

**Finance, Revenue and Bonding Committee
Public Hearing**

March 22, 2010

SB 484 An Act Concerning the Governor's Revenue Plan

Testimony of the Connecticut Lottery Corporation

Submitted March 22, 2010

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The Connecticut Lottery Corporation (the "CLC") submits the following testimony on SB 484 An Act Concerning the Governor's Revenue Plan.

The game of Keno is a lottery matrix style and numbers match game consistent with other lottery draw games such as Powerball, Lucky-4-Life, Classic Lotto, Cash 5 or Daily Numbers that are currently offered by the CLC. The CLC's authority to introduce new lottery games is found under Section 12-806(b)(4) of the general statutes.¹

Based on a review of the proposed bill the CLC offers the following testimony.

Definitions

Section 4 of the bill amends certain provisions under Section 12-801 of the general statutes by revising the definition of the word "Lottery" under Section 12-801(3) of the general statutes to include the game of "Keno." The CLC believes the game of "Keno" should be deleted from this section. This section of our enabling legislation defining "Lottery" relates to the corporate structure of the CLC and not to lottery games.

Section 4 of the bill also amends our enabling legislation to define the term Keno. (See proposed Section 12-801(b)(4)). The CLC recognizes and supports the need for potential investors in the State's securitized revenue bonds to clearly identify the net revenue to be secured. We suggest adding a clause to the proposed Section 12-801(4) that states, "for purposes of securitizing Keno net revenues."

Section 5 of the bill amends Section 12-806(b)(4) of the general statutes, by adding the language "including keno" under the CLC's authority to introduce new lottery games. This new language sufficiently clarifies the existing authority of the CLC to conduct Keno as a lottery game. It should be noted that all games are approved by CLC's Board of Directors and the Division of Special Revenue.

Transfer of Keno Proceeds to Treasurer

Section 6 of the bill states "All revenue from the implementation and operation of the game of Keno, as defined in section 12-801 of the general statutes, as amended by this act, shall be paid to the Treasurer ..." In contrast, for current lottery revenues, Section 12-812(c) of the general statutes provides as follows:

"(c) On a weekly basis, the president shall estimate, and certify to the State Treasurer, that portion of the balance in the lottery fund which exceeds the current needs of the corporation for the payment of prizes, the payment of current operating expenses and funding of approved reserves of the corporation. The corporation shall transfer the amount so certified from the lottery fund of the corporation to the General Fund, upon notification of receipt of such certification by the Treasurer."

The language as proposed in Section 6 of the bill for Keno must be changed because it does not state with clarity that the proceeds transferred to the Treasury are net of costs, prizes and expenses as set forth in Section 12-812(c) of the general statutes. As with all lottery games, prizes paid to players from the Keno revenues as well as other administrative expenses of the game must be paid prior to transferring funds to the State for investing or otherwise. Finally, the CLC also submits that it remit payments to the Treasurer on a weekly basis consistent with our current practice of remitting net

lottery sales proceeds to the State under Section 12-812(c) of the general statutes. Such a practice is administratively expedient.

Lastly, under Section 6 of the bill, the CLC recommends that the account or accounts established by the Treasurer to hold the Keno revenues, be titled "keno revenue fund" rather than the suggested "lottery revenue fund" so as to make it clear the source of the revenues being securitized are from Keno and not any other lottery game or games.

Indemnification

Given that the bonds authorized under the proposed bill are revenue bonds, and that the CLC will have primary responsibility for the implementation and operation of the Keno game that generates those revenues and the responsibility of transferring those revenues to the Treasurer to be held in trust for the bondholders, the obligations to ensure the revenues are properly generated and transferred will be with the CLC at some level and for some period of time. Therefore, the CLC directors, officers and employees should be specifically indemnified for those administrative duties.

The proposed legislation should contain express exculpatory provisions and indemnification language from the State to the CLC relating to the risk of any personal liability of directors, officers and employees for acts related to the securitization of the Keno proceeds

Bond Covenants

Covenants in the debt instruments must be crafted to ensure that Keno profits are maximized and covenants must be avoided that could adversely affect the Lottery's entrepreneurial operation of Keno, or other games. To do so, the proposed bill should contain language that the State, in consultation with the CLC, shall implement the provisions of this proposed legislation.

The CLC is prepared to assist the Finance, Revenue and Bonding Committee, other legislative committees as well as parties within the executive branch, including the Treasurer and Secretary of the Office of Policy and Management in this legislative initiative.

Thank you.

¹Footnote

Sec. 12-806. Purpose. Powers. (a) The purposes of the corporation shall be to: (1) Operate and manage the lottery in an entrepreneurial and business-like manner free from the budgetary and other constraints that affect state agencies; (2) provide continuing and increased revenue to the people of the state through the lottery by being responsive to market forces and acting generally as a corporation engaged in entrepreneurial pursuits; and (3) ensure that the lottery continues to be operated with integrity and for the public good.

(b) The corporation shall have the following powers:

(4) To introduce new lottery games, modify existing lottery games, utilize existing and new technologies, determine distribution channels for the sale of lottery tickets and, to the extent specifically authorized by regulations adopted by the Division of Special Revenue pursuant to chapter 54, introduce instant ticket vending machines, kiosks and automated wagering systems or machines, with all such rights being subject to regulatory oversight by the Division of Special Revenue, except that the corporation shall not offer any interactive on-line lottery games, including on-line video lottery games for promotional purposes;