

November 15, 2013

H.530 Section E.141 – Lottery

The Executive Director of the Vermont State Lottery Commission shall report to the Joint Fiscal Committee at its November 2013 meeting on the operational, fiscal, and public policy issues of allowing Keno games in Vermont.

Keno is a well established lottery draw game currently offered in 15 states – MA, RI, NY, MD, DE, OH, WV, MI, DC, GA, KS, MO, CA, OR, and WA. In 2013 CT voted to offer Keno through their lottery, the KY Lottery started selling the game last week, and NH is evaluating Keno in committee after deciding against opening casinos. Keno annual sales have grown over by over 10% during the past two fiscal years, from \$2.85 billion in FY11 to \$3.15 billion in FY13. On a national level only Powerball, Pick 3 and Pick 4 have higher annual sales than Keno, and these games are played in 35 - 45 states, while Keno is played in just fifteen states.

OPERATIONAL PLAN:

Keno is played by drawing 20 numbers from a field of 80 numbers. Players normally select as few as one number, or up to 10 numbers, and win based on how many of their numbers match the 20 numbers for that drawing. Each entry or play costs \$1, and prizes range from \$1 to \$100,000. Drawings occur every five minutes each day during hours designated by the Lottery.

A gaming vendor would administer the game for the Lottery, providing Keno through a central gaming system. The gaming vendor would deliver the game for Vermont by:

- Providing Keno hardware and software -- fulfilling the random drawing system requirements, tracking sales and wins by draw period, and updating lottery systems with winning numbers and prize liabilities for each draw. This would also require them to provide sales terminals, network communications and Keno monitors in locations that wanted to provide the live video of draw results, or simply display draw results on the customer facing monitors that exist in most lottery agent locations today.
- Providing field support – providing play slips and instructional material for customers, and training and instructional material for lottery agents and staff.
- Providing marketing and promotion support – participate with the Vermont Lottery in marketing and promoting Keno. This would include television, radio and online media, point-of-sale displays, in-store digital media through existing equipment, and local events sponsored by gaming vendor and lottery at specific agent locations around the state. The lottery would also continue to support Keno with our annual marketing plan to develop sales growth to its full potential.
- Providing retailer recruiting services – assisting the Lottery's efforts to add more agents in businesses around the state who want to offer the game to their customers.

The Vermont Lottery currently has approximately 700 agents throughout the state. We believe that this number would grow by 100-200 within a few years through the addition of bars and

restaurants that choose to offer Keno to their customers. In states that currently offer Keno, based on the interest of their customers, some convenience stores, markets, and bowling alleys have established small parlors on their property with tables and chairs so players can enjoy coffee and snacks while playing the game. In most states the draws occur every 5 minutes.

While the exact total of annual sales of break-open tickets is in question, there is no disputing the fact that tens of millions of dollars are spent each year in Vermont by bar and store customers on these games. Another fact to be considered is that Vermont is surrounded by states and countries that already offer (or in NH's case, soon to be) Keno, casino gambling, horse racing and off-track-betting. Vermont's citizens that want to play these games do not have far to go to get them, and you can visit bordering state stores to see Vermonters there making purchases. A market survey from April 2012 by the Center for Research and Public Policy shows 24% of Vermont lottery player respondents do travel to other states to play lottery games.¹

FISCAL PLAN:

Attached is a pro-forma financial statement for years 1-3 with assumptions noted. The table below shows the estimated gross sales and net profits.

Estimated Sales/Profits	Year 1	Year 2	Year 3
Gross Sales	\$7,280,000	\$12,870,000	\$14,560,000
Net Profits	\$1,596,000	\$3,040,000	\$3,540,000

Lottery sales are generally measured as sales per capita per week. The range of per capita sales for Keno in the 15 states offering it is from \$2.33 in Massachusetts to \$0.01 in Washington State². After dropping the highs and lows, the average is \$0.45 per capita. Some lotteries such as Washington only do one draw per day instead of every 5 minutes. States with large populations tend to be at the lower end of per capita sales, as are states with larger portfolios of gaming offerings. Our sales plan, supported by our marketing plan, projects Keno in Vermont starting at the lower end and developing to near average per capita levels after three years. Vermont ranks in the top half of all US lotteries when measuring per capita sales for all lottery games (16th for instant ticket sales, 26th for draw game sales, and 22nd overall out of 44).

Marketing expenses in the first year will be higher due to game launch and promotional activity. By adding additional agents and achieving higher total sales, the Lottery will likely need to add up to 1-2 field sales positions and one office position to manage the accounts for this game. Each lottery field sales representative handles approximately 125 agents currently. If we have already acquired some of the new agents before starting Keno and added to staffing due to this increase, then additional positions may not be necessary.

The additional contribution to Problem Gambling is optional, and is based on our current approach to funding the Vermont Council on Problem Gambling (VCPG) through a grant. The

¹ Survey performed by Center for Research and Public Policy, April, 2012.

² la fleur's Publication vol 21, Sept/Oct 2013.

Agency of Human Services and the Lottery will be submitting recommendations in January to the Appropriations Committees about alternative approaches.

Profits from Keno could be allocated to specific targets such as in-state scholarship programs, capital purchases, or remain fully devoted to the Education Fund.

