

“ALL POLITICS ARE LOCAL” ...EXCEPT WHEN THEY’RE NATIONAL LOTTERIES, PARTNERS WORK TOGETHER TO ADDRESS REGULATORY ISSUES CRITICAL TO THE INDUSTRY

JIM ACTON, LOTTERY INDUSTRY CONSULTANT

The late New Hampshire State Representative Larry Pickett was persistent in his pursuit of a lottery in the Granite State. For 10 years starting in 1953, he submitted five bills to create a sweepstakes, and lost all five times. Finally in April 1963, Pickett was successful, and Governor John King signed the bill. Later that year, 198 of 211 cities and towns voted in favor of starting a lottery. Two days after the vote – on March 12, 1964, the New Hampshire lottery started selling tickets.

Fast forward five decades and the current New Hampshire Lottery Executive Director teamed with Pollard Banknote to fight the U.S. Department of Justice which was attempting to stop the sale of lottery tickets online. In fact, in 2019 the two entities actually filed a civil lawsuit against then U.S. Attorney William Barr. In early 2021, the deadline passed for the DOJ to answer the lawsuit, handing the New Hampshire Lottery – and the entire lottery industry – a significant win for the rights of states to determine their own regulatory policy.

In between these significant milestones, there have been many hundreds of bill filings, legislative votes, local referendums – events that have created the modern lottery industry as we know it. Behind the scenes, these critical actions have been guided by a phalanx of citizens, legislators, lottery executives and vendor representatives who have helped shaped the outcomes and the future of this industry.

Given how lotteries are created, and ongoing initiatives such as annual budgets and the addition of new games are enacted, the need for stewards who understand the machinations of the legislative process and can provide a steady hand is critical for eventual success. Like Representative Pickett, the initial creation of lottery legislation and then the guiding of it through the various legislative committees, votes and eventual approval at the executive level takes someone with patience, resources, and strong knowledge of the process.

At the helm of lotteries are directors who must wear many hats. Internally, they are overseeing

the day-to-day operations of a large revenue-generating enterprise whose ongoing success is relied on by beneficiaries. They must be conversant in the political maneuverings, legislative processes, business tactics, human resource issues, and many other components of running a multi-million/billion-dollar business. On top of those duties, many directors are involved with multi-state initiatives such as Powerball and Mega Millions and help shape the direction of these important games as well.

Regulatory policy has a profound impact on the revenue-generating capacities of operators of all games-of-chance, including lottery.

On the commercial partner side, life is also busy. Customer relations, procurement oversight, technology advancements, government interface – the list of issues on the dockets of many companies can seem overwhelming. But the executives charged with driving progress while maximizing upside potential and minimizing risk, are expertly steering their organizations into new avenues for consumers.

This is especially true of digital advancements, such as iLottery. Companies such as NeoPollard Interactive are not fazed by anything they face in North America as they have seen it all in their work around the globe. Now they have to continue to convince stakeholders that change is good, and it will help everyone.

“It seems obvious to everyone in Consumer-Packaged-Goods, whether you sell sweaters or shoes, taxi rides or concert tickets, pet food or printer ink, diapers or flowers, airline tickets or restaurant reservations – the jury has reached a verdict,” said Liz Siver, General Manager, NeoPollard Interactive. “Consumers want to transact business

