ALABAMA POLICY INSTITUTE

GUIDE TO THE ISSUES

# Lottery Economics

## ISSUE SNAPSHOT

Lotteries add very little to the incomes of most state governments; the average lottery state realizes only about 3.6% of its income from its lottery.

The same market forces that reduced Alabama's tax revenue—putting the state in its current fiscal crisis—would have the same effect on a lottery.

The market for large-scale gambling in the United States is already flooded: 95% of Americans already live in a state with a lottery, and most are within a few hours' drive of one or more of almost 1,000 casinos scattered across the country.

## Background

Fifty years ago, state governments considered it part of their responsibility to protect their citizens from the dangers of gambling.[1] Since then, lotteries have gone from being banned in every state in America to being operated and promoted by 44 states and the District of Columbia.[2]

In most states, the lottery has been sold to legislatures as a painless way to increase revenues without raising taxes.[3] Their revenues have been used to fund a variety of initiatives, including education, economic development, social services, and transportation.[4] Alabamians have rejected multiple efforts to expand gambling over the past twenty years, yet the current shortfall of more than $200 million in the state's General Fund has some legislators considering legalizing a state lottery to help fill the state's coffers.

## Policy Consideration

Despite the liberal use of "millions" (and even "billions" in some larger states) by gambling supporters to describe the potential benefits of legalizing a lottery, there are at least three reasons why doing so is not in the best economic interests of Alabamians:

Gambling is not a "fix" for any state's economy. Lotteries add very little to the incomes of most state governments. According to the comprehensive annual financial reports of all state lotteries in 2012, revenues from the average lottery covered about 3.6% of total state government expenditures.[5] If Alabama chose to adopt a Georgia-style education lottery, the actual amount received by the state to offset essential spending would be even lower, as most lottery revenue would go to college scholarship programs and other beneficiaries not otherwise covered by either the General Fund or the Education Trust Fund.[1]

Likewise, a dollar spent on a lottery ticket in Florida, Georgia or anywhere else does not equal a dollar devoted to education. In Georgia, for example, about 64 cents of every dollar in revenue earned by the state's lottery in 2013 was given back to gambling patrons in the form of prizes, and another ten cents was used to cover administrative expenses and commissions for retailers. The remaining 25 cents per dollar was earmarked for college scholarships (14 cents; 56%), pre-K programs (nine cents; 36%), and technology upgrades for the state's schools, colleges and universities (two cents; seven percent).[6] Because Alabama has a smaller population and a lower per-capita income than all of its neighboring lottery states, fewer dollars could be expected to be played and raised for the state.[7]

The same market forces that reduced Alabama's tax revenue—putting the state in its current fiscal crisis—would have the same effect on a lottery. From the

[1] You asked in your earlier remarks whether we would know whether this last sentence would be true. If Alabama adopted a Georgia-style lottery, the disposition of revenue would indeed go mostly to HOPE-style college scholarships, with a tiny fraction going to other education-related projects, because that is the heart of the Georgia model. Except for $200,000 that goes to Georgia's DHR every year to help pay for gambling addiction treatment, no other lottery-based funding goes to the equivalent of their General Fund.

beginning of the Great Recession in 2008 to 2012, the revenues generated by lotteries for their states declined for an average of two years, with sixteen lottery states reporting declines for three or more years.[8] Similar losses in gambling-related tax revenue occurred in states with casinos and riverboat gambling, with seven states having yet to return to their 2008 tax revenue levels.[9] If the experiences of other states are any lesson, another economic decline would drive down revenues from an Alabama lottery, forcing the state to raise taxes and introduce more exciting and addictive games.[10]

The market for large-scale gambling in the United States is already flooded. With 95% of Americans already living in lottery states, and most living within a few hours' drive of one or more of the 979 casinos scattered across the country, there is little reason that tourists would come to Alabama to gamble.[11] For the most part, lottery revenue would come from Alabamians. Other states have found that the discretionary incomes of residents that would have been spent on local businesses are instead "invested" in lottery tickets, transferring large amounts of revenue away from local economies that would have used them to create jobs, goods, and services. This is the opposite of the kind of economic stimulus a depressed economy needs.[12]

