

Is the Lottery Right for Tennessee?

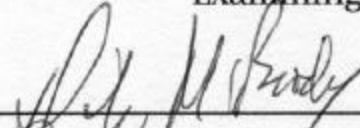
by
Lindsay Boyer

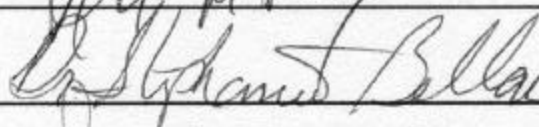
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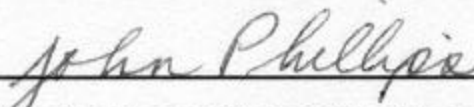
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by

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Most individuals consider \$38 million a dream come true. The thirty-six states, which operate lotteries, believed one thousand times that amount of money - \$38 billion - would answer their dreams.

Amassing just over that amount in 2000 (LaFleurs, 2001), lotteries have given states a new way to raise much needed revenue. Facing another year of budget shortfalls, estimated between \$300 and \$350 million, some Tennessee state legislators hope to tap into the possible revenues that a state lottery could provide, perhaps as soon as 2003 (Graham, 2002). Who can argue with them? A lottery appears to be a win-win situation. Citizens can buy the chance to win a dream, and the state receives an influx of revenue.

The research reported in this paper seeks to present an in-depth review of state lotteries. To accomplish this objective, I first examine the factors favoring lottery introduction including some of the arguments for and against lotteries. Then, I examine the effects

lotteries have had in other states to predict the possible influence a lottery will have on Tennessee state revenues and state spending for public education. Finally, in this paper, I analyze budget data over a series of years to make possible some conclusions as to the longer term effects of state lotteries.

The Commission on the Review of National Policy Toward Gambling has defined the lottery to be "a form of gambling in which chances to share in a distribution of prizes are sold" (1979, 143). State operated lotteries have netted over \$420 billion since their modern introduction into state policy in 1964 by New Hampshire (North American Association of State and Provincial Lotteries, 2002). Since then, thirty-eight state governments and the District of Columbia - representing nearly ninety percent of the nation's population - have instituted a lottery. Every United States citizen either lives in a state with a lottery, or lives next to a state with a lottery. South Carolina became the most recent addition, as citizens voted in 2001 to initiate a state lottery. Tennessee decides next as voters will have a chance at a lottery-issue referendum on the 2002 gubernatorial ballot.

Distribution of goods and funds by lot has a history that dates as far back as the ancient Egyptians, but Florence, Italy established the first money lottery in 1530. European lotteries were used continuously to

"acquire state loans, reduce the national debt, raise funds for projects, or raise money as general revenue" (Thomas, et al, 1984, 292). With the settlement of the American colonies, individuals, governments, schools, and even churches used lotteries to raise funds. Because of the lack of state tax structures, the era after the ratification of the Constitution saw the highest level of lottery popularity. As the new nation became more economically stable, lotteries gradually lost their allure (Thomas, 1984).

In the post-Civil War era, the rise of the Louisiana Lottery brought the lottery business back into the forefront of American politics. This organization, providing at least \$25 million to the state of Louisiana, flourished in a monopoly environment, as surrounding states disbanded their own lotteries. It was not without a cost. The Louisiana Lottery prospered; however, evidence of rigged drawings, bribed state legislators, and abuse of the postal service sparked an effort to pass federal laws that would prevent lottery operations. In 1827, Congress passed legislation to prohibit the use of the postal system to distribute lottery material. In 1890, Congress prohibited completely the interstate carriage of lottery or lottery related materials (Thomas, et al, 1984; Blakey, 1979).

Between 1890 and 1963, forty-five states banned lotteries - thirty-five of those, including Tennessee, specifically in their state constitutions. The revival of the lottery came in 1964 when New Hampshire established a state lottery in order to fund public education. Despite meager earnings in the beginning, many states, desperate for some kind of new revenue, quickly followed suit. Seeing the lottery as a voluntary tax, and possibly a way to curb illegal gambling, states scrambled to take advantage of the revenues a lottery could provide (Blakey, 1979). By 1980, fourteen states had a lottery. Eighteen others followed by 1990.

Over the past thirty-seven years, the adoption of state lotteries has sparked political debate and economic analysis over their proposed outcomes and possible consequences. Since its passage in the 102nd Tennessee General Assembly, the legislation initiating the amendment process concerning the state constitution's lottery provision has been no different. The media has well documented the coming duel between the lottery champions and their opposition.

Who Chooses?

Factors favoring lottery adoption

Research suggests several factors lead states to employ a lottery as a public finance policy. Generally, whether or not a state is experiencing fiscal stress, the population of the state, religious composition, political factors, and the number of neighboring states that have lotteries all effect a state's decision to enact a lottery. According to James Alm, et al (1993), fiscal stress has the most significant impact on lottery adoption. He states, "It may well be that, although a state considers the lottery issue over a period of years, it takes an immediate decline in fiscal health to push the state into lottery enactment" (Alm, et al, 1993, 472).

A 1999 study (Erekson, et al, 1999) corroborates these findings. The authors also noticed a regional trend of lottery adoption, and asserted that states adopt lotteries in order to avoid the tax exporting efforts of other states - the effort of states to place the burden of a tax on residents outside their own state. As more and more surrounding states adopt a lottery, in order to preserve existing revenue, states feel compelled to adopt their own lottery (Erekson, et al, 1999).

State governments have several options for their lottery funds. State officials can choose to place revenues in the general fund, but more likely they will choose to set revenues aside for some specific purpose. Earmarking funds for a specific program has proven to be a successful strategy in lottery adoption campaigns (Pierce, et al, 1999). Having targeted a specific area of concern, policy advocates can better market the lottery to voters against their opponents. While a few states still dedicate their lottery revenue to the general fund, thirty-one states earmark their lottery revenues in some way.

Typically, states earmark lottery revenue for the purpose of education. Twenty-one lottery states distribute at least some of their revenue to education. However, of these only fourteen earmark solely to education, with six of those specifying a particular program that the lottery revenue will fund. While many states focus primarily on K-12 education, and some focus specifically on capital improvements, the majority earmark for scholarship or excellence programs.