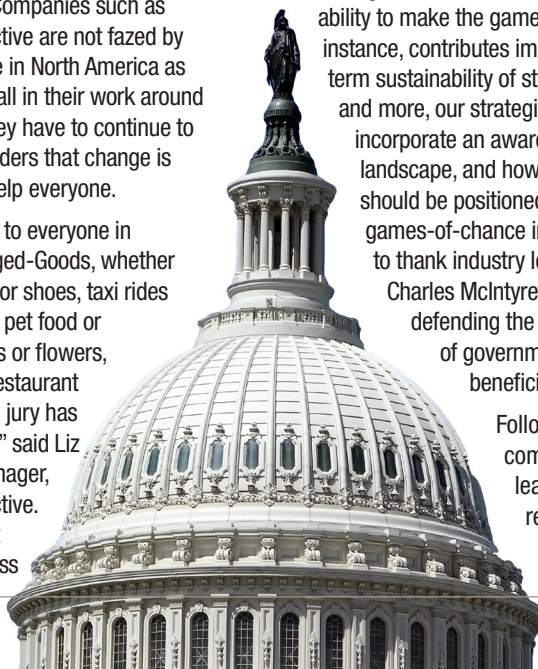
on their devices. iLottery sales help reach a younger player who might not carry cash. Players online are an average of 12 years younger than retail players and iLottery has proven to expand that player base. With sports betting and other online gaming on the rise, a crowded marketplace where lotteries compete for discretionary spending, modernizing distribution is an essential ingredient to a lottery’s growth strategies.”

NPI has been at the forefront of activity related to iLottery over the past decade. Their first iLottery customer – Michigan – is the longest-operating program in the U.S. And they joined forces with the New Hampshire Lottery to take on the U.S. Department of Justice and clear the path for iLottery to be approved in other states without fear of federal government interference.

“Currently, iLottery sales represent less than 5% of the total U.S. lottery market with twelve lotteries offering some form of online sales,” Liz said. “We know lotteries are looking creatively at how to enable forms of online sales that meet the specific parameters of their states. What we hope to see with iLottery is a similar pace of expansion that we have seen with the legalization and rollout of sports betting that has been rapidly growing since PASPA was overturned in 2018.”

Regulatory policy has a profound impact on the revenue-generating capacities of operators of all games-of-chance, including lottery. The ability to make the games available online, for instance, contributes immensely to the long-term sustainability of state lotteries. And more and more, our strategic planning needs to incorporate an awareness of the competitive landscape, and how and where our products should be positioned within this broader games-of-chance industry. We want to thank industry leaders like Liz Siver, Charles McIntyre, and many others for defending the interests of stakeholders of government lottery and beneficiaries.

Following are more extensive commentaries from the leading government-relations officers of IGT and Scientific Games. ■



FACTORS SHAPING REGULATORY POLICY IN THE DIGITAL AGE

Scott Gunn

Senior Vice President of Corporate Public Affairs, IGT



Paul Jason: There are currently 11 or 12 U.S. jurisdictions which have iLottery. Can you describe the status of states that appear to be on the brink of regulating iLottery, states like Connecticut and Massachusetts, and others that PGRI may not know about?

Scott Gunn: There are two states close to offering iLottery – Arizona and Connecticut. Both of these states legalized iLottery in 2021 by virtue of their governors negotiating amended tribal gaming compacts – these compacts were amended primarily to allow the tribes to offer sports betting. Essentially, the Arizona and Connecticut tribes gained the ability to offer sports betting in exchange for allowing the state to offer iLottery products, among other things. When it comes to iLottery though, the question most often asked is did COVID-19 accelerate the legalization of iLottery? The jury is still out on that as only 10 states and D.C. currently offer iLottery and just two states legalized it in 2021. But looking at the overall landscape demonstrates that there is an evolution occurring right now in the digital lottery and gaming space. Sports betting – more specifically, mobile sports betting – is helping to pave the way for both iLottery and iGaming. My experience has been that state legislatures have not viewed sports betting, and in most cases Daily Fantasy Sports (DFS) before that, through the same high gaming- expansion lens as they do other traditional gaming- expansion issues. They viewed sports betting, office pools, and DFS betting as an activity

that enjoyed widespread acceptance with their constituents – “everybody does it!” This has allowed sports betting, and more specifically, mobile sports betting, to become the proverbial camel’s nose under the tent, with regard to mobile betting in general. The critical issue over the next few years will be whether policy makers allow this first-mover mobile advantage to benefit all gaming entities, including lotteries, or if the mobile gaming product expansion will, in most states, extend through the mobile sports betting ecosystem.

What states do you think might be closest to moving into the stage of actively exploring the regulatory options for iLottery and getting bills approved for iLottery within the next 12 months? How about two years?

