game, but we get such a negative reaction from local government because it is not a traditional lottery game. 157 REP. BELL: Do we need a whole new agency just to check out those games? 163 DAVEY: The way to make it work is to make existing games illegal and put in new games that can be monitored by a central computer. 189 REP. FORD: Why doesn't local government like them? 197 DAVEY: It costs a lot to investigate illegal machines.

207 BILL JOHNSON, ASSISTANT DIRECTOR FOR SECURITY, OREGON STATE LOTTERY: Making the machines illegal would save investigative costs, although the constraints of Ballot Measure 5 would limit manpower available to seize illegal machines. 249 REP. BELL: How do you make the estimates of illegal payoffs? 252 DAVEY: By the arithmetic of average payoff times number of machines in the state. - It is a more addictive form of gambling. - More money can be lost very quickly. 290 REP. BELL: How fair is it for the state to take over profitable types of games? . . . These minutes contain materials which paraphrase and/or summarize datemenb made during this resrion. Only text enclolled in quotation marke report a speaker's exact words. For complete contents of the proceedinga, please refer to the bpea. - House Committee on State and Federal Affairs January 21, 1991- Page 5

302 DAVEY: Look at it as an enterprise the state taxes.

381 CHAIR MARKHAM: Have you had any problems with security in first few years?

385 JOHNSON: No sir, we have an excellent reputation nationwide.

405 DAVEY: Questions arise about why lottery tickets are not printed in Oregon. Only three or four printing plants in the country are capable of printing this type of ticket. They are generally located in states with high sales. We do try to do business with Oregon vendors whenever we can.

Submitted by: Reviewed by: Carolyn Cobb Randall Jones
Assistant Administrator

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