In Tennessee, the debate over implementing a lottery has dragged on for twenty years, and residents of the state are closer than they have ever been to a lottery. The debate is being fought in churches, newspapers, and billboards during a third year of state budget crisis. Although some legislators placed lottery support at nearly eighty

percent, a survey in 2001 found statewide support for a lottery at sixty-eight percent, with the largest support found in Middle Tennessee (Cruz, 2001).

Insert Figure 1

Supporters argue the lottery could bring in up to \$302 million of much needed revenue for the state (Shiffman, 2001). This revenue would improve education in Tennessee by "sending students to college on scholarship, funding new education initiatives and improving technology in schools" (Tanner and Turner, 2002).

Supporters also contend that by offering scholarships, the state will also encourage economic development by providing a better-educated work force. The Tennessee Student Scholarship Lottery Coalition - a coalition established to lead the pro-lottery campaign in Tennessee - has estimated that the state loses around \$250 million a year because Tennessee residents gamble in other states (Tanner and Turner, 2002).

Lottery detractors argue that not only will lower-income individuals shoulder a larger burden of this new "tax," but state spending on education could actually decrease. The Tennessee Eagle Forum and various religious organizations united as the Gambling Free Tennessee Alliance have led the anti-lottery movement in the Volunteer state. In

state-wide media they have spoken out against the lottery, criticizing its impact on gambling addiction and its impact on low-income individuals.

How it works

Lotteries resemble traditional operations of state government in the sense that the states spend money to produce a good or service, which they must then distribute. However, they differ in several areas. First, unlike most state services, the measure of success of a lottery is revenues earned not services provided. In a sense, the lottery resembles a business that needs to make a profit, which leads to the next two differences. The lottery requires a commitment to expensive marketing, and finally, the lottery often operates as a separate government agency.

The lottery is the largest operation of government that requires expensive commercial marketing, including product design and advertising (Clotfelter, et al, 1999). In 1997, state lotteries spent \$400 million to advertise their product, approximately 0.9 percent of total lottery sales. To increase profit, it becomes vital for a state to promote their product, in this case their lottery, and to engage in diversification of the product in order to expand their consumer base.

The lottery also operates in many cases as a separate state commission or agency - only a third operate under the aegis of an existing state department. The separation from the regular state structure supposedly allows for running the lottery less as a government program and more like a business. Consequently, some state lotteries are not bound by the same civil service requirements as other state agencies. Rather than share the same appointment process as other state agencies, some states have chosen to run a lottery separately. Appendix 2 illustrates the position of state lotteries within each state.

Gross versus Net Revenue

Next to other government products, lotteries represent one of the larger products created and sold by state governments.

In terms of dollars spent on them, they have become one of the largest operations run by state governments. In 1997 individual citizens spent some \$36 billion on them. As an activity undertaken by state government, this amount was exceeded only by education, public welfare, highways, and health, and it was greater than the total that all states -- including states without lotteries -- spent on corrections, or on parks and natural resources (Clotfelter, et al, 1999, 7).

While lotteries have grossed over \$427 billion for states, in reality, states only see about thirty-five percent of that money. Nationally, the state government return on lotteries averages thirty-five percent, but ranges from sixteen percent - South Dakota - to forty-two percent - New Jersey and New York (LaFleur's, 2001). In 1997, the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) estimated total lottery sales would be \$826.2 million that year. However, the state would have only seen \$302.4 - a return rate of thirty-seven percent, just above the national average.

Proponents of the lottery typically don't emphasize the inefficiency of the lottery. Compared to the administrative costs of other revenue sources, the lottery has the highest cost for the least explicit return (Mikesell, 1986). The federal income tax, where most of the burden of administration falls to citizens, has an estimated administration cost of one half of one percent (Hyman, 1983). A similar situation would be expected for state income and sales tax. Figure 2 tracks the distribution of lottery revenue for several lottery states in 1999. The final column shows the varying shares of revenue received by the state and the proportion of lottery dollars going to administration. Administrative costs range from 3.9 percent in Texas to 24.8 percent in New Mexico

Insert Figure 2

Tax Structure Effects

Who Pays: State tax structure also can change the revenue effects of a lottery. Researchers have found that state lottery revenues have different effects on state budgets depending on state tax structure. States with no income tax typically see the least amount of revenue from the lottery. New Hampshire, Connecticut, Rhode Island, Vermont, Washington, and Colorado "universally had the lowest net lottery revenue" (Borg, Mason, and Shapiro, 1993), a finding that may stem from a relationship between state population and revenue rather than from the absence of an income tax. Without the revenue base that an income tax would provide, states depend on other tax sources, most visibly sales and excise taxes. However, buying a lottery ticket may take away revenue generated through these taxes. Borg, Mason, and Shapiro (1993) found states with high sales or excise taxes lost up to thirty cents of sales/excise tax revenue for every dollar spent on the lottery. The combined effect of no income tax and high sales or excise tax could cause a state to forfeit even more tax revenues. Borg, et al, also found that as lotteries grew, so did revenue lost from other sources. To be sure, the lottery would still provide a net gain for states, but the tax structure in place negatively effects the ability to generate total state revenues.

Who Plays. Because of public opposition to taxes in general, policy analysts consider equity as a factor in tax policy implementation. One of the most serious arguments concerning the lottery pertains to the tax burden. Opponents of the lottery contend that disadvantaged citizens disproportionately carry the weight of the lottery tax. By disadvantaged, researchers generally mean state citizens with less than a high school education and with a household income of less than \$10,000. Although, not a truly regressive tax because of its voluntary nature, opponents still consider lotteries as regressive because of the disproportionate spending on the lottery by those who can least afford it.

Earlier research (Borg and Mason, 1988; Clotfelter and Cook, 1987, 1989; Davis, et al, 1992; Heavey, 1978; Mikesell, 1986) points almost without exception to the regressivity of the lottery, finding that lottery play by lower income and less educated individuals account for a disproportionate share of lottery revenues. More recent research by Herring and Bledsoe (1999) confirmed these earlier findings and also found a highly favorable predisposition toward lottery play among respondents with lower levels of education and income. Figure 3 depicts lottery play as a percentage of income. For income levels above \$70,000, individuals spent 0.18 percent of their annual income on the lottery, compared to those at the opposite end (less than

\$10,000) whose expenditure reached 1.51 percent of annual income.