S. Gunn: I know most lotteries and lottery leadership are enthusiastic about digital evolution, including iLottery. The challenge is finding a path to authorization, which can be administrative, legislative, and in some cases constitutional. In 2021, there were almost a dozen states that introduced legisla-

tion for iLottery, and while legislation may still be pending in a few states, there is little expectation that legislation will be approved in the remaining months of 2021. As policy makers and regulators become more and more comfortable with the concept of digital gaming/lottery offerings and see mobile sports betting becoming a viable option in the portfolio to help generate tax revenue, you will see more states embracing iLottery. Sports betting has ramped up quickly – since the U.S. Supreme Court decision in 2018, there are now more than 30 states where single bet games have been legalized. In the vast majority of those states (approximately 22), we are seeing states allow for both retail and online sports betting, and this is changing the overall policy and regulatory environment.

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Howard Glaser

Global Head of Government Affairs and Legislative Counsel, Scientific Games



Paul Jason: Sports betting is being approved across the country at a break-neck speed. Won't the whole process of legislating to legalize and regulate sports betting smooth a path for iLottery legislation too, making it easier and faster to implement legislation that regulates iLottery?

Howard Glaser: I do not agree with the assumption that sports betting is the leading edge, and we can expect that iGaming and iLottery will automatically draft in behind this process. iLottery and iGaming are different animals than sports-betting. State governments treat sports betting as an extension of sports, it's as much about sports as it is about gaming. iLottery and iGaming are purer forms of gaming – and that's the way state government policy-makers think about it so that is the way we should think about it. For this reason, I do not think that the pathway to regulating sports-betting is a great model to use for iLottery. Instead, I believe the industry needs to apply a thoughtful, deliberate, and consistent strategy that aligns with the way that shapers of public policy view these issues.

Legalizing and regulating the betting on sports is an important step for legislators to take, but it does set the tone for iLottery and iGaming. There are lots of differences between these game entertainment categories, and we should not base our strategies on how it has unfolded in the sports-betting space.

Could we drill down a little more on how the process of getting iLottery to be legalized and regulated differs from sports betting?

H. Glaser: Legislators don't view iLottery as being in the same bucket as sports betting. Lottery is a government function and not a commercial function in the eyes of many legislatures. When it comes to sports betting, legislators believe they are acceding to the wishes of a large group of constituents. That's especially true once the sports leagues came on board. There is not quite the same wide cross-section of vocal support for iLottery. Lottery players want to be able to play digitally, but they are not organized into a politically influential interest group within the state – at least not like there is for sports betting.

Lottery is fundamentally designed to benefit the public through the \$80 billion in sales and \$25 billion in net revenues that it delivers for good works. That's huge, but the societal benefit is not highly visible. The financial benefit to the state is already baked into their budgets. The prospect of revenue

increases from iLottery do not necessarily command enough attention to actually drive legislative action. That said, there has been a lot of legislative action to legalize and regulate iLottery and we expect that to continue. Sports betting, commercial casinos and tribal gaming have active and well-funded political action apparatuses. iLottery advocates need to develop consistent messaging to amplify its political voice and potential.

How about retailers? Are they warming up to the prospect of iLottery?

H. Glaser: Retailers are wary of competition from online retailers. Amazon and other online merchants have had a devastating impact on retail. Convenience stores say that they at least have one thing that online merchants don't have and that's lottery products. It has been hard for retailers to see how making these products available online

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What are the biggest obstacles for state legislatures that impinge on their willingness to authorize iLottery? Retailer opposition? Opposition from anti-gambling groups? How about sports betting interests – are they opposing iLottery and is that a factor? What or who else is impeding iLottery implementation?

