

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL & STATE AFFAIRS

The meeting was called to order by CHAIRMAN MILLER at \_\_\_\_\_  
Chairperson

1:30 a.m./p.m. on January 15, 1987 in room 526S of the Capitol.

All members were present except:  
Representatives Grotewiel, Sifers & Hensley - E

Committee staff present:  
Lynda Hutfles, Secretary  
Mary Galligan, Research

Conferees appearing before the committee:  
Harley Duncan, Department of Revenue  
Pat Hurley, GTECH  
Chuck Wright, I Love Kansas  
Reverend Richard Taylor, Kansan's For Life at It's Best  
Tom Kelly, KBI

The meeting was called to order by Chairman Miller.

Representative Sughrue made a motion, seconded by Representative Aylward, to approve the minutes of the January 13 & 14 meeting. The motion carried.

HB2043 - Lottery

Harley Duncan, Secretary of Revenue, continued to explain the bill. There was discussion as to why interest was to be carried back to the Lottery Operating Fund instead of the State General Fund. Mr. Duncan explained the lottery would be operating as a business with this money, and this is their cash flow and the business should be able to use it however it chooses. When asked why a sales tax was not attached to the sale of lottery tickets, Secretary Duncan said that sales tax was not added because of the playing public convenience. Sales tax might impede player and fewer tickets might be sold. Dan Wolstrom, Department of Revenue, said that Iowa is the only state who has sales tax on lottery tickets.

There was discussion as to whether there was a way that names of winners could be made available to Revenue, SRS, etc., in order to withhold any monies that might be owed to the state before giving the winner his prize. It was thought California has a set off whereby back taxes and unpaid child support is paid before the prize is paid out.

There was a question of who would be paying the salary of the assistant attorney general authorized in the bill. The intent is that the salary would come out of the lottery fund. Secretary Duncan had no problem including specifics in the bill.

Pat Hurley, GTECH, gave testimony in support of the bill. Mr. Hurley explained that GTECH is a high tech company dedicated to the public gaming industry. It's business is the design, production, supply and operation of computer based on-line lottery systems for governments and government licensed organizations. Mr. Hurley told the committee the issue must be given very careful handling, but at the same time must be handled expeditiously. (See Attachment A)

Chuck Wright, State Chairman for I Love Kansas, presented the committee with some specific recommendations and changes in the bill. See attachment B.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL & STATE AFFAIRS  
room 526S, Statehouse, at 1:30 a.m./p.m. on January 15, 1987

In his testimony Mr. Wright stated that during the fall campaign, all major media in the state (radio, television and newspapers) were very outspoken in favor of the lottery. Committee members corrected Mr. Wright's statement saying newspapers, such as the Topeka Daily Capital, Salina and Wichita newspapers did not support lottery. Mr. Wright stood corrected.

Reverend Taylor, Kansan's for Life at Its Best, offered suggestions and questions on the lottery. See attachment C.

Tom Kelly, KBI, asked the committee to address line 257 of the bill. He said it was too vague. He feels the FBI will not do a fingerprint check without something in the statutes authorizing them to do so. Mr. Kelly felt there would be a problem with "in any other jurisdiction". Names are not sufficient to do an investigation. You need fingerprints for a positive check. Mr. Kelly said that if the bill is going to utilize the standard of felony arrest, it would be a waste of time to just do a Kansas check.

The Chairman announced the conclusion of this part of the lottery hearings. The death penalty will be taken up next week and if there is sufficient interest in reopening hearings on the lottery, he would do so. If not, there would be no further hearings.

The meeting was adjourned.

TESTIMONY OF  
GTECH CORPORTION TO  
HOUSE COMMITTEE ON FEDERAL AND STATE AFFAIRS  
ON HB 2043 - LOTTERY ENABLING LEGISLATION  
JANUARY 15, 1987

PRESENTED BY  
PATRICK J. HURLEY

Mr. Chairman and Members of the Committee:

I am Patrick J. Hurley and I am appearing on behalf of GTECH Corporation. GTECH would like to express its appreciation for the opportunity to present these remarks today to your committee.