Insert Figure 3

Clotfelter (1999) in a report prepared for the National Gambling Impact Study Commission (NGISC) provides additional evidence of lottery regressivity. The data presented in Figure 4 confirms an inverse relationship between income and annual lottery play. Annual lottery play increased from \$289 for households with incomes over \$100,000 to \$597 for households with incomes under \$10,000. The data also shows the relationship between education and lottery play. College graduates played \$178 annually. In comparison, high school dropouts played \$700 per year.

Insert Figure 4

Demographically speaking, race, gender and age do not affect initial lottery participation. However, all three of those characteristics are related to the degree of lottery participation. Figure 5 shows the annual per capita lottery play for each demographic group. The average lottery play is \$313 a year. However, the annual per capita play of African-Americans is almost five times that of their white counterparts - \$998 and \$210, respectively. Divorced individuals also

tend to spend above the average, as do individuals over the age of sixty-five.

Insert Figure 5

Finally, a third set of numbers again show the disproportionate representation of low-income, less educated and African-Americans within the population of lottery players (Figure 6). Although men make up only 48.5 percent of the United States population, 61.4 percent of heavy lottery players (defined as those in top 20 percent of lottery purchasers) are male. Perhaps the most telling numbers, though, are of race and education. In 1999, the African-American population represented twelve percent of the population, but a quarter of heavy lottery players. Similarly, although high school dropouts account for 12.3 percent of U.S. adults, they represent one-fifth of heavy players.

Insert Figure 6

Variability

Students of state finance agree that stability represents a highly desirable characteristic of a revenue stream. However, lottery revenues

fluctuate over time. Between 1992 and 1997, Figure 7 shows variance in net lottery revenue. Specifically in 1997, revenues fell in Florida, Georgia, Idaho, and Indiana. In Nebraska, lottery revenues have fallen since 1995. Other years have also seen lottery revenues dip, for example, Georgia's lottery fell in 1996 as well. Specifically, while lottery revenues tend to grow, the rate of increase from year to year is unpredictable at best. In 2001, twenty of the thirty-seven states with lotteries actually saw revenues decrease (Berner, 2001).

Insert Figure 7

The latest estimates of potential lottery revenues for Tennessee have unofficially placed net revenue between \$188 and \$302 million (de la Cruz, 2001; Commins, 2001). Mark Stover (1987) estimated Tennessee's net lottery revenues would fall between \$84.1 million and \$130.4 million, roughly 2.2 percent of total state revenues. In 1995, another study by Ashley (1999) placed Tennessee's potential lottery gain between \$147.8 million and \$209.3 million. However, when compared to the actual state budget of 1995, the lottery would have only accounted for three to five percent of education expenditures and one to two percent of total expenditures.

Figure 8 shows the varying impact the lottery had on 1999 total and education expenditure for several states that earmark lottery revenue for education. As a percentage of total spending, lottery revenue varies from 0.25 percent of expenditures in New Mexico to almost three percent in Georgia. The percentage of lottery revenue in education has an even wider range: 0.7 percent for New Mexico and 6.5 percent for Georgia.

Insert Figure 8

Fungibility

Although earmarking might have political advantages in campaigns for lottery adoption (Pierce, 1999), earmarking may not have the intended effect on state budgets. Early on, analysts have noted that earmarking may not be as effective as predicted (Thomas, 1984). Clotfelter and Cook (1989) have found that the introduction of the lottery revenue into the general fund does not substantially increase funding for any particular government program. However, with earmarking, states enter into a situation that presents the opportunity to substitute lottery revenue for general fund financing. This supplanting - or fungibility - occurs as a function of a state's dependence on lottery revenues.

When expenditures on the earmarked purpose far exceed the revenues available from the lottery, as is the case with the general education budget, there is no practical way of preventing a legislature from allocating general revenues away from earmarked uses, thus blunting the purpose of the earmarking. (Clotfelter, et al, 1999, 6).

Because lottery revenue accounts for only a modest percentage of the state budget, total substitution does not occur, as would in a theoretical model. The model (Figure 9) tells us that fungibility occurs when a revenue source increases a state's budget constraint by some amount (B to B1), and expenditures on other goods increase from I to X because of the ability to substitute earmarked funds for revenues originally allocated for education expenditures (Garrett, 2001). Thus, full fungibility would yield an increasing state non-educational expenditure line and a constant education expenditure line (Figure 10).

Insert Figure 9 and 10

Zero fungibility is very unlikely to occur, as is total fungibility. The reality lies somewhere in between. Looking at state budgets does not show complete substitution. However, lottery states with education earmarks tend to have slower rates of education expenditure increase than non-lottery expenditure, a finding congruent with the 1997

Miller and Pierce study.

Figure 11 shows the average education and non-education expenditures between 1987 and 1999 for non-lottery states. As the model for lottery fund fungibility predicts, these states have a relatively steep sloping education expenditure line. This means that education expenditures increase somewhat parallel with total expenditures.

Figure 12 shows the average education and non-education expenditures between 1987 and 1999 for states that earmark solely for education. The average education expenditure increases over time. However, education expenditure increases at a rate a little over a third of non-education expenditures

When comparing the two graphs, states with education earmarks increase spending for education at a lesser rate than that of non-lottery states. Non-lottery states increase education spending at about one-half the rate of non-education increase, whereas earmarked states have a much smaller increase. This suggests that some fungibility of lottery funds occurs.

Insert Figure 11 and Figure 12

States may use lottery revenues for the purpose of education and divert general revenue funds away from education to other programs. Overall, by diverting these funds, education expenditures as a function of total expenditures fluctuate.

Figure 13 shows the change in the percentage of the budget received by education in New York, a state that earmarks completely for education. As a state that has operated a lottery for 3 decades, data for New York represent how lottery maturity can affect state expenditures. New York has seen record lottery revenue growth in the past thirteen years as the state. However, state officials have seen a decrease in the education expenditure percent of total expenditures, an observation congruent with the hypothesis extended in Garret's (2001) study of Ohio lottery revenue fungibility - as the lottery operates longer, programs receiving funds from the earmarked source will be negatively impacted by fungibility.

Insert Figure 13

Conclusion

The idea of free money for the state is a myth that should be dispelled. As a proponent of the lottery once, it is apparent to myself

and hopefully others that the lottery is not the solution Tennessee's budget problems. With Georgia's highly successful HOPE scholarship program -funded entirely by the Georgia state lottery - just over the border, many Tennessee citizens have an idea of how a lottery can help a state to fund education. Yet, one more state south in Florida, the lottery has not had the intended impact. Teachers complain of overcrowding, inadequate facilities, and less per pupil money than ever (NEA Today, 1997). The picture is not perfect everywhere.

