

[State of addiction](#)[Articles - November 2008](#)

Oregon increasingly relies on its lottery to fund crucial programs. When, not if, the lottery maxes out, what will it mean for the state's future?

BY ABRAHAM HYATT

One word: addiction.

Use it to describe Salem, dependent on a massive, ever-growing windfall of lottery dollars. Use it to describe Oregon retailers who fight to keep as much of the winnings from that gambling as they can. Use it to explain the creation of those problem-gambling billboards with their almost comical warning: Not to be played for investment purposes. Use it to describe the tens of thousands of people feeding money into flashing dream machines, chasing down a state-sponsored fantasy.

Use it to describe a state Legislature that appears unprepared for a future when the lottery revenue it desperately relies on may plateau or even decrease.

Since its creation in 1985, the Oregon Lottery and the revenue it generates have become a singular fiscal thread that weaves through every corner of the state. It winds through bars and convenience stores, economic development and gambling-addiction programs, schools and rehabilitated waterways, and eventually ends in Salem, binding the wrists of legislators.

In 2007, Oregon ranked seventh in the nation for percentage of state revenue derived from lottery dollars. Gross lottery sales are expected to top \$1.2 billion this year (72% of which comes from video gambling machines) and will account for at least 7% of the state's budget — an incredible boon to a Legislature that grapples with Oregon's perpetually unreliable revenue base. When the 2009 session convenes, 50% of that money will go to voter-designated projects; elected officials will fight for a slice of the remainder to pay for an as-of-yet unknown number of additional projects. But there appears to be little thought — including from critics of the lottery and those that sit on the Legislative revenue restructuring task force — of what will happen if lottery funds level off or even decrease.

That's not just a hypothetical scenario. One of the biggest risks to Oregon's lottery sits a half hour north of Portland in Clark County, Wash., where the Cowlitz tribe is attempting to build a \$510 million casino project. As Oregonians potentially flee Portland-area gambling locations — which account for 50% of the state's lottery revenue — for the casino, it would have a “devastating effect on the lottery,” says Chip Lazenby, one-time legal counsel to Gov. John Kitzhaber and current general counsel for Portland State University. On a smaller scale, a proposed casino in Cascade Locks and the Jan. 1, 2009, ban on smoking in bars are expected to have a short-term impact on lottery revenue.

The long-term risk to the lottery is simply the growth of the state. Oregon's population undoubtedly will continue to expand at a rapid pace, but the number of video machines allowed in places such as restaurants and bars is capped at six per location. Even as new locations continue to open, the state likely will run out of machines to service the growing number of players. When that happens, lottery revenue will plateau. The Legislature can change that number of machines, but based on Salem's current trend of sending controversial issues to voters, it's possible Oregonians would have to make the choice.

It's not a simple one. Voters may be hesitant to allow mini casinos in every neighborhood bar. (The state's constitution bans state-run casinos; the state's justice department defines a casino as more than 100 video machines.) Voters will also be faced with the ethical repercussions of expanding state-promoted gambling. And Oregon's Native American tribes, which have a very powerful presence in Salem, are unlikely to support any effort that would take money from their own casinos.

The Oregon Lottery Commission is proactively trying to safeguard itself from at least one of those risks. In early October, lottery director Dale Penn described an intensive plan that will introduce multiple new games and update video gambling machines in the months leading up to and following the smoking ban. But the commission is taking a wait-and-see approach to other future risks.



Playing to win at Aunt Tillie's Deli in northeast Portland.

"It's not an issue today," Penn says of the saturation issue. "But it's certainly something to watch for in the future. It's certainly something to plan for."

PHOTOS BY MICHAEL HALLE

No matter what the commission plans or when, the Legislature's need for lottery dollars will remain unchanged. The majority of the money is dedicated to programs such as parks, education, salmon recovery and economic development, which frees up general fund money for other discretionary needs. If lottery funds plateau while the needs of those dedicated programs increase, then what?

"We're going to have to ask if it's too nerve wracking to reaffirm our need for gambling, then do we add a tax increase or do without the money?" Lazenby says. "That's a very gut-wrenching choice. It's become a part of our lifeblood."

One word: addiction. And Oregon appears to be unable, or so far unwilling, to confront what its dependency will mean in the coming decades.

In the minds of many Oregon senators and representatives, the problems posed by the lottery have less to do with its potentially uncertain future and everything to do with a balancing act where fiscal needs must be weighed against the moral implications of state-run gambling. In other words, defining the lottery's future is as much philosophical as it is pragmatic.

In the last Legislative session there was very little overt opposition to the lottery; even its detractors are quick to acknowledge the necessity of the revenue it provides. One example of that intertwined opposition and support came when a minor bill allowing video lottery machines in brewpubs was opposed by only 11 representatives and two senators.

