

**Testimony on the Privatization of
The Pennsylvania Lottery**

**Presented to Members of the
Pennsylvania Senate Finance Committee,
Chaired by the Honorable Mike Brubaker (R-36), Majority Chair
and the Honorable John P. Blake (D-22), Minority Chair**

**Presented by
David McCorkle, President and CEO
Pennsylvania Food Merchants Association**

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North Office Building
Harrisburg, PA 17120**

INTRODUCTION

Chairmen Brubaker and Blake, thank you for the opportunity to share with the members of the state Senate Finance Committee a summary of the important role that a wide range of Pennsylvania retail businesses play in the very successful operation of the Pennsylvania Lottery. There is no doubt that the positive relationship that has existed for decades between retail lottery agents and the Pennsylvania Lottery has generated results exceeding the dreams of the elected officials who voted to start the program in 1971. You have already heard about the thorough analysis completed by Governor Corbett's Department of Revenue and Office of Budget experts. You have met Camelot Group executives and heard American Federation of State, County, and Municipal Employees' (AFSCME) David Fillman's testimony.

My testimony will be brief and will offer the continuing support from retailers now serving as lottery agents and those who would like to serve in the future.

COMPONENTS OF PFMA'S TESTIMONY

Section 1. A perspective on the scope of retail businesses in Pennsylvania is provided.

Section 2. A summary of PFMA's membership and the scope of Pennsylvania's retail food industry is provided.

Section 3. A list of suggested principles to guide the future relationship between Pennsylvania's retailers and Lottery managers is provided.

Are there any other issues that you would like me to address? If not, let us review the first section of my testimony.

SECTION 1

Pennsylvania - The 2012 Scope of Retail and Wholesale Business

Federal, state and independent business information services document the fact that retail businesses and wholesale distributors are a major segment of Pennsylvania's economy.

A look at the retail industry in Pennsylvania

About 48,000 retail establishments operating in the Commonwealth employ more than 641,000 Pennsylvanians. The retail industry contributes substantially to the overall economic health of the state. State residents depend on retailers to supply affordable goods and services to them every day.

Annual Sales in Pennsylvania

Retail food sales account for \$22.8 billion in Pennsylvania. Combined retail and food sales top \$156 billion. There are more than 6,000 retail food stores operating in the Commonwealth.

Residents' income generated by retail firms

Pennsylvania's retailers pay their employees \$12.7 billion in wages and salaries each year. Supermarket and convenience stores employ 131,000 Pennsylvania residents and pay nearly \$2 billion in annual wages and salaries.

Taxes generated for the state

Retailers help the state generate, collect, and remit \$8.5 billion in state tax revenue. Retail sales tax collection is the second largest source of revenue for the state budget.

Community support

Whether they are large or small, Pennsylvania retailers support their local communities with monetary donations, merchandise, and facilities. Their support helps community groups, hospitals, schools, non-profit causes, youth programs, and other organizations.

*Sources: Pennsylvania Center for Workforce Information and Analysis (Data from Oct. 2008)
<http://www.paworkstats.state.pa.us/>

2002 Economic Census from the U.S. Census Bureau (Adjusted by 3% for 6 years)
http://www.census.gov/econ/census02/data/pa/PA000_44.HTM#N445

When it comes to ranking the size of industries/employers in Pennsylvania, a 2009 Schneider Downs compilation reported that:

Major Industry Update*

Industry	Companies	Employees	Annual Revenue
Retail & Wholesale	64,000	895,900	\$314 billion
Manufacturing	16,700	715,500	\$181 billion
Health Care	32,700	785,500	\$59 billion
Construction/ Real Estate	34,000	317,400	\$53 billion
Finance/Insurance	18,200	310,500	\$41 billion
Professional Services	28,400	306,000	\$37 billion
Transportation/ Warehousing	7,500	172,300	\$17.8 billion
Tourism	7,200	132,800	\$9 billion
Agriculture	63,000 (farms)	18,865 (est.)**	\$6 billion

* 2009 Schneider and Downs/First research Report

** USDA 2010 Statistics

Total employee compensation \$565,952,000 / \$30,000 per (est.)