GTECH Corporation is a high-tech company dedicated to the public gaming industry. Its business is the design, production, supply and operation of computer based on-line lottery systems for governments and government licensed organizations. As a recognized leader in the implementation and operation of on-line lotteries, GTECH has installed 17 on-line lottery systems and manufactured and installed over 20,000 terminals worldwide, more than any other company.

GTECH also provides consulting services for gaming authorities and supplies and operates on-line totalisator systems for pari-mutuel wagering. Additionally, GTECH has developed advanced telecommunication systems and other products for both gaming and non-gaming applications which will ensure GTECH's continued major role in the future of the public gaming industry throughout the world.

As a quick illustration of the extensive involvement of GTECH in the lottery industry in the United States, GTECH has provided on-line lottery systems to the states of Rhode Island, Connecticut, New Jersey, Ohio, New York, California, Arizona, Oregon and the District of Columbia.

In Canada, GTECH has provided on-line lottery systems for the individual lotteries operated by each of the Canadian provinces and for the Canadian National Lottery.

In other parts of the world, GTECH Corporation has provided the on-line lottery system for lotteries operated in Australia, Sweden, Singapore, Iceland and Venezuela.

To put it in perspective, GTECH Corporation is the supplier to more than half of the world's on-line lottery jurisdictions.

As the Secretary of Revenue of the state of Kansas testified yesterday, it is not an understatement to say the lottery is a business and a gigantic business. In fact, based upon total lottery sales in calendar year 1986, if the lottery were a single industry it would be one of the largest industries in the United States. As you heard in Secretary Duncan's testimony, five more states approved the operations of state lotteries this past November and it is estimated that several more states will adopt lotteries in the next year or two.

GTECH, therefore, has a very real interest in the operation of the lottery in the state of Kansas and certainly intends to make

its strongest possible effort to become the on-line vendor providing lottery to this state. It is against this background that GTECH appears today expressing its support for the provisions contained in HB 2043. As Secretary Duncan testified in explaining the bill, it represents the work product of the Department of Revenue based upon full opportunity for input from all major vendors including GTECH Corporation. GTECH commends the Department of Revenue and expresses its public appreciation for the opportunity to have maximum input into an opportunity to review and comment on this proposed legislation.

GTECH does not take issue with any of the provisions of HB 2043 and has no amendments to the bill which we would recommend at this time.

GTECH would concur in the explanation of the bill given by Secretary Duncan in his underscoring of certain very important sections of the bill. In the opinion of GTECH Corporation, probably the most critical sections of any state lottery law are those that are designed to maximize the competition among vendors and yet at the same time provide the greatest flexibility to the state in choosing the best possible proposal for a state lottery. Other states have not spent nearly the time nor effort as has Kansas to this point in so carefully constructing enabling legislation. As a result, there have been other states which found themselves with limited competition or none at all when the bids were actually received due to unintended restrictions or impediments written into the laws of those states.

Kansas must avoid similar mistakes in the drafting of its enabling legislation, or it will be the state lottery which will suffer in the final analysis. The more restrictions or impediments that are built into a law, the more difficult it will be for the state to operate its lottery to generate the maximum revenues for the state.

GTECH believes that because of the months which the Kansas Department of Revenue has spent studying the laws of other states, visiting with officials in those states, and inviting input from the major companies, the legislature now has before it a very carefully written bill which is designed to avoid the mistakes made by some other states and which will ensure the best lottery operation which Kansas can undertake.

It would be the recommendation of GTECH Corporation that the advice of the Kansas Department of Revenue and lottery officials in other states continue to be sought before any radical changes are considered in this legislation.

It would further be the recommendation of GTECH Corporation that the legislation be handled as prudently and expeditiously as possible and enacted at the earliest possible date to allow Kansas to proceed with a lottery as quickly as possible.

As indicated earlier in our testimony, five more states will be seeking to implement their lotteries as expeditiously as they can in 1987. By the time the Kansas lottery is operational, it will be in direct competition with the instant games lottery in Colorado and both the instant game lottery and an on-line lottery in the state of Missouri. In addition, it is very possible by the end of 1987, Missouri and several other states in the midwest may be offering a multi-state lottery. It is also quite possible that in the near future the remaining border states of Nebraska and Oklahoma could be providing their own state lotteries.

