

House Aging Committee Testimony
Dan Meuser, Secretary of Revenue
Todd Rucci, Executive Director Pennsylvania Lottery
Tuesday, April 3, 2012

Chairman Hennessey, Chairman Curry and members of the committee. My name is Dan Meuser, and I am the Secretary of Revenue. With me at the table is Todd Rucci, Executive Director of the Pennsylvania Lottery. Thank you for giving me the opportunity to testify today before the committee to talk about the Legislative Budget and Finance Committee study and address the overall health of the Pennsylvania Lottery.

The Pennsylvania Lottery is one of the largest lotteries in the nation, regularly ranking highly in industry polls for sales and profits. An organization that operates much more like a business than an agency of state government, the Lottery is a successful enterprise of which all Pennsylvanians should be proud. The Department is working through a number of strategies in an effort to ensure the continued success of the Lottery to meet the future growing needs of our older Pennsylvanians.

As you are aware, House Resolution 106 directed the Legislative Budget and Finance Committee to conduct a study of the Pennsylvania Lottery regarding its ability to support programs and services for older Pennsylvanians. The Legislative Budget and Finance Committee study concluded with four primary recommendations. I would like to take this opportunity to focus on the first two recommendations, which are:

The Lottery should (a) continue to expand its retail and network to facilitate an increase in ticket sales and (b) continue to consider and analyze approaches being used in other states to stimulate sales.

Aggressive retailer recruitment is the number one focus for the Lottery in terms of growing sales. Lottery purchases are largely made on impulse. For this reason, increasing the number of retail locations offering Lottery products has a direct and positive impact on sales and is a key strategy for the responsible growth of Lottery products. In the past several years, the Lottery has worked to create partnerships with large corporate retailers. By offering new technology and customized solutions, Lottery has been able to court these larger partners who have played a significant role in growing the number of retail locations selling Lottery products.

In addressing the second part of the committee's recommendation, the Lottery is always watching industry and consumer trends to identify additional opportunities to grow sales and profits for programs. Examples of these metrics are rankings in terms of population, sales and profits. While Pennsylvania is the sixth most-populated state and ranks sixth in Lottery sales volume, it ranks fourth in the amount of profit it generates. The Lottery also regularly analyzes the performance of its product portfolio relative to comparable lotteries and industry trends.

But there are two sides to rankings: not only can they show an organization is performing better than most, they also illustrate that room for improvement remains, unless and until you reach the top of every ranking. To that end, recognizing that every organization and business can improve

by some measure and recognizing the commitment this administration has to meeting growing demands for services critical to older Pennsylvanians, we are interested in strategies that will take the Lottery from good to great. Strategies such as increasing benefit awareness statewide, increasing the number of retailers selling Lottery products and effectively utilizing technology and new media.

Yesterday the administration took the first step in exploring a private management agreement for the Lottery, which we believe has the potential to amplify Lottery performance to its fullest potential and secure a more reliable and predictable Lottery funding stream for programs benefitting older Pennsylvanians. The objective is to preserve and sustain the established integrity of the Lottery, while responsibly growing net revenues for the benefit of senior programs and older Pennsylvanians they serve. Through this process, the Lottery will gain insight into best-in-class industry practices and new ideas to increase efficiencies, better serve the needs of players and grow and sustain revenues.

Regarding specifics of how the Lottery would improve or what would be done differently under a private management agreement, all of that has yet to be determined. The first step in the process is an exploratory one to invite industry experts and private companies to express interest in pursuing a private management agreement with Lottery and demonstrate their financial capability, social responsibility and technical capability and suitability for such a project.

As we proceed through this exploratory process, the commonwealth will pursue what's in the best interest of all stakeholders, most importantly the older Pennsylvanians served by Lottery-funded programs. A multi-agency committee of the commonwealth in consultation with financial and legal advisors will decide whether to proceed and select a private manager, and a multi-step procurement process will ensure the ultimate decision whether or not to establish a private management agreement for the Pennsylvania Lottery will not be taken lightly or made on a whim.

In closing, the Pennsylvania Lottery performs well, but a private management agreement has the potential to increase sales and profits through new ideas and industry best practices, to protect the programs that benefit older Pennsylvanians and create a more reliable, secure and predictable Lottery funding stream. Moving forward, we are committed to maximizing Lottery profits to ensure increased program needs are met.