Following the research presented, Tennessee looks like a prime candidate for lottery adoption. Facing its third consecutive year of fiscal tension, stress on the budget and on citizens, the need for a solution is apparent. Four of Tennessee's eight surrounding states have lotteries: Virginia, Georgia, Kentucky, and Missouri. All eight surrounding states sanction gambling in some way. A tourist industry is in place to attract residents from out of state from whom revenues could be drawn. Alm, et al, (1993) also found that states that have initiative and referendum processes available are more likely to have lotteries adopted. Finally, by earmarking the lottery revenues for the express purpose of funding education, proponents of the lottery are more likely to see it passed.

While Tennessee certainly has all the pieces in place to adopt a lottery, it has not yet passed. Ranked fourteenth in total population, and with high support for a lottery, there is no doubt that if a referendum does not pass in November, the issue will still be prevalent in state politics. This November's referendum is merely another hurdle for lottery proponents - a constitutional amendment will not create a lottery, it will simply allow for legislative discussion on implementing a state lottery.

Answering the question whether or not the lottery is right for Tennessee involves more than a cursory glance at factors playing into lottery adoption. We must first understand the lottery on its basic level of structure. I found the business of conducting a lottery promises more than it returns, at least in terms of tax efficiency and equity. Administrative cost and player prizes cut significant parts out of lottery revenues. Within the tax structure of Tennessee, a state with no income tax and high sales tax, we could expect that lottery sales might increase, but at the expense of sales tax collections.

When analyzing data from states that have a longer history with a state lottery, the lottery has not had the intended effects. States like New York have had a lottery for over three decades. Lottery revenues in these states are higher than ever before, but mainly due large

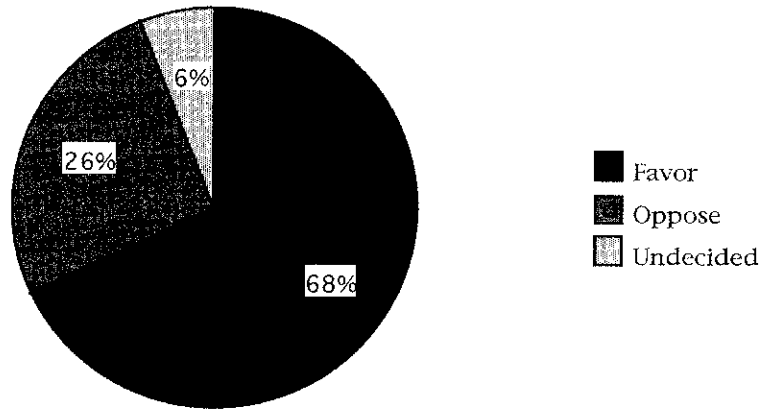
advertising campaigns and the addition of new games to increase participation, thus cutting into government profits. This paired with the government's ability to substitute funds through the fungibility mechanism, education - the sole benefactor of the New York state lottery - continues to receive a smaller percentage of the state budget. Proponents have argued against fungibility by claiming that lottery revenues would go completely to funding new programs, not existing programs. Basing new programs on lottery revenue is risky as well. As these revenues fluctuate, states are left in another budget strain, a situation the lottery was intended to nullify.

Opponents who see the regressive nature of the tax believe the lottery could operate in a situation where low-income individuals might be supporting the higher education of the students from middle and upper income households. Although the lottery will not significantly help the state's financial situation, other than the emotional concerns over the morality of gambling and its focus on more disadvantaged members of society, a lottery will not drastically hurt the state - at least not fiscally. Lotteries have only small effects on addictive gambling (Clotfelter, et al, 1999). Instead, a lottery simply gives gambling addicts another outlet of betting, it does not really produce more gamblers (Clotfelter, et al, 1999).

In conclusion, the lottery would fail to solve Tennessee's budget crisis. Lotteries typically accounts for two percent of state budgets, roughly the amount of the state's deficit right now. However, the referendum for the lottery includes language to prevent lottery funds from being used for anything other than education. While an influx of new revenue would increase the education budget immediately, it would do little for other programs. If these lottery revenues serve as a substitute for general revenue financing for education, then other programs may benefit, but the education portion of the budget becomes dependent on lottery revenues - a situation that states should avoid.

Figure 1

Statewide Lottery Support



Support By Region

	Favor	Oppose	Undecided
East Tennessee	63	31	6
Middle Tennessee	74	21	5
West Tennessee	67	26	7

*Opinion poll by Mason-Dixon Polling & Research Inc.
Margin of error +/- four percent (Cruz, 2001)

Figure 2 - Distribution of Lottery Revenue (1999)

	Total	Prizes	Percent	Admin.	Percent	Proceeds	Percent
Florida	\$1,985,312	\$1,056,810	53.23%	\$128,978	6.50%	\$799,524	40.27%
Georgia	\$1,816,022	\$1,059,585	58.35%	\$111,931	6.16%	\$644,506	35.49%
Idaho	\$90,407	\$52,322	57.87%	\$16,890	18.68%	\$21,195	23.44%
Indiana	\$617,908	\$383,770	62.11%	\$30,282	4.90%	\$203,856	32.99%
Nebraska	\$72,356	\$38,809	53.64%	\$16,337	22.58%	\$17,210	23.79%
New Mexico	\$89,246	\$46,716	52.35%	\$22,130	24.80%	\$20,400	22.86%
Texas	\$2,571,600	\$1,329,014	51.68%	\$100,816	3.92%	\$1,141,770	44.40%
Virginia	\$925,382	\$551,540	59.60%	\$116,562	12.60%	\$257,280	27.80%

*Dollar amounts in thousands. Percentages computed by author.
Data collected from U.S. Census Bureau *State Finances*, 1999.