In conclusion, it is therefore GTECH's recommendation that Kansas proceed with the enactment of this legislation as thoughtfully as it has handled this matter up to the current time. It is simply the position of GTECH Corporation that they would very much like to be the supplier of an on-line lottery to the state of Kansas. In order to do so, GTECH seeks only the opportunity to provide Kansas the best possible proposal under this law with the fullest opportunity to compete with any other vendor. If that opportunity is provided and guaranteed under this enabling legislation, it will be the state which will be the prime beneficiary.

GTECH thanks you for the opportunity to provide this testimony and would continue to make any of the representatives of GTECH Corporation available to the state to provide any information or resources that it can in this process of bringing a lottery to Kansas.

Chairman Miller and members of the House Federal and State Affairs Committee:

I am Chuck Wright, State chairman for I Love Kansas, Inc. I would like to present these comments on House Bill 2043:

On page 4, specifically under New Section 4, paragraph (e), "enter into written agreements with one or more other states for the operation, marketing and promotion of a joint lottery or joint lottery games and which conform to provisions of this act," our organization is categorically opposed to this.

It is our position that Kansas voters last November were asked to approve or disapprove a KANSAS lottery, not a regional one as this paragraph seems to propose. Kansas should conduct its own lottery, without any assistance from any other state, either written or oral, and most certainly not become involved in any activity which could be construed to be a regional or multi-state lottery.

On page 6 under New Section 5, paragraph (f), "engage an independent firm experienced in marketing research and analysis to periodically conduct an evaluation to determine the effectiveness of marketing, promotion and public information programs used by the Kansas lottery and make recommendations which will enhance such programs," we see no need whatsoever for this paragraph.

Our contention is that money in the lottery should not be spent to line the pockets of any person or firm "experienced" in marketing research and analysis, simply to enhance this program. It would seem to us that if lottery tickets were not selling as they should, the executive director and his staff, if they are qualified as they should be, could easily tell what is working and what is not working in conduction of the lottery. Why spend needed funds to achieve this purpose?

On page 10, under New Section 8, paragraph (h), "the amount and method of compensation to be paid to lottery retailers, including special bonuses and incentives, "we object strongly to ANY bonus and/or incentive being paid to ANY retailer of the lottery.

On page 14, New Section 12, should be deleted entirely. We compare this section to the "fox watching the chicken house." Our contention is that existing law enforcement officers in Kansas can be used, and certainly we do not feel comfortable with people roaming Kansas, carrying firearms at the will and pleasure of the executive director of lottery.

On page 15, under New Section 14, paragraph 2, "accept or agree to accept any economic opportunity, gift, loan, gratuity, special discount, favor, hospitality or service having an aggregate value of \$100 or more in any calendar year, etc." should be changed to a limit of \$25. I happen to be a licensed insurance agent in Kansas and as a licensed agent, I cannot give anything of value to anyone over \$25. Why should anyone connected with Kansas lottery be treated different.

The same would also apply to paragraph (b) under New Section 14, page 15.

On page 16, under New Section 17 paragraph (4), part (d) of that paragraph, "Nothing in this section shall prohibit lottery retailers or their employees from purchasing lottery tickets and shares or from being paid a prize of a winning ticket or share," we recommend this be stricken from the proposed law. Our reason for this being that a possibility would exist whereby those responsible for selling the lottery tickets might offer incentives to their employees to sell more lottery tickets. If the executive director of Kansas lottery and his staff cannot be allowed to participate in the lottery, we do not feel those retailing the tickets should either. Thus we propose you strike this proposal.

During the campaign last fall put before the voters, it was significant to note that all major media in the state, radio, television, and newspapers, were very outspoken in their favor of the lottery amendment. We honestly believe they did this because they saw an advertising windfall coming to them if the lottery amendment was approved by the voters.

We therefore would urge your boy to limit advertising of the lottery in Kansas to point-of-sale and direct mail only.

We have seen the Missouri lottery falsely advertising that "this message is no enducement but one of education only" or words to that effect. This is a complete farce, false advertising if you please, and we do not believe the Legislature should be a part of any such scheme in Kansas. By limiting advertising to point-of-sale and direct mail only, this would eliminate any possibility for falsification of facts.