## Recommendation

The experiences of other states show that the income a lottery would bring to Alabama would constitute only a small fraction of what the state needs to operate. Gambling revenue is also vulnerable to the ups and downs of the economy, making it an unstable source of revenue, particularly in tough economic times. Given that much of the revenue from an Alabama lottery would come from the state's own residents at the cost of local businesses, it makes no economic sense for Alabama to legalize a lottery.

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2 Kim Chandler, *Which States Don't Have a Lottery? One Might Surprise You*, AL.COM (Dec. 31, 2013, 8:13 AM), http://blog.al.com/wire/2013/12/which_states_dont_have_a_lotte.html.
3 Heberling, *supra* note 1.
4 NORTH AMERICAN ASSOCIATION OF STATE AND PROVINCIAL LOTTERIES, *Cumulative Lottery Contributions to Beneficiaries*, www.naspl.org/UploadedFiles/files/new_cumulative_lottery_contributions_to_beneficiaries.pdf (last viewed Oct. 2, 2014).
5 Estimates for the percentage of state budgets covered by lottery revenue calculated by dividing total transfers from lotteries to state governments by General Fund historical state budget spending for each states in FY 2011-2012. Lottery transfer amount source: NEW HAMPSHIRE LOTTERY, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013*, 57 (Oct. 14, 2013), www.nhlottery.com/Files/PDFs/CAFR-2013-Final-for-WEB.aspx. State budget information source: BallotPedia, www.ballotpedia.org/ (under "State" tab, click on "State Budgets;" select state; then click on "4.4 Fiscal Year 2012" under "Contents" menu).
6 GEORGIA LOTTERY, *Georgia Lottery: Where the Money Goes*, www.galottery.com/lotterybenefitsgeorgians/#p-questions (last viewed Jan. 21, 2015).
7 Dick Gentry, *It's Two to One the Lottery Won't Make It in Alabama*, BIRMINGHAM BUSINESS JOURNAL, May 1, 1995, at 4.
8 NEW HAMPSHIRE LOTTERY, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013*, 57 (Oct. 14, 2013), www.nhlottery.com/Files/PDFs/CAFR-2013-Final-for-WEB.aspx.
9 AMERICAN GAMING ASSOCIATION, *2013 State of the States* (Apr. 21, 2014), *available at* www.americangaming.org/industry-resources/research/state-states, and earlier editions.
10 Heberling, *supra* note 1 at 598.
11 Population data from AMERICAN FACT FINDER, U.S. CENSUS BUREAU, *Annual Estimates of the Resident Population for Selected Age Groups by Sex for the United States, States, Counties, and Puerto Rico Commonwealth and Municipios: April 1, 2010 to July 1, 2013, Table PEPAGESEX*, http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=PEP_2013_PEPAGESEX&prodType=table (last viewed Nov. 5, 2014); destination gambling data from AMERICAN GAMING ASSOCIATION, *2013 State of the States* 4 (Apr. 21, 2014), *available at* www.americangaming.org/industry-resources/research/state-states; and Cathy Wilde, *People in Poor Neighborhoods are Twice as Likely to Have Gambling Problems, Study Finds*, NEWS CENTER (University of Buffalo: Jan. 3, 2014), www.buffalo.edu/news/releases/2014/01/001.html; Grace M. Barnes et al., *Gambling on the Lottery: Sociodemographic Correlates across the Lifespan*, 27 JOURNAL OF GAMBLING STUDIES 575, 575-586 (2011), *available at* www.ncbi.nlm.nih.gov/pmc/articles/PMC4103646/; and NATIONAL OPINION RESEARCH CENTER, GAMBLING IMPACT AND BEHAVIOR STUDY 8 (1999).
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