Rep. Mitch Greenlick, a Portland Democrat who voted against the bill, is one of the Legislature's most acerbic anti-lottery voices. "We're just a junkie, a big lottery junkie," he says. He rails against the addictive nature of video machines and castigates his fellow legislators for not coming up with different ways to generate funding. "But we're not going to do that. That's a fantasy. We're like any other junkie and we don't want to quit cold turkey."

A few breaths later, however, Greenlick acknowledges how important lottery funds are to parks and schools, and the impossibility of convincing voters to pay hundreds of millions of dollars in new taxes to support those programs.

Rep. Ben Cannon, another Portland Democrat who voted against the brewpub bill, is equally trapped between the good and bad. He says he's worried the state has ethically compromised itself in its pursuit of lottery dollars. Oregon, he says, should find other sources of revenue before it thinks about expanding the lottery.

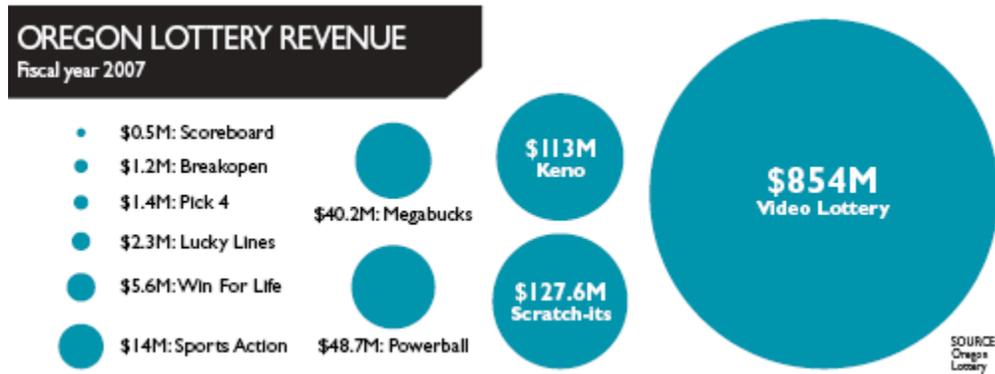
"At this point we can't do without [lottery dollars]. But I don't want us to become even more reliant," he says. "Where do we draw the line? There's not a clear test for that."

Around the state, and on either side of the aisle, legislators mull similar questions.

"We talk the talk but don't walk the walk when it comes to gambling addiction. I struggle with that," says Rep. Sal Esquivel, R-Medford.

"When you look at the lottery, it's only one piece of the revenue-gathering picture. But perhaps we've allowed it to become bigger than it should be," says Sen. Avel Gordly, D-Portland.

But that dichotomy — the knowledge of what state-supported gambling does to Oregonians vs. the impossibility of raising taxes to pay for crucial programs — shouldn't come as surprise to anyone: Critics have been warning of just this scenario since the early days of Oregon's lottery.



Robert Goodman is the former director of the United States Gambling Study, a research project funded by the Ford Foundation and the Aspen Institute. In the early 1990s, around the time the Oregon Legislature approved video gambling machines, Goodman met with Kitzhaber's staff to talk about the convergence of government and gambling. That same topic formed the backbone of his 1995 book, *The Luck Business: The Devastating Consequences and Broken Promises of America's Gambling Explosion*.

"What began perhaps as a reasonable effort to capture, for the public coffers, dollars already being bet illegally has mushroomed into an enterprise that is radically transforming the role of government," Goodman wrote. "That we have also arrived at a point in time where state government agencies are studying demographics and psychological behavior of state residents in order to encourage them to gamble more, not only raises serious moral questions, but calls for a more fundamental reassessment of the nature of government's role in the business of gambling."

