

Findings of House Lottery Oversight Committee Relating to COAM Industry

1. **Background and Status of COAM Industry.** Due to legislative change, the Coin Operated Amusement Industry came under the GLC's purview in 2014. In addition, a portion of the net revenue (presently 10%) became dedicated funds that help finance the Hope Scholarship and the Pre-K program of which many Georgia children and students have benefitted. This past year, over \$60 million was added to these programs from the playing of these machines. Based upon partial revenue figure for the current year, this revenue may increase to over \$88 million. This revenue is further supplemented by payments of license fees and decals from both the owners of the machines and the locations where these machines are placed. These regulatory fees exceed \$15 million which is greater than the entire cost of regulating this industry by COAM division of the GLC. All these monies collected is further supplemented by these business owners (master license owners and location owners) who pay state income tax, personal property taxes and sales tax on the noncash redemption generated from certain prizes won by successful players of the COAMs. The COAMs are always a part of a larger business and can be seen in convenience stores, bars, restaurants, fraternal groups, American Legions, VFWs, and in such amusement centers as Six Flags, Dave & Busters, Andretti's Speedway, and Chuck E. Cheese. This industry has existed in Georgia since the early 1900's. The present law governing this industry is more advanced than our sister states and is more tightly governed. The COAMs must have "some skill" in their operation and the industry exists across all counties in Georgia.
2. **Current Regulation of COAM Industry.** The relationship between the GLC, the regulatory body governing the industry, and the private sector businesspeople has matured over the past few years. The growing pains associated with a change in law has moved all parties to a place where regulation of largely small businesspeople has to be balanced by fair regulation and marketing the play of the machines by the public. It appears that the playing of the machines has provided an amusement feature that

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also has helped the sale of lottery tickets as a form of noncash redemption relating to the machines. Based upon past history, we find that a GLC COAM gift card (see item three below) would only further serve to increase lottery revenues for the Hope and PreK programs.

3. **Past Practice and GLC COAM Gift Card**. In past years, under previous law, the successful players of these machines were able to redeem their noncash redemption vouchers for lottery tickets, merchandise and gift cards for use at various merchants across the state. This resulted in the purchase of a large amount of gift cards by master license holders and location owners which also created an easy system to collect ancillary sales tax on the items purchased with the gift cards. Based upon testimony and questioning by the Oversight Committee, it appears clear that a GLC COAM gift card that could be used across the state would not only aid in sales tax collection, but also result in a profit center for the lottery in creating and selling these gift cards to COAM location owners for prizes for their customers who play the COAMs. Such a program would be a significant step forward for the GLC and it is strongly urged by the Oversight Committee that such a gift card and any variations thereof be instituted as soon as possible. Changing most of the noncash redemption to either the purchase of lottery tickets or these gift cards would be a boon to new lottery revenues, as well as sales tax collections. It is this kind of out-of-the-box thinking that can propel the Lottery to continue to easily fund such worthwhile programs as Hope and Pre-K. Furthermore, the implementation of the gift card would produce more businesses interested in having the games because the gift card is a simple, acceptable and easy form of the awarding of prizes associated with the playing of the COAMs. Various businesses with multiple locations could provide a lawful and straightforward means of awards for their customers. At the same time, the GLC could develop other marketing opportunities that would increase their profits and help small businesses make ends meet. It is sincerely hoped that GLC will not miss the opportunity to further anchor its successes with this supplemental lottery product which it is already authorized to do under current law.

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4. **Administration Cost of COAM Program.** As with the traditional lottery program, the GLC should provide the Oversight Committee on a semi-annual basis the total amount of revenues for the administration and enforcement of the COAM program. The cost benefits analysis and the need to readjust any priorities for the program should be carefully reviewed. One specific concern is the minimal amount of marketing funds dedicated to the COAM program.
5. **Enhancement of COAM Sales and Marketing Efforts.** The GLC should redouble its efforts to have its master license holders and location owners work more diligently with the Lottery's sales force to increase the number of locations in the state for lottery retailers and COAM locations. If the goal is to increase lottery revenues and to help the small businessperson, more places to play is a sure-fire way to reach this goal.
6. **Compliance with Noncash Redemption Law.** As noted in Item 3 above, the implementation of a GLC COAM gift card has many financial benefits to the Lottery Program, especially the increase in revenue for Hope and Pre-K programs. In addition, the use of such a new lottery product would, in our view, create even greater compliance with the existing noncash redemption which bans the proffering of cash to successful players of the COAM machines. By having this card, location owners could easily train their employment staff to provide such a gift card to the players of the machines. This will result in greater compliance to the existing noncash redemption law and enable the GLC and the Revenue Department to help small businesses easily comply with the amusement and existing sales tax law relating to the COAM industry.