Figure 3 - Lottery Regressivity

	Players' Annual Expenditure in Dollars	Players' Annual Expenditure as Percent of Income
<i>Income</i>		
<\$10000	\$139	1.51
\$10000-\$19999	\$168	0.84
\$20000-\$49999	\$144	0.42
\$50000-\$69999	\$127	0.24
\$70000+	\$139	0.18
<i>Education</i>		
<HS diploma	\$225	1.28
HS graduate	\$154	0.6
some post-HS	\$153	0.53
college degree or more	\$93	0.25

*Herring and Bledsoe, 1999

Figure 4 - Socioeconomic Patterns in Per Capita Play

Socioeconomic Characteristics	Annual Per Capita Play - Lottery
HH Income <\$10,000	\$597
\$10,000-\$24,999	\$569
\$25,000-\$49,999	\$382
\$50,000-\$99,999	\$225
Over \$100,000	\$289
Don't Know/Refused	\$196
Dropout	\$700
High School Graduate	\$409
Some College	\$210
College Graduate	\$178

*Survey by National Opinion Research Center, presented in 1999
NGISC Report by Clotfelter, et al.

Figure 5 - Demographic Pattern in Participation and Per Capita Play

Demographic Characteristic	Annual Per Capita Play-Lottery
Overall	\$313
Male	\$368
Female	\$254
White	\$210
Black	\$998
Hispanic	\$289
Other	\$295
Single	\$281
Married	\$304
Divorced/Widowed	\$387
Age 18-29	\$152
Age 30-44	\$280
Age 45-64	\$413
Age 65+	\$475

*Survey by National Opinion Research Center, presented in 1999
 NGISC Report by Clotfelter, et al.

Figure 6 - Characteristics of Heaviest Lottery Players

Demographic Group	Percentage of Heaviest Players	Percentage of US Adults
Male	61.4	48.5
African-American	25.4	12.2
HS Dropout	20.3	12.3
HH Income <\$10000	9.7	5
Median Age	47.5	43

*Survey by National Opinion Research Center, presented in 1999
 NGISC Report by Clotfelter, et al.

Figure 7 - Net Lottery Revenue (1992-1999)

