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ARISE CITIZENS' POLICY PROJECT

FACT SHEET

What Alabamians should know about a state lottery

By Carol Gundlach, policy analyst
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Gov. Robert Bentley has proposed a lottery. What is Arise's position? Since 1988, Alabama Arise has worked to unite people from a range of backgrounds behind our shared goal: improving the lives of low-income Alabamians. On the question of a state lottery, Arise's member organizations hold widely varying positions, some of them based on strong moral or religious beliefs. Because our bylaws prevent us from taking positions that deeply divide our membership or offend members' deeply held beliefs, Alabama Arise is neutral on the lottery. However, objective analysis reveals several lessons Alabama can learn from other states.

How do lotteries affect revenues for public services?

Most states have lotteries. Every state except Utah and Hawaii derives some state revenue from gambling. Forty-four states operate lotteries. Lotteries can be run directly by a state commission or can be operated, under contract, by a private corporation. State lotteries also contract with private companies to publicize and promote the lottery and with local vendors to sell lottery tickets. Most state lotteries also participate in multi-state games operated by an association of lotteries. Each state retains its own proceeds from these multi-state games.

States spend their lottery money to fill a variety of needs. Most states with lotteries dedicate some or all of the revenue to education, either for K-12 schools or for college or vocational scholarships. Other uses include infrastructure, transit, pensions, health services and economic development.

Both lottery earnings and state revenues from them vary widely. State lotteries brought in more than $21 billion (ticket sales minus prizes and administration) in 2014, Census data show. But the amount of lottery money that goes to states varies widely. Proceeds range from a low of 18 percent in Arkansas to a high of 74 percent in South Dakota, the Rockefeller Institute found. Differences in the size of prizes and the cost of lottery operation and promotion contribute to the difference in state revenues. Among states with populations similar to Alabama, lottery proceeds in 2014 ranged from Louisiana's $161 million to South Carolina's $327 million, Kentucky's $228 million, and Colorado's $128 million, Census data show. The share of revenues retained by these states after prizes were paid ranged from 25 percent in Colorado to 38 percent in Louisiana.

Lottery revenues are declining as more states participate. During fiscal year 2015, lottery revenue went down 0.7 percent in inflation-adjusted dollars, according to the Rockefeller Institute. Revenue went down in 27 of the 44 states with lotteries. Declining revenue is caused by competition from neighboring states and competition from other forms of gambling. To combat declining revenue, many states with lotteries have increased the prize size, which reduces the share of revenue that reaches state coffers. Other states have turned to instant-prize tickets or Internet ticket sales.

Lottery revenues often decline during recessions. Lottery revenues fell in 2009 in 61 percent of all lottery states and territories, Census data show. Indiana saw the largest drop at 18 percent. In states similar in size to Alabama, 2009 lottery revenues were down 17 percent in South Carolina and 7 percent in Kentucky.

Lotteries are expensive to operate. A lottery is a big business involving a network of ticket vendors, corporate consultants and advertising agencies. In addition, large prizes are needed to encourage ticket sales. Compared to taxes, lotteries have low return rates to states. In 2012, 26 states received less than a third of the lottery revenue raised. This was unchanged from six years earlier when lotteries earned more than $56 billion but states received only $17 billion. Most of the rest was paid out in prizes, with $460 million spent on advertising and $3.3 billion on commissions to vendors, *The New York Times* reported in 2007.

How do lotteries affect people living in poverty?

Lotteries rely on a small number of frequent players, many of whom are low-income. Many people buy an occasional lottery ticket, but the games rely heavily on a relatively small number of players who buy a lot of tickets. Ten percent to 15 percent of all players account for 80 percent of ticket sales, *The New York Times* reported in 2007. People in the top 10 percent of players spend an average of $2,593 a year on the lottery, a Duke University study found in 1999.

Studies have found that lower-income people have the highest per capita spending on lotteries and the highest number of days gambled. A 2012 study in the *Journal of Gambling Studies* found that 61 percent of people in the bottom income quintile played the lottery, buying tickets on 26 days on average in the previous year; people with higher incomes only bought tickets on 10 days. Similarly, the North Carolina Justice Center found that counties with the highest poverty rates had the highest lottery ticket sales. In one poverty-stricken county, $423 in lottery tickets were bought per every adult, more than double North Carolina's average sales of $200 per adult per year.

High lottery spending can reduce spending on essentials for low-income families. One study found that introduction of a state lottery reduces family non-gambling spending by $46 per month. That reduction was deepened when the lottery included scratch-off tickets. For these families, spending declined for food, housing and other essential bills.

What questions remain if Alabama approves a lottery?

How do we solve next year's General Fund shortfall? Even if voters approve a lottery, it wouldn't be operating soon enough to stop deep Medicaid cuts in 2017. The Legislature would have to find "bridge money" to protect Medicaid until lottery revenue is available.

What's the right balance between prize size, administration, advertising and state revenue? An imbalance favoring revenue could reduce ticket sales. An imbalance favoring prizes and advertising would reduce benefits to the state.

How can we protect consumers, low-income communities, and people at risk of addiction? Many states prohibit scratch-off tickets, limit or bar credit card ticket purchases, limit advertising, prohibit Internet purchases, require consumer warnings at ticket outlets, or fund addiction treatment with lottery revenue. These measures also can decrease sales (and state revenue).

On what should we spend lottery revenue? Given the earnings decline both during recessions and over time, depending on a lottery as regular funding for Medicaid and other services whose costs increase during downturns may not be wise.

How can we ensure the lottery won't supplant tax revenue? Even after it implemented a lottery, North Carolina cut state support for education by $2.3 billion in 2010. Learning from a similar mistake in Florida, Georgia designed its lottery to fund scholarships, not the core education budget. Some states prohibit legislatures from slashing tax support for lottery-supported services, though these laws have not been particularly effective.

How would Alabama plan for lottery revenue declines? If voters pass a lottery, Alabama should be conservative in predicting anticipated revenue and should build assumptions about revenue declines into forecasting models to help prevent shortfalls when lottery revenues drop or stagnate.