Then too, direct mail lists are easily available on today's advertising market. By buying these lists, the lottery staff could pinpoint the market they want to reach, by age, sex, etc., and save a considerable amount of lottery money.

Mr. Chairman and members of the Committee, I thank you very much for allowing me to present these above remarks.

CHUCK WRIGHT

Chairman, I Love Kansas, Inc.



January 15, 1987, 1:30 p.m.  
House Federal and State Affairs Committee

Richard Taylor  
KANSANS FOR LIFE AT ITS BEST!

Questions and comments on House Bill 2043

(Line)

- 0063, 69, 96 - Are these salaries out of legislative appropriations or from lottery sales?
- 95 - New Sec. 4 (b) Strike all of (b) and substitute, "All employees of the Kansas lottery shall be informed in writing that their jobs may be terminated by the 1990 legislature."
- 144 - Strike all of New Sec 4 (e). The amendment says "the legislature may provide for a state-owned and operated lottery." The amendment does not call for a "joint lottery" with other states sharing in the operation.
- 210 - High and low odds are to be included in "printed promotional materials." Radio and TV are omitted from this provision. Lottery gambling promoters have always claimed this is a "voluntary tax." If so, why is so much pressure and intimidation needed through advertising? Maybe this is the proper place to include another sentence on line 0213. "Promotion of the lottery shall be permitted only through printed material and information."
- 261 - This brings a smile to everyone who is more concerned for the public good than they are for dollars in the pockets of lottery gambling promoters. Why are persons convicted of an illegal gambling activity prohibited from being a lottery retailer? Gambling has always been a major source of economic development revenue for organized crime. If Kansas lottery gambling promoters want to be really successful, they should hire these guys who have experience in the numbers racket rather than shut them out.
- 369 - Strike "including special bonuses and incentives." This is like a gun in your back and you voluntarily give your billfold. Attached are two pages from PUBLIC GAMING MAGAZINE Vol. XIII No. III. Lottery gambling promoters claim this is a voluntary tax. Let's make them honest by keeping it as "voluntary" as possible. Voluntary means available but not pressured and intimidated. Fewer consumer dollars gambled away on lottery tickets means more consumer dollars for merchants on main street.
- 372 - According to an Illinois Legislative Commission, gambling is "an activity criminal in nature." The Wall Street Journal states, "Gambling is technically a swindle." If organized crime figures do what lottery promoters do, they go to jail. Yet we are going to make a special case for gambling promoters with "provisions for confidentiality."
- 520 - Will lottery funds pay this salary?
- 533, 543, 569, 575 - Strike KNOWING. I'm told the word KNOWING makes the law unenforceable.

Secretary Duncan yesterday spoke the truth when he said this bill was drafted to satisfy lottery vendors.

Attachment C

- 601 - Strike "As nearly as practical." Mr. Duncan said California and Iowa were used in drafting this bill. I understand California requires this division:
- 50% Player prizes
  - 34% Revenue for the state
  - 16% Into pockets of lottery promoters

If lottery gambling is to benefit Kansas and not the gambling operators, then let us write into our law the same percentages as California or Colorado where I understand it is 50% player prizes, 35% for the state, and 15% for lottery promoters. Or better yet, do what Missouri requires where it is 45% player prizes, 45% for the state, and 10% for the gambling promoters.

- 632 - Change to read that all lottery sales shall be subject to retailer's sales taxes. Lottery promoters tell us \$100 million consumer dollars will be spent on the lottery. This would bring in \$4 million for the state in sales taxes. If lottery gambling is a revenue measure, let us be honest and make it that.

- 663, 664, 665 - Persons who love truth and honesty and hard work and earning what you receive read these sentences and weep. It required 125 years for Kansas to stoop this low. It blows your mind to think that grown men and women want to do what organized crime has done for years. These three lines explain what the Kansas lottery will do. "'Consideration' means anything which is a commercial or financial advantage to the promoter or a disadvantage to any participant." Kansas gambling promoters want the financial advantage of a state lottery that will be a disadvantage to all Kansans who are participants in the legal swindle.