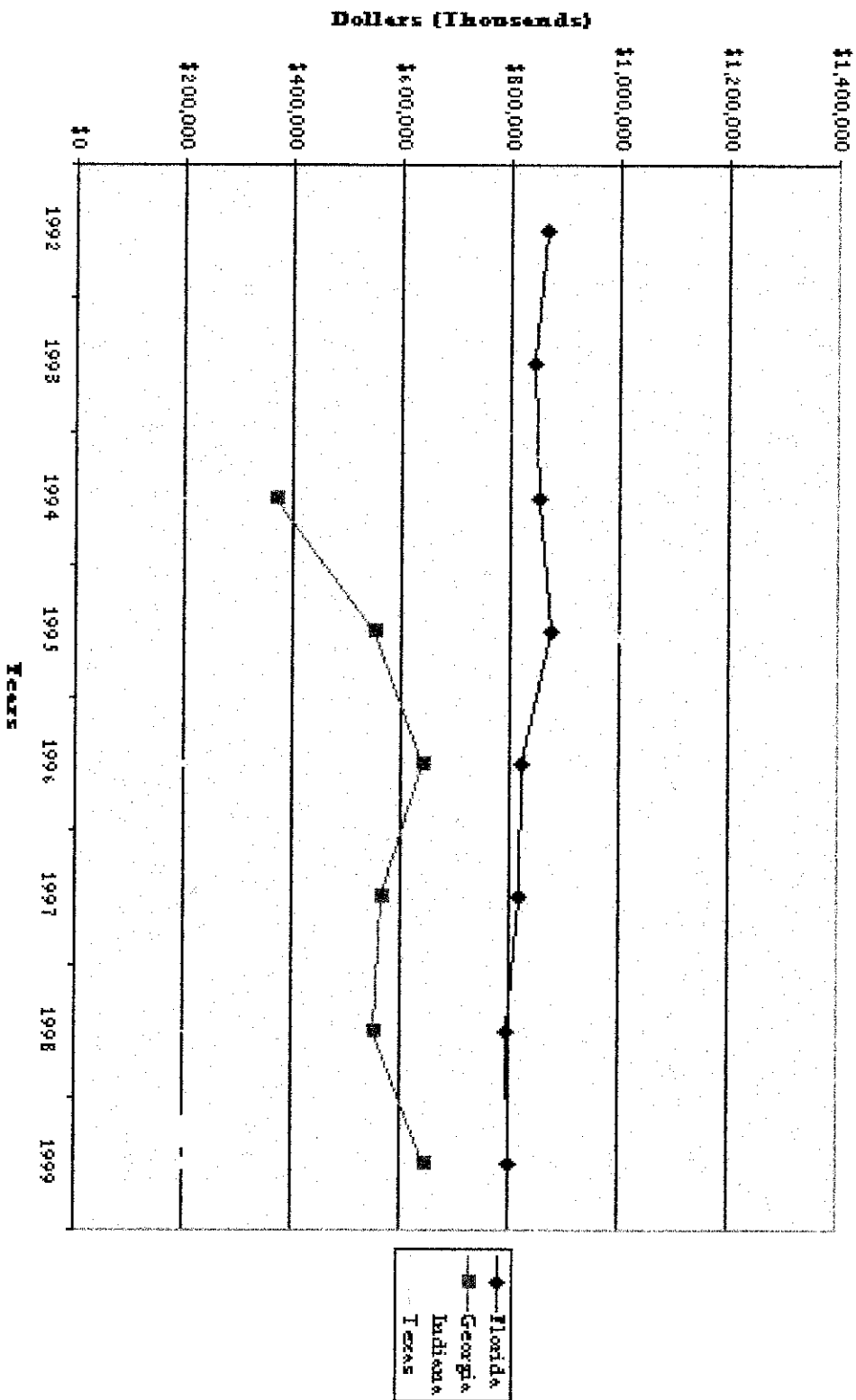


Figure 7 (Cont) - Idaho and Nebraska

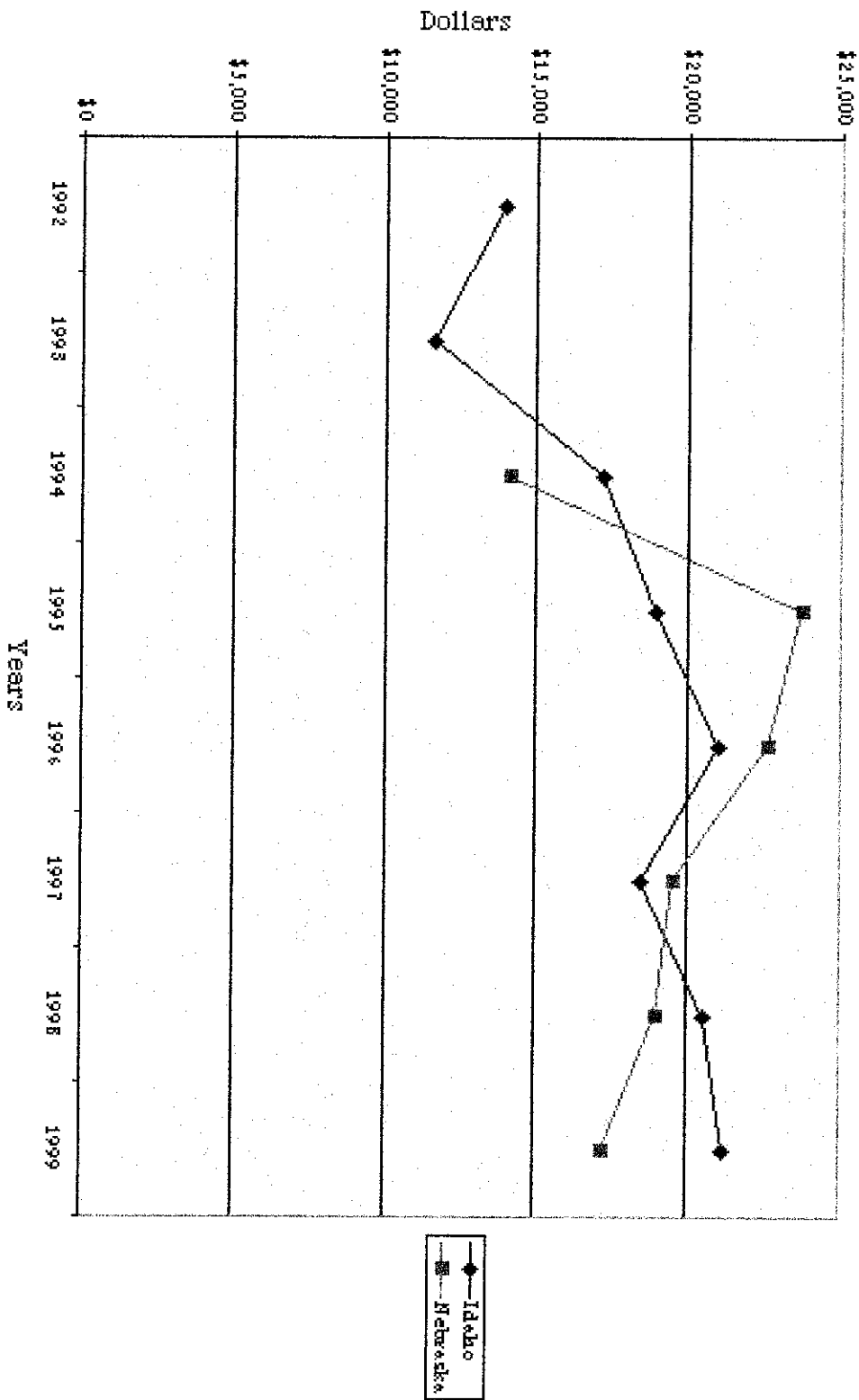


Figure 7 (Cont)

	Florida	Georgia	Idaho	Indiana	Nebraska	Texas
1992	\$865,192	\$0	\$13,911	\$116,222	\$0	\$0
1993	\$842,325	\$0	\$11,651	\$146,073	\$0	\$663,634
1994	\$853,702	\$370,291	\$17,201	\$185,840	\$14,092	\$927,334
1995	\$876,702	\$550,256	\$18,935	\$183,215	\$23,702	\$995,964
1996	\$821,061	\$639,034	\$21,010	\$191,415	\$22,648	\$1,087,381
1997	\$819,343	\$563,295	\$18,468	\$176,319	\$19,522	\$1,173,688
1998	\$795,181	\$551,506	\$20,562	\$186,338	\$18,936	\$1,085,057
1999	\$799,524	\$644,506	\$21,195	\$203,865	\$17,210	\$1,141,770

*Data compiled by author from U.S. Census Bureau, 1992-1999.

Figure 8 – 1999 Lottery Share of Expenditures

	Total Expenditures (thou)	Education Expenditures (thou)	Lottery Expenditures (thou)	Lottery Percent of Total*	Lottery percent of Education**
Florida	\$42,458,975	\$13,475,034	\$799,524	1.88%	5.93%
Georgia	\$23,203,145	\$9,904,593	\$644,506	2.78%	6.51%
Idaho	\$4,230,335	\$1,537,180	\$21,195	0.50%	1.38%
Indiana	\$18,613,822	\$7,160,843	\$203,865	1.10%	2.85%
Nebraska	\$4,801,745	\$1,587,703	\$19,522	0.41%	1.23%
New Mexico	\$8,089,399	\$2,800,929	\$20,400	0.25%	0.73%
Texas	\$54,761,328	\$20,566,051	\$1,141,770	2.08%	5.55%
Virginia	\$22,739,177	\$8,239,358	\$257,280	1.13%	3.12%

* Column 4 = Column 3/Column 1

** Column 5 = Column 3/Column 2

(Percentages computed by author. Data compiled from U.S. Census Bureau, 1999.)