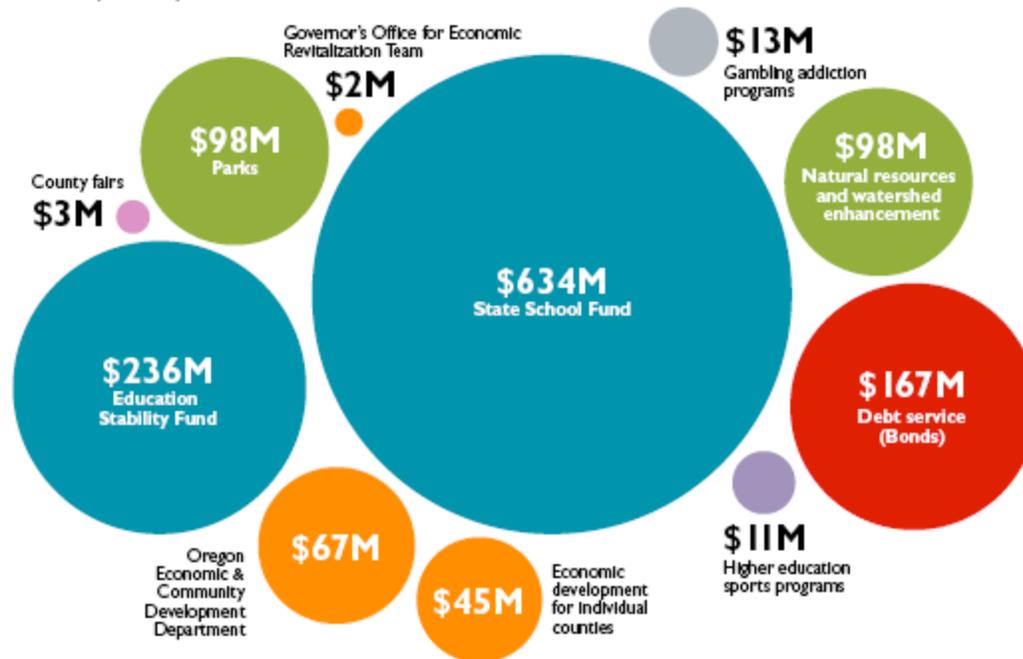
A more familiar name was also sounding warnings in the mid 1990s: then attorney general and now governor Ted Kulongoski. In a 1996 *New York Times* op-ed piece he co-wrote with former assistant attorney general Peter Bragdon, Kulongoski warned that Oregon had not done enough studies on the social costs of gambling before starting the lottery. And he chided those who would excuse the damage the lottery may do by talking about the programs it funded.

"Right now, we in Oregon do not know if we have created a monster. Nor do we know the real cost of state-run gambling, social and economic," he wrote. "But we know we are going to pay the price."

Twelve years later, does the governor think the state has created a monster?

HOW LOTTERY DOLLARS ARE SPENT

2007-2009 (In millions)



SOURCE: Oregon Lottery

Spokeswoman Anna

Richter Taylor says the governor wishes the state wasn't so dependent on lottery revenues, but he acknowledges the revenues help fund important programs such as education, state parks and economic development.

It was a policy enacted by the public and it's the state's responsibility to implement the policy, says Richter Taylor, particularly when it means ensuring that lottery proceeds are used to support those with addiction problems.

But the Legislature's support for those programs has not always been consistent. Over the past decade, Thomas Moore, with the Wilsonville-based consultancy firm Herbert and Louis, has seen the Legislature raid the reserves of gambling treatment programs, as well as shrink, eliminate and eventually reinstate those programs' slice of lottery revenues. Moore has seen the effects of that fiscal roller coaster firsthand: Starting in 1997, the state's department of human services — with financial support from Oregon's tribes — has commissioned six gambling addiction studies; Moore has been the author of almost all of them.

Oregon instituted its first pilot addiction treatment programs in 1993. The first major problem-gambling study was completed in 1997 and showed that 3.3% of the state's population had gambling-addiction-related problems. That dropped to 2.2% in 2003 and crept back up to 2.7% in 2007. By comparison, 3.7% of California's population was considered problem gamblers in 2006.

It's not difficult to put a human face on Oregon's gamblers: According to that 2006 study, they're primarily white and more than 70% do not have a college degree. About 21% make less than \$25,000 a year while 30% make between \$25,000 and \$50,000 a year. These are people who like to gamble most when they're with friends and family. They like, in order of popularity: traditional lottery games, tribal casinos and non-tribal video machines. Most of them began gambling in their early 20s.

It's unknown how many people in that study ended up in one of the state's 30 gambling addiction programs. What is known is that between 1995 and June 2008, 16,721 Oregonians enrolled in problem gambling programs. Thousands of their wives, husbands, children, parents and siblings enrolled in family treatment programs.

Quantifying the cost of problem gambling on the state, its businesses and residents is a difficult thing. Oregon has done no studies on the social costs of gambling, Moore says. One problem is that there isn't consensus on how to define "social," he says. For instance, some researchers would say a problem gambler stealing money from a personal retirement fund constituted a social cost, while others would say it only affected the individual.

But rough estimates are still available. Earl Grinols is a professor of economics at Baylor University and author of the 2004 book, *Gambling in America: Costs and Benefits*. He calculates the cost of a pathological gambler at \$11,304 and a problem gambler at \$3,222, both in 2003 dollars. According to that estimate, gambling addiction has cost the state of Oregon hundreds of millions of

dollars since its inception.

What will happen to those enrollment statistics if the number of people playing the lottery plateaus or drops off? Will there be more problem gamblers? Fewer? Moore says no research has been done to forecast that kind of scenario. Despite previous funding problems, he says Oregon's treatment facilities have grown to become some of the best in the nation. What's most worrisome is if Salem begins talking about cutting back treatment funding, Moore says. He describes a psychological effect that's taken place in the past when the Legislature simply begins to talk publicly about cutting treatment funding and suddenly fewer people come in for help.

