

HB 2086 – Veteran-Themed Lottery Games Bill
House Committee on Veterans Services and Emergency Preparedness
Testimony

April 29, 2013

Co-Chair Johnson, Co-Chair Jenson and Committee members, for the record, my name is Larry Niswender. I am the Director of the Oregon Lottery. I am here today to briefly comment on HB 2086. The Lottery is not taking a position on the bill.

Since I have already provided policy-related testimony on both the original bill and the -2 amendments adopted by the House Committee on Veterans Services and Emergency Preparedness, I will be very brief -- focusing on the fiscal and revenue related issues -- and plan to address any additional questions the Committee may have for the Lottery.

This bill:

1. Directs the Lottery to establish a new Lottery Raffle game, or to re-theme an existing Raffle game, and dedicate the proceeds to benefit veteran's education and economic development;
2. Creates a new fund, the Veteran's Lottery Fund;
3. Requires the Lottery Commission to certify the net proceeds from that Raffle game to the Joint Committee on Ways and Means;
4. Requires the Legislative Assembly to allocate the net proceeds from this veteran-themed game to that Fund; and
5. Continuously appropriates moneys in that Fund to the Department of Veterans Affairs for educating, training, and creating jobs for veterans and otherwise furthering economic development related to veterans.

Fiscal Impact-Related Testimony:

- **New Potential Fiscal/Revenue Issue:** As worded, the bill appears to only require the Lottery to establish a raffle game or re-theme an existing raffle game and dedicate the proceeds. It appears to be a one-time event, not an on-going annual event. If the intent is for this to occur more than once (i.e. annually), then the bill appears to require revision. If the intent is this to be a one-time event, then the net proceeds from one raffle are estimated to be \$1.2 million; however, if the intent is for one game to occur annually, then the biennial proceeds would be \$2.4 million.

- **Any Increased Lottery Operational Expense Will Reduce Transfers to the State:** To the extent that this new effort would cause Lottery operational expenses to increase, it will correspondingly reduce the total amount transferred to the Economic Development Fund. However, if Lottery simply repurposes an existing Raffle game (either for one time or annually), then the Lottery most likely would not incur any additional costs.
- **Effectively Will Redirect Existing Lottery Net Proceeds Away From Current Recipients:** Without increased Lottery effort, the Lottery would simply be redirecting its current activities away from existing Lottery games and from its existing ability to produce net Lottery proceeds for already established constitutionally, statutorily, and legislatively approved expenditure categories.
- **Lottery Believes it is Already at Capacity for the Number of Raffle Tickets Produced Annually:** The Lottery currently develops and implements and offers two Raffle drawings a year. (For perspective, in fiscal year 2011, for the two Raffles, a total of \$2.4 million was transferred - \$1.2 million per drawing).
- Based on historical sales trends, experiences of other lotteries, Lottery's staffing levels, and Lottery's sales and marketing plans, it is not likely or recommended that Lottery will increase the number of Raffles it offers. When the Oregon Lottery offered more than two Raffles per year, it observed player fatigue, including longer sell through rates. The Lottery is aware that in other states where there were too many raffles, the sales dropped so much these lotteries discontinued their raffle games entirely. At the Oregon Lottery, because of the costs to produce each game and the increasing need for net proceeds to be transferred to the economic development fund, there is considerable pressure to reduce the number of these products launched each year, while looking for ways to increase profitability of these games overall.
- **Summary:** The analysis assumes that Lottery implements a single veteran-themed Raffle game or re-themes an existing Raffle game and dedicates the proceeds. Lottery does not expect an overall increase in sales due to the veteran-theming or dedication of net proceeds from such a Raffle. As such, the most likely scenario to result from the requirement to offer such a game simply transfers a portion of

unobligated and not currently constitutionally or statutorily dedicated revenues towards veteran's education and economic development and away from other biennially established spending priorities of the Legislature.

Background Information on Policy Issues:

Success of Games: Some state lotteries have had success with veteran-themed games, many have not. A nearby state where it has not been successful is Washington, where the legislature specified the start and end dates for a raffle sale. It is my understanding that the tickets did not sell out. Of other nearby states, Arizona, California, and Idaho have not offered a veteran-themed game. Montana has offered two veteran-themed games. The first ticket did well but the second did not and in hindsight if Montana had it to do over again, it would not have printed the second ticket. Of the 43 US lotteries, from our quick research, we are aware of only two states (West Virginia and Illinois) where there appears to be a legal requirement or expectation that the lottery offer veteran-themed Scratch-it games on an on-going basis.

Lottery's research shows that in West Virginia, \$10.27 million from 18 separate veteran-themed games has been transferred since 2001 (12 years) and in Illinois more than \$10.0 million has been transferred since 2006 (6 years).

- West Virginia has one of the highest populations of veterans in the country, with strong veteran support. It offers 2-3 veteran-themed Scratch-it games per year. Over time, the novelty of these tickets has faded and it has been a challenge to maintain interest in these games. If West Virginia had it to do over again, it would have pushed for setting aside a fixed amount to be moved from the Veteran's Fund to provide a steady amount to this cause each year. Offering these games has opened the floodgate for various other special interest groups to come forward asking for dedicated funds for their cause. It has become an ongoing issue that the West Virginia Lottery and its Legislature address each year.
- Illinois has legislatively been required to offer different games for funding veteran causes along with games earmarked for funding services related to cancer, HIV, and MS. Across

these categories, veteran's games have been the most visible and anticipated each year. However, sales for these veteran's games experienced a decline when games reflecting other causes were released.

Unpredictable Net Proceeds: Certain traditional lottery games (Scratch-it tickets and raffle games) the Lottery offers that would be most likely to fit the HB 2086 description do not always generate significant net proceeds. Furthermore, the amount of net proceeds depends, in large part, on sales levels (popularity with players) and the timing of top prize awards (random chance). As such, game-by-game dedication of net proceeds (as set forth in this bill) would not necessarily provide a predictable revenue stream for veteran education, training, and job creation benefits. In order to have predictability of revenue, it may work better to utilize the established method of allocating Lottery proceeds (through the biennial Lottery Allocation Budget Bill to various recipients based on Governor and Legislative Leadership plans/agreements).

Significant Policy Change: The dedication of specific Lottery game revenues for specific good causes, such as veteran education, training, and job creation is a significant policy decision change for the State of Oregon for several key reasons.

- First, once you decide that one cause is worth supporting in this manner, what criteria would the policy makers apply going forward to further dedicate game revenue? Other causes that may be deemed similarly worthy could be falling in line soon.
- Second, the more that Lottery game revenues become dedicated for specific causes, the less that remains available for existing Governor/Legislature priority uses (K-12 education, natural resources, economic development, debt service for lottery back bonds, etc...). At this time, decisions around how Lottery proceeds will be used (beyond those constitutionally dedicated) are made by the Governor and Legislature, taking into consideration the unique fiscal/revenue constraints on Lottery revenues.

This concludes my prepared testimony on this bill. If you have any questions, I would be happy to address them.