Figure 9 and 10

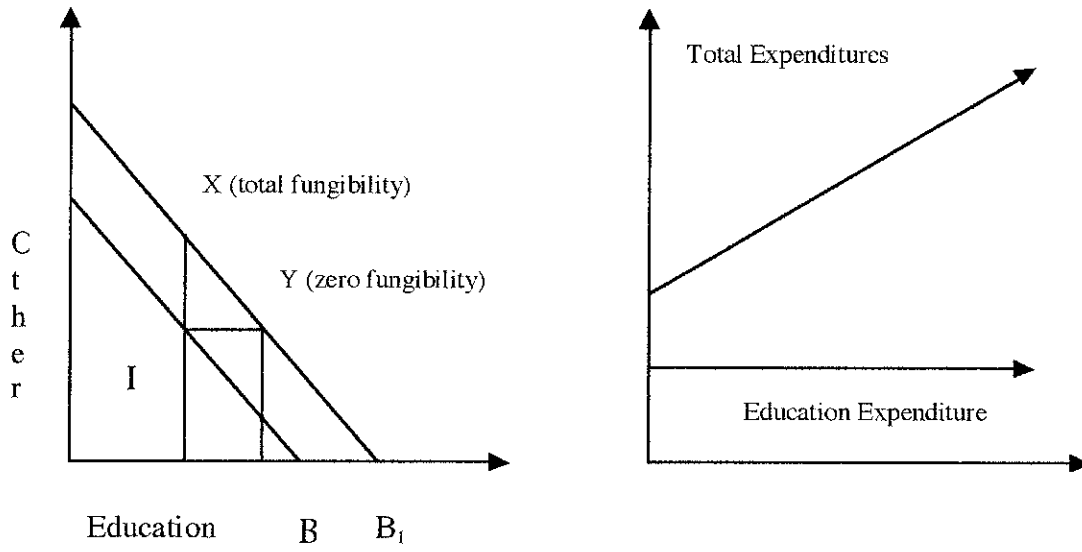
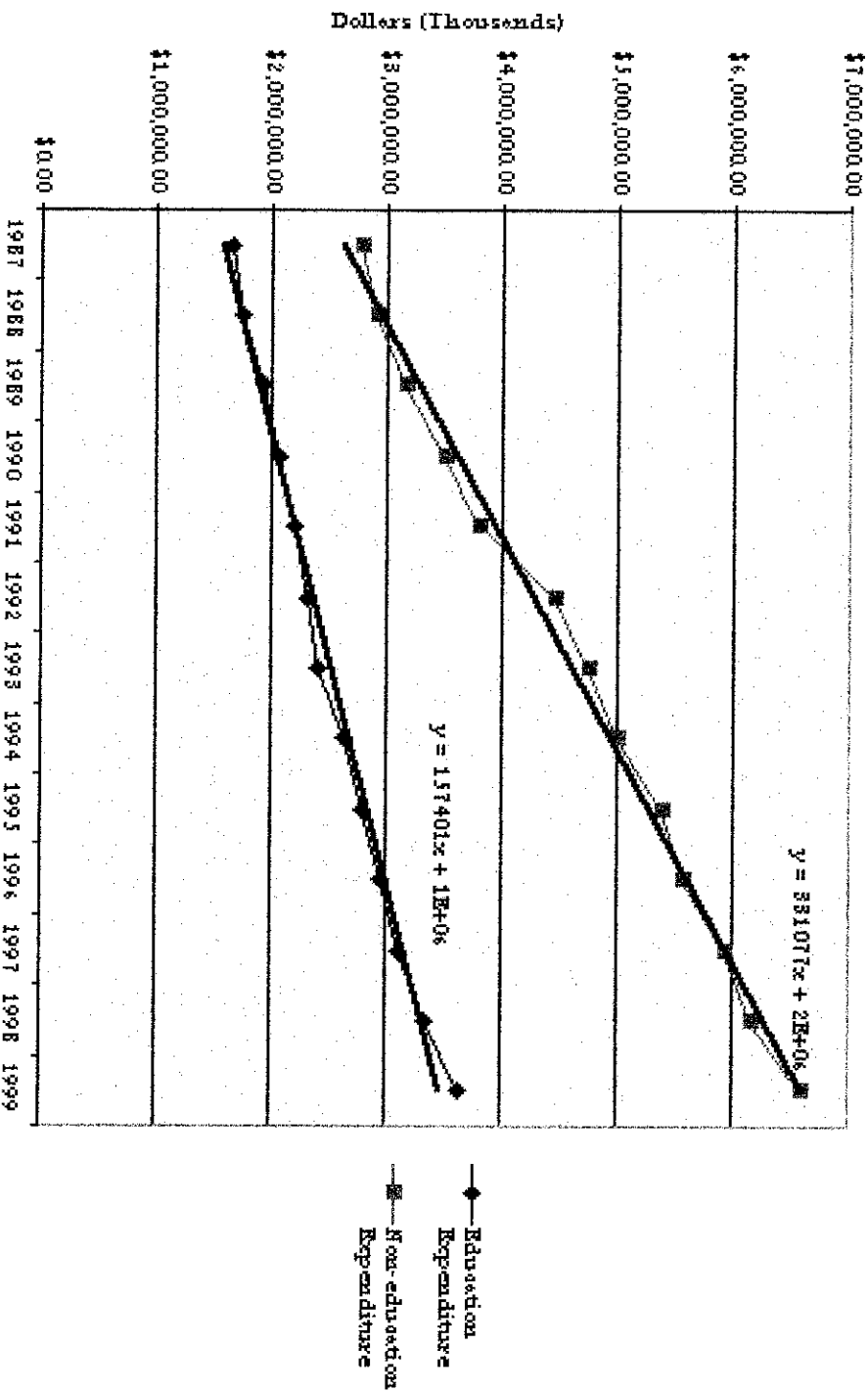
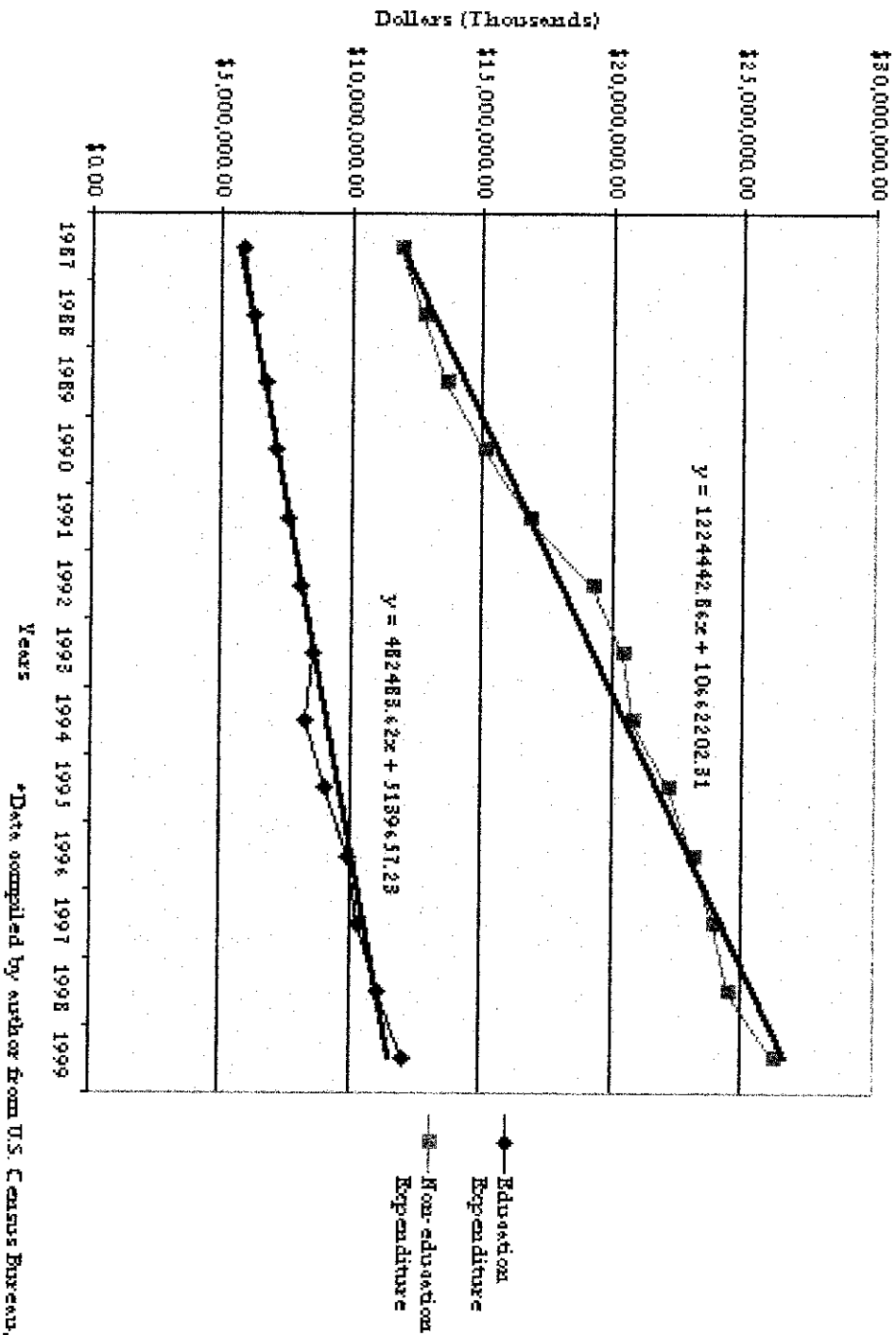