The Legislature currently has dedicated 1% of lottery revenue to those programs. But it's promised similar amounts in the past, too.

"The most difficult question to ask as time goes by is, 'Is the price individuals pay too large?'" says Lazenby. "As the amount of money increases, we stop asking that question."

Or rather, Oregon keeps asking that question — is the price individuals pay too large? — again and again and again without ever deciding on an answer. Some small answers may be in the works.

In-depth fiscal data about the lottery has always been readily available; the Lottery Commission meticulously charts its finances monthly and annually. But Josh Harwood, an economist with the state's Office of Economic Analysis, says that until this year, the state was forced to extrapolate Oregon's gambling patterns based on national lottery figures. The reason: The state didn't have a way to track individual sales on a retailer-by-retailer basis.

"The biggest component of our forecast is overall consumption," says Harwood, who works on the state's revenue and lottery forecast. "And we couldn't tackle it on a local level."

Since June, Harwood's office has begun creating better ways of collecting data. By the time the smoking ban kicks in on Jan. 1, the state will be able to analyze its impact on a regional and local level.

The lottery will also face a change on Nov. 5, when voters have their say on Measure 62. Backed by anti-crime ballot measure supporter Kevin Mannix, Measure 62 is a constitutional amendment that would take 15% of lottery funds that would have normally gone to parks and education and give the money to the state crime lab and county law enforcement agencies instead. It wouldn't change how much revenue the state receives, simply how it's allocated.

"I did not support video poker when it was first introduced," Mannix says, "but the door has been opened. We realize the funding stream is there so we should make the best possible use of it."

Another redistribution of lottery revenue is also in the works. In the next year, the state government will begin renegotiating its contract with lottery retailers. When the lottery was first created, video lottery retailers earned a 35% commission. That number has since dropped to an average of 24%, but only after a prolonged battle between the state and retailers and the Oregon Restaurant Association. Bringing that number even lower is sure to be a struggle for the state, but will mean an increase in the amount of revenue it keeps.

But aside from those upcoming incremental steps — like new data and retailer commissions — there appears to be little or no planned discussion in Salem about the future of the lottery. Rep. Mary Nolan, D-Portland, is co-chair of the Ways and Means Committee — the gateway to the Legislature's coffers. As of early October she wasn't aware of any bill or effort in the 2009 session that would dramatically change the way lottery revenues are used.

The Legislature's 30-member revenue reform task force spent 2008 reviewing and rehashing dozens of short- and long-term concepts that could possibly stabilize the state's fiscal base. None of those concepts addressed the possibility of a change in lottery revenue. According to task force member Esquivel, the lottery hadn't been brought up at all. "The lottery is a kind of lollipop," he says, describing the lack of emphasis. "It's something we get that's extra."

It's one hell of a lollipop — a piece of candy that gives Oregon that No. 7 ranking among states dependent on lottery funds for survival. (Neighbors Washington, California and Idaho rank 37th, 38th, and 40th, respectively, according to the Maine-based research firm Christiansen Capital Advisors.) Take that lollipop away and the task force is going to have to find general fund dollars to replace it. Ask where that money will come from and it begins the endless tail-chasing, moral-quandary-vs.-fiscal-need argument that defines



Oregon's lottery dilemma.

How will Oregon find the answers to those questions? Even if new casinos or a growing population don't affect the lottery, the state's heavy reliance on gambling as a source of revenue will drive the need for some kind of growth.

"I think scratch tickets and Powerball are what they are and sales always remain fairly stable," says Kerry Tymchuk, former chair of the state lottery commission and current state director for Sen. Gordon Smith (R-Oregon). "If the state continues to ask for more proceeds, then will the pressure be to allow retailers to expand to more than six machines or to expand beyond bars and restaurants?"

Oregonians will likely be asked to make that decision. According to Richter Taylor, the governor thinks that since the people of Oregon voted to approve the lottery, it will be the people of Oregon who'll decide when the state has reached its threshold.

Mannix, who has a long history — both successful and unsuccessful — of taking controversial issues to voters, thinks Oregonians would vote to allow more machines. Commission director Penn thinks that as long as bars and restaurants don't look like "mini Las Vegas," voters will increase the number of machines.

"I don't think seven, eight, nine machines are going to violate the casino clause in the Constitution," he says. "We've got time before we butt up against that."

It may take years to reach that point. And in the meantime, Salem's addiction to lottery revenue — and Oregonians' need for the services it funds — will become more entrenched and harder to kick.

There's that word again: addiction.

But Oregon cannot define the future of its lottery and its budget with one word. It will take nuance and complexity for its leaders to be able to explain why it's choosing to cap a desperately needed source of money or why it's asking its citizens to bet on gambling to take care of their state.

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