This is a sad day for Kansas.

Respectfully yours,

*Richard Foyler*

Today's lotteries are noted for maximizing sales through the use of sophisticated marketing techniques, targeted at the customers who buy the tickets. However, regardless of how strong product marketing may be, lottery sales growth depends to a large degree on the cooperation of those actually doing the selling: the lottery's retail agents.

The agent is perhaps the most important link between a lottery and its players. Agents are the "middlemen;" they are in contact with players on a day-to-day basis. Lottery-to-player marketing programs, the effectiveness of point-of-purchase materials, and player awareness all hinge on the retailer doing his or her job.

Marketing officials at the nation's lotteries have recently been reemphasizing the importance of giving retailers added incentive to effectively assume the role of the state lottery's agent. Many lotteries have recently initiated measurable agent incentive programs, some with astounding results in the form of increased sales volume.

#### "Ask For The Sale"

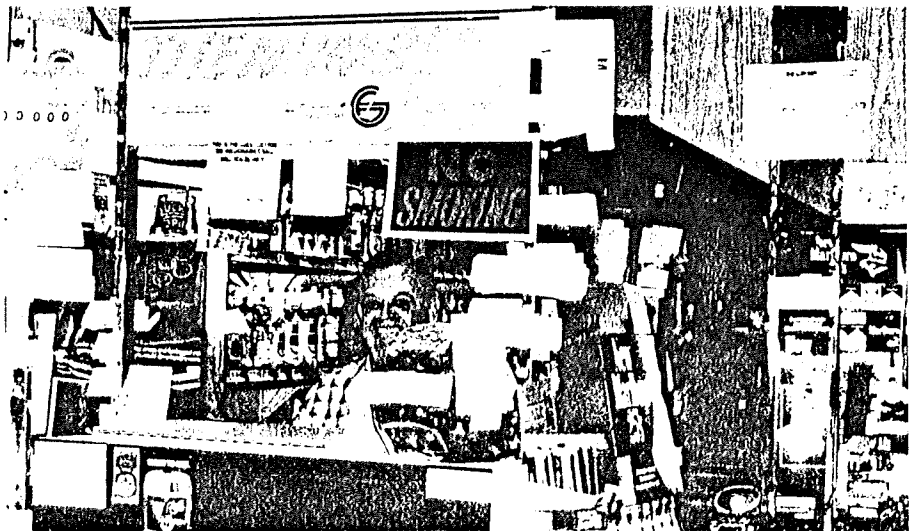
One agent marketing method currently sweeping the country is the "Ask For The Sale" program. Arizona was the first state to initiate such a program, according to Ben Novoa, director of marketing for the Arizona Lottery.

Novoa said the lottery selects a group of retailers with less-than-average sales volume to implement the concept. At the beginning of four weeks with predictably slow sales—the last weeks of an instant game, for example—the lottery will give these agents a quantity of tickets outright (the number depending on how much of a surplus is yielded by a particular game; the total giveaway has numbered as high as 20,000). A retailer will be given around 100 tickets, along with a sign for the counter saying, "If I don't ask you to buy a lottery ticket, I'll give you one free."

Lottery representatives will give clerks in the agent locations lines to say at the end of a transaction plugging the lottery, Novoa said; e.g. "Would you like your change in lottery tickets?" or "Have you played the latest lottery game yet?" If the retailers maintain

# Agent Incentives Maximize Lottery Sales

*Vitalized marketing at the point of sale demands agent support.*



Massachusetts Lottery sales agents are periodically polled by surveys regarding suggestions, customer preferences.

their supplies of tickets throughout the entire four-week period by asking customers to play the lottery, the tickets left are theirs to keep, including any winning tickets that might be included in the giveaway supply.

The incentive also works in the reverse; if participating retailers forget to ask for the sale and give away all their free tickets during the first week or two, the sign remains standing for the entire four weeks. Any giveaways after an agent's complimentary tickets are gone comes out of his or her own pocket (Novoa said this is a rare occurrence).

In every "Ask For The Sale" program so far in Arizona, says Novoa, sales

have increased dramatically, the lowest increase approximating 35 percent and a few retailers showing as much as a 300-500 percent jump in lottery sales.

