



***Testimony for the Pension Sustainability Commission***

***October 17, 2018***

***Room 1E, LOB***

Good morning Chairman Steinberg and other distinguished members of the Pension Sustainability Commission. My name is Greg Smith, and I am the new President of the Connecticut Lottery Corporation. Thank you for the invitation to give brief remarks this morning. I have now been on the job for three months in Connecticut, but have over six years of lottery industry experience as the leader of two other lotteries – Vermont, and most recently Illinois. While each of those states contribute all or most of their lottery profits to education, there were regular conversations about changing that, and also how to maintain and improve profits. While we will not pretend to understand all of the measures you are considering, we appreciate the opportunity to provide some information relative to lottery to you today.

We believe that the decision of where Lottery proceeds are directed is ultimately a policy question to be addressed by the legislature. I understand this Commission is charged with important tasks, and that the Lottery piece of the puzzle may be just a small part of an overall solution. To that end, the CT Lottery Staff and I are happy to share any information we have, and want to assist, as requested, as this Commission goes through its deliberative process.

Before going further, I'd like to provide some brief background about the Connecticut Lottery Corporation in order to provide some context. The Lottery was created in 1972, and in 1996 the legislature created the quasi-public model to help us function more like a private business than a traditional state agency. Today, our approximate 140 employees are very proud of the work they do. In FY '18, we achieved sales of \$1.26 billion and returned \$345 million to the General Fund, another record year. We have continued to be a steadily growing source of revenue for the State of Connecticut for the past 46 years. In addition to lottery profits, last year we paid over \$70 million in commissions to our 2,900-member retailer network. Most of these retailers are small and medium sized businesses for which the commission is an important source of income. Our economic footprint in Connecticut is significant. Further, the CT Lottery is very successful when measured against other U.S. lotteries. Of the 47 U.S. lotteries, we rank 5<sup>th</sup> in sales per capita. Importantly, we are also an industry leader with respect to our robust and long-standing commitment to and involvement with responsible gambling.

Part of the reason for our success is our operational structure as a quasi-public entity. We have a 13-member Board of Directors, five whom are appointed by the Governor, one who is appointed by the Treasurer, one who is appointed by the Secretary of the Office of Policy and Management, and the rest of whom are appointed by legislative leadership. We are also similar to a state agency in that

- we are all state employees, most of whom are members of five bargaining units,
- we are subject to the Freedom of Information Act and all state ethics laws; and,
- we are accountable to the Legislature, with the Public Safety & Security Committee and Finance, Revenue and Bonding Committee as our committees of cognizance.

But there are certain areas where we are given a bit more flexibility, including procurement and hiring. These exceptions are crucial, as they recognize our entrepreneurial mission and allow us to respond more quickly to market forces, which in turn allow us to maximize sales and General Fund transfers.

We believe the quasi-public model is a good mix of entrepreneurial spirit tempered by accountability to the legislative and executive branches, both directly and through our Board. This quasi-public operational structure is vital to our success. In fact, a recent study by the State of Ohio concluded that a quasi-public operational structure was ideal for lottery, and actually pointed to the Connecticut Lottery Corporation as a model. The report noted that using board appointments by key stakeholders was a good way to maintain this efficient organizational structure. We think this governance approach could well serve any changes that this commission considers or recommends. We are happy to provide the Commission with that study. From my experience at three different lotteries where the state agency model, private management model, and quasi management model have been used, Connecticut's model is superior for allowing maximization of proceeds to the state.

Further, having reviewed documents from NJ's legislation regarding using their lottery to bolster their pensions, we were encouraged to see that their valuation used lottery input for projecting sales and profits by game. Should this commission ultimately recommend using lottery to shore up pension funding we hope that you will also consult with your lottery to know what the future looks like for current games, and to also be thinking about that value if internet lottery or sports betting become product offerings through the CT Lottery. Both of these additions have been considered in prior legislative sessions, so any action on those would certainly impact the projected cash flows and value for pension purposes. Of course, even together, internet lottery and sports betting won't balance the state's budget or shore up the state's pension obligations, but these concepts are viable for improving profits for the state, and would help ensure the Lottery's relevance, and continued growth, in the years to come.

In closing, I want to thank you for your time. My staff and I are happy to assist this Commission and provide any information that may be useful. I'm happy to answer any questions you may have.