S. Gunn: All of the stakeholders you mention are relevant to the debate, as Speaker Tip O’Neill said, “all politics is local.” iLottery has been in the United States for nearly a decade after Illinois and Georgia launched programs in 2012. It has been difficult to move the iLottery needle from a policy perspective, but new legal developments and changing attitudes among key stakeholders are shifting. As with most every lottery and gaming innovation, the adoption of iLottery will be dependent on the politics that surround gaming issues in each state. The challenge for lotteries is ensuring they have a seat at the table and voice in the legislative and policy discussion. This is challenging because a lottery functions as a “gaming” operator, but without the flexibility and resources of other commercial gaming

operators. Another challenge is the historic opposition from the National Association of Convenience Stores (NACS) and their local affiliates. NACS opposition was very much aligned with the Coalition to Stop Internet Gambling and their political activities at the federal level. Now that the Coalition to Stop Internet Gambling is not as engaged as they were previously, I think the main opposition will be with the state-based retail associations and organizations. I have found that their opposition is more politically motivated than objectively based on the fact that their business will be harmed by iLottery. I think the solution for lotteries is two-pronged: ensure that fact-based objective information is injected into the debate and develop a political plan that addresses all opposition, including purely politically motivated opposition. I have found lotteries to be savvy and sophisticated in their approach to working with legislatures to ensure they have a full understanding of the policy alternatives that exist for digital gaming expansion. As the market for digital products continues to liberalize in the U.S., and more states become comfortable with answering consumer demand for anytime, anywhere

products on any device, iLottery will gain a foothold and become more commonplace. The stage is definitely being set for more states to embrace iLottery in the next five years.

As I look at the totality of the situation, lotteries are well positioned to benefit from digital gaming expansion. It will require engagement in the political process that is sensitive to the unique circumstances of each lottery and their role in the approval process in their state.

A coalition-based approach, that brings together the supporters of lottery in general, and iLottery in particular, and utilizes the resources of those coalition partners, is the best path to success. There are many stakeholders in this process that should be heard and will have a role in the discussion, including considerations around Responsible Gaming, so that players, the public, and lottery beneficiaries will benefit from the addition of iLottery and the increased funding it provides. That is an indisputable fact, and one that should be central to any discussion about expanding a lottery’s portfolio to include iLottery. ■

also think it’s very helpful that the successful iLottery states are regionally distributed. You have Pennsylvania and Virginia in the Mid-Atlantic, Michigan and Illinois in the Midwest, New Hampshire and Connecticut in New England, and Georgia and Kentucky in the South. Their neighboring states will eventually feel pressure to keep up with the same product and channel offering.

Do legislators study how these issues are unfolding in other states? Is the process of building a regulatory framework informed by the experience of other jurisdictions or do legislators focus on their own in-state issues and environment?

H. Glaser: Unless they are assessing the competitive threats from neighboring states, legislators focus on what’s happening in their state more than anything else, and then build to suit their own state-specific public policy objectives. Legislators sometimes underestimate the complexity

of market-driven businesses like lottery, iLottery and sports betting. Of course, there are professionals like lottery directors and technology partners like Scientific Games and others who make sure the business is operated effectively and will always work hard to protect current lottery revenues, ensure business continuity, and position the business for long-term growth.

One thing we hope for is that legislators will appreciate the importance of moving forward with iLottery in tandem with iCasino gaming. That should be a goal for all lottery stakeholders as it would disadvantage them if iCasino gaming were to launch before iLottery launches. Launching them in tandem would provide the entire range of games to appeal to the broadest range of play styles. Providing that diversity from the start enables players to embark on their digital gaming journey with full and equal exposure to iLottery. It may be hard for iLottery to attract players if

iLottery is launched after iCasino gaming. I think the best chance to expedite iLottery legislation is to join iGaming and have both of them proceed down the path together to legislative approval.

In closing ...

H. Glaser: We want to look for the common ground shared by diverse interest groups so that we all – lotteries, sports-betting operators, iGaming and casinos – work together to expand the diversity of choices for players. Delivering the widest variety of games through all the different channels of distribution is not only the best way to meet the needs of the consumer, but it is the best way to foster creativity and innovation within the industry so that we lead the way and exceed consumer expectations and the expectations of all our stakeholders including the retailers, our political constituents, and the good causes supported by lottery funding. ■