The idea, in various forms, has been periodically used by other lotteries. The Massachusetts lottery occasionally runs contests which involve sending representatives into retail locations to purchase items other than lottery tickets, according to District Marketing Manager Frank Marugo. If the clerk asks the official to purchase a lottery ticket, says Marugo, he or she is awarded a cash prize on the spot. If the clerks fail to plug the lottery, they are told what they missed.

Other states which either have in

## Agent Incentives

the past initiated or are currently planning "Ask For The Sale" programs include Michigan, Washington, New Jersey and Ohio.

### Contests

Many lotteries motivate their retail agents by sweetening the pot with various contests. One popular contest consists of a drawing for agents at the end of instant games.

The procedures are similar in the various states offering the drawings. After selling all the instant tickets in a book, the agent sends the empty book, identified with the retail address, into the lottery. At the end of an instant game, the lottery will hold a drawing for the agents, the winner receiving cash and/or prizes. Obviously, the agent who sends in the most empty books has the best shot at winning the drawing, so the contests typically give instant game sales a shot in the arm.

The agent contests generally offer prizes large enough to generate substantial participation, which translates into increased sales. Illinois' current retailer contest offers the winner the vacation of his or her choice, according to Assistant Marketing Director Van Johnson. Prizes in Massachusetts for agent drawings include three \$1,000 winners and 180 winners of lower amounts. New Jersey's lottery awards retailers as much as \$15,000 for winning a drawing, and Ohio's agent bonus game pays up to \$10,000. According to Ohio Lottery Marketing and Advertising Manager William M. Bailey, agent bonus drawings amounted to one of the factors making instant games the second-fastest growing game in the state's mix, right behind lotto.

### Incentive Bonus Plans

Most states offer some type of bonus as incentive for retailers to maximize sales. These include bonuses both for selling and for cashing winning tickets, as well as extra commission for sales exceeding a certain amount.

Several lotteries, including Illinois, Maine, Massachusetts, Ohio, Rhode Island and Pennsylvania, award agents one percent of prizes exceeding a set amount for winning tickets sold. The amount varies: Pennsylvania pays the

agents one percent of the prize amount for selling tickets valued at \$1,000 or more; Rhode Island pays the extra commission on any sale of a winner of \$100 or more.

Sales increase because of bonuses, lottery officials say, because at times the extra commission can be lucrative for the retailer. In New Hampshire recently, a retailer sold *himself* a \$25,000-winning ticket. According to lottery Games Manager Jim Wimsatt, that agent received \$500 for selling himself the ticket, in addition to the \$25,000 prize. Wimsatt adds that the extra commission alone—two percent—is a "big incentive" for agents to sell more tickets.

According to Ohio's Bailey, an agent in that state can earn as much as \$20,000 for selling one instant ticket if that ticket happens to be the million-dollar grand prize winner. The lottery awards one percent of the prize, or \$10,000, for selling the ticket and another one percent for redeeming it, he said.

Some lotteries offer unique bonus plans to their retailers. Arizona's retailers work on a quota system. The agents begin making six percent of gross sales. If they reach a set sales quota, the lottery adds another one percent commission across the board, resulting in a seven-percent commission on all ticket sales, winners and losers alike. The Michigan lottery hands out extra tickets to agents that prominently display point-of-purchase materials, as well as offering an extra two percent commission (total: eight percent) on sales of lotto subscriptions.

An increasing number of lotteries now offer commissions for cashing as well as selling winning tickets, partly because of reports of agents refusing to pay large winners. Although the problem has not been extensive, lottery officials in many states have deemed it necessary to offer added incentive to pay the larger prizes (normally up to \$600).

Lotteries have always imposed penalties ranging from a warning to removal of an agent's terminal for refusing to pay on winning tickets. But in 1982, officials at the Maryland State Lottery decided enforcement and discipline

of this nature was counterproductive, and initiated a plan by which the lottery lowered the standard sales commission from five to four percent, but added a three-percent commission for cashing tickets. Since roughly half of gross sales are returned to the players in prizes, the lottery was actually taking away one percent and adding one-and-a-half percent: a net increase for the agents of one-half percent, provided they cash the winning tickets (see "Lottery Agent Compensation: Getting Retailers To Do Their Job" by Robert Laird, PG, November 1984).