It may be a surprise to some that Agriculture has not been Pennsylvania's largest industry for several generations.

SECTION 2

A summary of PFMA's membership and operations

Pennsylvania Food Merchants Association

The statewide association was founded in 1952 by a group of Erie grocers. The founders desired a role in public policy development in the Commonwealth and found a network of business owners across the state with a similar interest. Pennsylvania's major supermarket chains joined PFMA in 1978 and the Directors of the PA Grocers Association merged with PFMA in 1986. The Pennsylvania Convenience Store Council was formed in 1984 as a division of PFMA and the two merged in 2012.

PFMA's member/business service programs produce a profit for members and the association. Pennsylvania Coupon Redemption Services (PCRS), a coupon processing subsidiary established in the 1950's, continues to serve members. PFMA's money services subsidiary (MEMO) founded in 1986 operates in 20 states. About 3,500 agent locations process over \$1.4 billion in sales annually.

The association has about 1,000 corporate members in Pennsylvania operating 4,500 stores. PFMA's annual budget of \$7 million supports 50 associates who provide services to members and business customers.

PFMA represents the smallest corner grocery stores, independently owned supermarkets, all major convenience store chains and the largest supermarket chains in the Commonwealth. Most are partners with the Pennsylvania Lottery.

Other Food Industry Facts (*Source: Food Marketing Institute*)

- Profit margins for supermarkets are less than two cents on each dollar of sales.
- The industry's after tax net profit is typically around one percent of sales.
- Consumers make an average of 1.9 trips per week to the supermarket, where they spend about \$30.00.

SECTION 3

Suggestions for continuing a successful lottery program in Pennsylvania:

1. *What principles should guide the relationship between Pennsylvania retailers and a private lottery manager?*

There are presently about 9,100 lottery retailers. They receive reimbursement for expenses related to lottery sales and a share of awards on winning tickets. These incentives should be evaluated annually and adjusted as needed to increase sales. Additional retail locations should be recruited to give businesses of all sizes an opportunity to meet consumer demand. The Camelot proposal includes such expansion plans.

2. *How should on-line lottery sales be planned and implemented?*

It is our understanding that online games will not be implemented until 2015. PFMA would like to participate in stakeholder group meetings to ensure a clear understanding of how on-line lottery games will be introduced and promoted.

The following language guiding Internet Lottery implementation was recently supported by retailers in Delaware and enacted in June 2012:

Sponsor: Representative Viola
146th General Assembly - Delaware
House Amendment No. 2 to House Bill No. 333

FURTHER AMEND House Bill No. 333 by deleting lines 658 through 661 and substituting in lieu thereof the following:

To 4835 of this title:

(7) procedures for the security and reliability of Internet lottery games and Internet lottery accounts, protection of the software, computers and other equipment used in the Internet lottery, and mechanisms to prevent tampering or utilization by unauthorized persons; and

(8) mechanisms by which the Office shall require that accounts for Internet ticket game purchases be funded by purchase of a pre-paid card or other mechanism obtained from a lottery agent through which players can transfer money or credits for internet ticket game play.

Retail agents must verify the age of purchase/players and ensure the cash payment by customers interested in on-line play. The security provided by in-store face to face age verification coupled with cash payment has been a key element in the success of the Pennsylvania Lottery.

3. *What is PFMA's position on the privatization of state government operated services?*

PFMA supports the transition of government operated programs to the private sector and looks forward to supporting other initiatives led by the Corbett Administration and the members of the state House and Senate.

4. *What have we learned from Lottery Privatization in other states?*

Information from Illinois and Indiana, where private management agreements have been approved has, I am sure, been carefully reviewed by the state Department of Revenue and the Budget Office. Problems or anticipated problems identified in these states can be used to refine any agreement approved in Pennsylvania.

Thank you for considering the suggestions of our retail store membership as you address this critical public policy issue that impacts all Pennsylvanians.