PUBLIC POLICY:

Problem Gambling – due to confidentiality, and sensitivity to surveying callers or visitors to the VCPG website, we have not seen solid data about the quantity of problem gamblers in Vermont. VCPG provided data to us that shows 569 total calls over 11 months from within Vermont to the in-state helpline and the national helpline. They also added that it is common for calls to be wrong numbers, with callers thinking they called the Lottery and asking for the winning numbers. Regardless of the quantity of Vermonters that need assistance with this addiction, the Lottery will continue to provide funding for raising awareness, supporting their mission, and training for counselors, using all methods of media and marketing. That consists of TV, radio, and listing the VCPG website and phone number on all media and lottery tickets, print ads, and event sponsorships. The Lottery shares the same view as the VCPG and National Council as well – we are not against lotteries or gambling, we just want to help people who have trouble and get too involved at whatever point they recognize the problem.

Cost of Education continues to rise – many state lotteries have their profits dedicated to some type of education funding, whether it supports primary and secondary schools, capital expenses or college scholarships. Wherever the profits go, Keno profits will increase the total contribution from the Lottery. Across the nation, when lottery profits support education funding it typically equals somewhere between 1-5% of total state education spending. Vermont Lottery profits are approximately 1.7% of our education spending.

Player Demographics and Actions – a 2012 survey by the Center for Research & Public Policy shows some demographic information about age, sex, education level and income for lottery players, and includes the same data for players from 2008. Over 45% of Vermonters play lottery with some level of frequency, up from 40% in 2008. The trends show that the lottery has well balanced support across income levels and education levels. Additionally, the average player's age has dropped by 5 years over the last four years, and the quantity of Vermonters who play lottery has increased, so lottery players are a broader and younger group of Vermonters than in 2008.³

Approximately 24% of lottery players said they travel to neighboring states to play lottery games, showing they look for different games and higher prize opportunities – almost every instant game ticket offered by our neighboring state lotteries has a higher prize than Vermont does. Another survey from 2013 showed that 22% of Vermonters have traveled to a casino within the past two years, and 7% of Vermonters already play casino games on the internet.⁴

³ Survey performed by the Center for Research and Public Policy, February, 2008 and April, 2012.

⁴ Survey performed by the Center for Research and Public Policy, March, 2013.

Lottery Sales Remain in Vermont – over 95% of Vermont Lottery sales stay in the hands of Vermonters. On an annual basis:

- 64% of sales are returned to players as prize money.
- 22% of sales are profits that are transferred to the Education Fund.
- 6% of sales are paid to lottery agents as a commission.
- 3% of sales pay the lottery overhead (staff, rent, marketing, utilities, etc).
- Additional portions are paid to lottery vendors who are staffed by Vermonters.

SUMMARY

The Keno game is considered one of the lighter or lower end casino games, and is offered by state lotteries in states with casino operations and states without casinos. Similar to many lottery games, many people know the name but cannot describe it and do not know how to play it. Like any new product offered by any retailer, it will take a full marketing plan to launch the game correctly, attracting new agents to offer it, and customers to try it and become players.

Keno will attract new players and current lottery players. Some current players will add more to their spending, helping to create revenue growth and others will spend the same amount with the same frequency, generating no incremental revenue growth. The variety of venues that may choose to offer Keno will attract new players and possibly the majority of new revenue. Additional market research will help us further understand the public's knowledge of the game and how to bring Keno into the marketplace.

We estimate that it will take approximately 9 months to bring the game to market.

Respectfully submitted,

Greg Smith
Executive Director,
The Vermont Lottery

**Vermont Lottery Revenue and Expense Estimates for Keno
Prepared for Joint Fiscal Office, November 2013**

		Year 1		Year 2		Year 3	
Keno Game Sales		\$7,280,000		\$12,870,000		\$14,560,000	
Sales Per Capita Per Week		\$0.224		\$0.396		\$0.448	
Cost of Sales							
Prizes expense	65%	4,732,000		8,365,500		9,464,000	
Gaming vendor expense	3%	218,400		386,100		436,800	
Lottery agent commission	6%	436,800		772,200		873,600	
Total Cost of Sales	74%	5,387,200		9,523,800		10,774,400	
Gross Margin		1,892,800	26%	3,346,200	26%	3,785,600	26%
Operating Expenses							
Staffing (wages + benefits)		60,000		120,000		120,000	
Marketing		175,000		125,000		75,000	
Vehicle & fuel		15,000		25,000		25,000	
Office expenses		21,000		11,000		-	
Contribution to Problem Gambling		25,000		25,000		25,000	
Total Operating Expenses		296,000	4%	306,000	2%	245,000	2%
Net Profit		\$1,596,800	22%	\$3,040,200	24%	\$3,540,600	24%

Assumptions

Revenue:	YR 1	YR 2	YR 3
new agents - total includes prior years	100	200	250
new agent weekly sales	\$ 700	\$ 800	\$ 700
current agents	700	700	700
current agent weekly sales	\$ 100	\$ 125	\$ 150
population	625,000	625,000	625,000

Expenses:

One additional employee in year 1, and one more in year 2 - inclusive of benefits.

Office expenses include estimates for physical changes to leased space, and technology hardware and software, and travel expense for attending promotions/events.

Current contribution to VCPG is \$200,000 annually.

Other current lottery expenses remain unchanged.