Since Maryland's bold move worked well, additional lotteries have initiated bonuses for cashing winning tickets.

On December 11, the Michigan lottery initiated a fat two-percent bonus to retailers for cashing winning tickets, without reducing the standard commission, according to Marketing Director Bruce McComb. Many other lotteries have offered a percentage of prizes for cashing winning tickets from the start.

Other lotteries in the U.S. that currently offer bonuses to retailers for cashing winning tickets include: Connecticut, \$1 per claim (larger agents in the state double as claim centers); Massachusetts, one percent of claim; New Jersey, one percent of claim; Ohio, 1.5 percent with at least 50-percent cashing ratio (one percent with 40 to 49-percent cashing ratio; .5 percent with 30 to 39-percent ratio); District of Columbia, three percent (for cashing daily numbers tickets).

These cashing and selling incentives are all in addition to the overall amount agents earn selling lottery tickets. According to lottery officials, agents earn, depending upon the size of the state and the sales volume, anywhere from \$8-\$10,000 to over \$90,000 annually from selling lottery tickets. Ray Shaffer, marketing director for the Pennsylvania State Lottery, says the leading lottery agents in his state earn over \$91,000 per year from selling tickets. According to Marugo, top Massachusetts retailers earn as much as \$85,000 from annual lottery sales.

### Agent Input

Officials of all state lotteries maintain efforts to keep retail sales agents moti-

## State Lotteries: The Only Legal Swindle

By HERBERT L. KAHN

Before 1969, finance companies and other lenders played some deceptive games with interest rates. The company would lend you, say, \$1,000 to be repaid in 12 monthly installments of \$91.67 each for a total of \$1,100. The interest on the \$1,000 loan was thus \$100, or a "low low" 10%.

Everybody was happy. The customer was happy to get such a low rate. The lender was even happier, since he was actually getting a "high high" 18%. After six months, the customer would already have paid back \$550, which could then be lent out again.

"Where ignorance is bliss, 'tis folly to be wise," wrote Thomas Gray. Congress did not agree, and in 1969 ended the bliss by enacting the Truth-in-Lending Law, which greatly reduced the ability of lenders to misstate their interest rates. (Only a little leeway is left—credit-card companies still pretend that 1.5% per month is 18% a year, while it's really 19.6%.) Now you're protected. No one can legally swindle you except your State Lottery.

Such lotteries were common during the past century, but then fell into disrepute and died out. They were not reintroduced until 1963, starting with New Hampshire. Today, at least 17 states and most Canadian provinces have official lotteries.

Proponents say that lotteries represent the most voluntary tax imaginable, because nobody is forced to bet. Moreover, they say, the chance of a big win brings excitement into otherwise drab lives.

Opponents argue that gambling is immoral, and that government should not encourage immorality. They also say that

lotteries are a highly regressive form of taxation, because the heaviest betters will be those who can least afford it. Lotteries, they say, are a form of revenue sharing to benefit the rich.

One argument that has often carried the day is that people will gamble anyway. All that a lottery does, this argument goes, is to transfer the profits from Organized Crime to Organized Government.

Not true. Experience shows that soon after it begins, the state lottery is no longer content to sell only to betters defecting from Organized Crime, but conducts an expensive and sophisticated campaign to woo new ones. Organized Crime does not do this. You don't see the Cosa Nostra running press conferences, newspaper ads and TV commercials. Such hype does work: Recently a mania possessed otherwise sane residents of New York state as they bought more than \$24 million worth of lottery tickets.

One reason why such promotion is needed is that the payout of most state lotteries is far stingier than that of other forms of gambling. In the Massachusetts Megabucks Game, for example, the bettor must guess six different numbers between 01 and 36 to win the jackpot. The odds against success are about 1.95 million to 1. The value of the prize can vary—if nobody wins in a given week, the money is added to next week's pool—but the state claims that about 50% of the money that is bet is returned in the form of prizes.

