

## State set to collect more lottery profits

Bar and restaurant owners would keep just 22.8 percent

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Oregon State Lottery's video poker and slots games have been so popular that profits are expected to reach \$836 million by June.

That's millions of dollars above the new sales plateau that would trigger a higher share of gaming profits to the state and a lower share for bar and restaurant owners.

Reaching the plateau could mean up to \$18 million per year more for public schools, salmon and park projects. For lottery retailers who host the games, it means the third drop in commission rates in three years.

The sales plateau was adopted in 2005, when the state lottery expanded into electronic slots or "line games." Lottery retailers initially balked at accepting only 25 percent of the lottery terminal profits in exchange for adding the Vegas-style games. Their average commission rate had fallen from 32 percent of video-poker profits to 28.5 percent when new contracts were inked in 2004.

At the time, lottery critics insisted that retailers still were making a killing on the games, and they pushed for even greater reductions once electronic slots were added. Education advocates filed a lawsuit and a ballot initiative to force an end to what they viewed as corporate welfare for lottery retailers.

The Lottery Commission adopted a compromise suggested by Jonah Edelman, the executive director of the group Stand for Children. If electronic slots boosted sales 40 percent by this fiscal year, retailers would automatically take a lower share of the profits.

That would reduce lottery retailers' profit share to about 22.5 percent -- down from 25 percent -- with the rest going to the state.

Lottery Director Dale Penn said he never expected to reach that lofty sales figure, which amounts to \$805 million in video games profits for the fiscal year ending next June. But the state's December revenue forecast pegged video lottery profits at \$836 million. Penn now expects lottery sales to go up 45 percent, easily surpassing the trigger.

The looming cut in retailer commissions has been a hot topic among bar and restaurant owners who host lottery terminals.

"Since 2004, they've gone from 32 percent (of profits) to 22 percent. That's why they're angry about it," Penn said. But he said the drop in retailer commissions is reasonable.

"It's appropriate to take a smaller slice of the pie even though at the end of the day, you'll still have more in your pocket," Penn said.

Jim Eastridge, the owner of Magoo's Sports Bar in Salem, said electronic slots have increased his lottery business, but the lower commissions will neutralize his economic gains.

"It's putting me back, commission-wise, where I was a couple years ago," Eastridge said.

### Retailer profits growing

From July 2004 to June 2005, retailers collected \$164.1 million net revenues for hosting lottery terminals, said Chuck Baumar, lottery spokesman. From July to June 2006, they collected \$ million.

During heated negotiations in 2005, many lottery retailers insisted they would keep their 2004 commission for video poker rather than expand into electronic slots at a lower share.

In the end, of the 2,169 lottery retailers offering video terminals but 81 have added electronic slots to video poker games. Most added games by the end of the summer 2005.

But that's nothing to sneeze at. He estimated the bar will net about \$100,000 or \$105,000 from video lottery games. And places that cater more to lottery players, such as the local Coopers chain, make several times that amount in commissions.

"The lottery is keeping a lot of us in business; there's no doubt about that," Eastridge said.

Still, he wonders why the state is reducing commissions that already are lower than other states with video lottery games.

Edelman of Stand for Children said he was pleased that the trigger will take effect.

"Now, the significant increase in lottery revenues due to line games will result in greater funding for schools and other public services, rather than just leading to greater profits for lottery retailers," he said.

Steve Novick, a persistent critic of retailer profit levels, said the trigger "limits the spectacular windfall that they would get" with electronic slots. Lottery hosts "are being paid an average of \$75,000 to \$80,000 or more," he said, and still could make plenty of money if they got 15 percent of the profits, or even less.

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