

August 5, 2008

The Honorable Mitchell E. Daniels, Jr.
Republican Candidate for Governor
47 S. Meridian Street, 2nd Floor
Indianapolis, IN 46204

The Honorable Jill Long Thompson
Democratic Candidate for Governor
804 N. Delaware Street
Indianapolis, IN 46204

Dear Governor Daniels / Dear Ms. Thompson:

Your Charge to Invest in Our Workforce

Two of the greatest expectations of Indiana's governor are to be a good manager of public assets and to help prepare our state's greatest resource – its people – for the challenges of a 21st century economy.

Young students require access to emerging career opportunities. Many mid-career workers desperately need to upgrade their skills. Ensuring that Indiana has an always-ready workforce to power its economy will require significant state investment.

A lease of the Hoosier Lottery is the best way to find the necessary resources.

Indiana's economic prosperity cannot be secured without a dramatic increase in the educational and skills attainment of all Hoosiers. Nor can the perennial problem of lagging Hoosier incomes be addressed without a concerted effort to make the skill sets of our state's workers more valuable to potential employers.

The Indiana Chamber has well documented the workplace literacy and technological skills gap in Indiana. Research shows that nearly one million Hoosiers – a sixth of our state's population and nearly a third of our workforce – require some form of skills remediation or further education to remain competitive in today's job market. These are Hoosiers from all areas of the state caught in the whirlwind of an evolving economy. Today's job market is one that requires higher-order thinking and teamwork skills, technical expertise and computer literacy.

With current resources and programs serving only approximately 25,000 of those one million Hoosiers on an annual basis, funding is a prime concern. The looming, large-scale retirements of the baby boom generation add urgency to the task. While private sector partners should, and are, contributing to these training efforts, limited public sector dollars are available.

What could we expect from these investments? Research shows that an associate's degree increases a Hoosier worker's annual earnings by as much as \$8,400 on average, and that a bachelor's degree increases annual earnings by up to \$18,300. The impact is clear and compelling: Educational attainment raises Hoosier incomes and improves the quality of life in Indiana.

How can such an initiative be financed in a time when important demands compete for state budget funds?

In 2007, an innovative idea was offered that meets the criteria of good stewardship of public resources while enhancing educational and workforce opportunities for Hoosiers: Lease the state lottery to a private manager and use the financial proceeds to increase Hoosiers' educational attainment and, therefore, their economic value and earning potential.

Had it been enacted, this plan would have leased the lottery to a private manager through competitive bidding for a minimum \$1 billion up-front franchise payment and \$200 million annual payments for 30 years. We now know that more than a dozen firms were interested in bidding to run the lottery for the state and the up-front franchise fee would have exceeded \$2 billion.

We urge you to pursue a refinement of this proposal to lease the lottery. Given the dollars available and urgent training needs, it would be unconscionable not to use this valuable asset to improve the education and earning potential of Hoosiers. The arguments against leasing the lottery are dubious, at best, and the reasons for doing so remain compelling.

First, as a matter of consistency, state government should not own and operate the lottery; instead, it should license and regulate it just like the state's horse tracks, riverboat casinos, charitable and other forms of gaming. Only the Hoosier Lottery is owned and operated by the state and even now a full 85 percent of the lottery's operations are outsourced; there should be nothing sacred about the remaining 15 percent. The state would not be "selling" an asset, but instead hiring professionals to manage that asset and maximize the benefits for all Hoosiers.

Second, the lottery historically has generated annual proceeds of approximately \$170 million, but revenues have fluctuated dramatically over time (falling as much as 23 percent in 1991-92, for example) and understandably decreased when they were needed most – during tough economic times. A well-structured lease would have the lottery manager make the \$200 million annual payment and engage in profit-sharing with the state. The results are a stable funding source for public use, the elimination of downside risk in tough times and windfall profits as an upside potential for the state.

Third, the \$2 billion (or more) up-front franchise fee is urgently needed. It represents an enormous opportunity – one that cannot be ignored – to invest in our people.

Who are the people depending on this assistance?

It's Hoosiers who are proud graduates of our high schools. They went on to work in jobs that once offered steady employment and solid paychecks, but now lack stability. The assembly line abilities that were in demand for so many years now must be complemented by computer skills and other specialized training.

It's young people who are still preparing for their college education and future careers. We must enable them to take advantage of opportunities in the life sciences, advanced manufacturing, logistics and other industries that are proving to be dominant today and in the years to come.

These are the equivalent of the automotive – and before that agricultural – jobs that sustained our economy for decades.

Pursuing the same old workforce development strategies with the same, insufficient resources behind them will yield the same, unsatisfactory results. Simply put, we must all go back to school – literally, in the case of students and workers looking to upgrade their skills to accommodate a changing job market, and figuratively, in terms of how public officials look at this challenge.

There are convincing reasons to leverage the state's assets through a lease of the Hoosier Lottery, making it possible to invest in Indiana workers. There's no reason for maintaining the status quo when the success of our students and workers is at risk. We encourage you to think creatively and act boldly, making the most of this tremendous opportunity.

Sincerely,

The 125 members of the Board of Directors of the Indiana Chamber of Commerce, representing 4,800-plus member companies employing approximately 800,000 Hoosier workers.