A 50% payout is little enough; in Atlantic City, N.J., or Nevada the payout in roulette is about 94%. Even worse, however, is that the claim is deliberately deceptive. A top prize of \$50,000 a year for 20 years is

not the same as \$1 million. To pay out \$50,000 a year, the state must put an appropriate sum into the bank, where it collects interest. The amount is calculated to run out at the end of the 20-year period. The higher the interest rate, the less the state needs to put in the bank. Even at low interest rates, however, the state doesn't spend close to \$1 million. Some computed figures, at different interest rates, are shown below:

Interest rate	True payoff
5%	\$654,266
10%	468,246
12%	418,289
15%	359,912
20%	292,175

To put it another way, if you receive \$50,000 a year and spend it, after 20 years you will have nothing left. If, on the other hand, you receive a true million, you can buy tax-free municipal bonds at 10% interest, spend the interest—\$100,000 a year, not \$50,000—and at the end of 20 years you will still have your million!

At an interest rate of 10%, the state pays out less than 25 cents per dollar received, not 50% as claimed. (And this is before federal income taxes.)

In order to attract financially unsophisticated people to the lottery, the state misrepresents the winnings in almost exactly the same way finance companies used to do before the Truth-in-Lending Law. It is ironic that today not even the sleaziest moneylender is permitted to do things that state lotteries do as a matter of routine.

*Mr. Kahn is president of a marketing company in Weston, Mass.*

Yesterday, Mr. Duncan said this bill was drafted "to satisfy the vendors." The first priority of these vendors is helping themselves, not Kansas. Of course they will argue that whatever helps sell lottery tickets helps Kansas. But according to the percentages in this bill, or every \$1.00 Kansas receives in lottery taxes, another \$1.00 will go into the pockets of lottery gambling promoters. Lottery is the most inefficient form of taxation devised.

Most acknowledge that \$100 million consumer dollars must be spent on the lottery for Kansas to receive \$30 million. A 1/6th cent sales tax, one penny on a \$6 purchase would produce \$30 million and Kansans would have the other \$70 million in their pockets. If fewer consumer dollars are gambled away on the lottery, Kansans will have more consumer dollars for merchants on main street.

The amendment says, "the legislature may provide for a state-owned and operated lottery." The amendment does not say, "The legislature shall pass a law that gives lottery gambling a blank check in using all sorts of high pressure and intimidating tactics to force people to buy lottery tickets."

We acknowledge this legislature will provide for a state lottery. All we ask is that you exercise restraint in promoting legal gambling.

Here are some suggestions:

1. The telephone may not be used to place bets on any game.
2. No sports themes shall be used in any gambling game.
3. No video "slot machines."
4. Advertising budget shall be limited to a certain percent of gross revenue.
5. Advertising shall be honest. If a "million dollars" prize means \$654,266 is placed in a bank at 5% so payments of \$50,000 a year for 20 years will use up principle and interest, then it must be advertised as a \$654,266 prize.
6. A percentage of gross receipts must be given to a fund to treat and prevent compulsive gambling.

Valerie Lorenz, a psychologist at the foundation in Baltimore said, "We used to see nothing but middle-aged, middle-class white businessmen, but the compulsive gambler no longer fits into a nice, meat category. Since the lotteries started, we are seeing more women, blacks and teenagers. Now gambling is truly democratic."

Father O'Gorman of St. Malachy's church on Chicago's west side says 20% of the 16,000 families living in his neighborhood's federal housing projects are compulsive gamblers with the lottery.

7. To reduce the number of compulsive gamblers among the poor, the bill should include a provision that any person who receives lottery prizes shall pay back to the state of Kansas whatever they have received in welfare and other payments. Taxpayers for freedom from lottery gambling should not be forced to subsidize the lottery.

And finally a suggestion for start up money. Every person who voted YES should send \$20 to Topeka. Had this been a requirement for voting YES, the measure would have been defeated last November. Polls indicate the majority who voted for lottery gambling believe it will reduce their taxes. Time will prove that was a big lie. All who voted NO should REFUSE TO BUY AT PLACES SELLING LOTTERY TICKETS. The lottery gambling lobby will be well financed and very powerful in the 1990 session, but maybe Kansas lawmakers will have the courage to end this legal criminal activity called lottery.