Figure 11 - Non-Lottery State Average



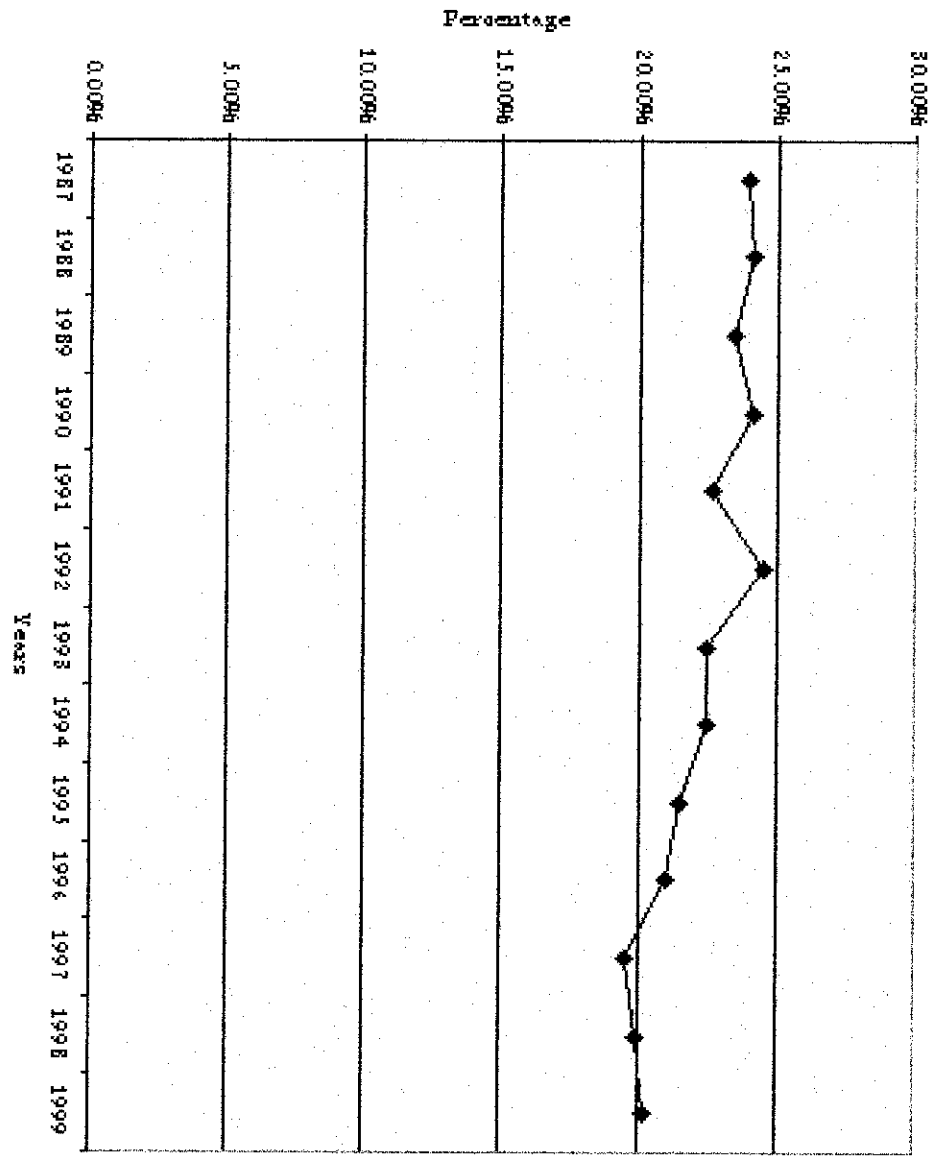
*Data compiled by author from U.S. Census Bureau, 1987-1999

Figure 12 - Lottery State (Full Education F earmark) Average



*Data compiled by author from U.S. Census Bureau, 1987-1999

Figure 13 - New York



◆ Education Spending
Percent of Total
Spending

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Appendix 1

State	Startup Date	Purpose
		Mass transit, general fund, county assistance, economic development, Heritage Fund, Local Transportation
Arizona	1981	Assistance Fund
California	1985	K-12 Education
Colorado	1983	Parks and Recreation
Connecticut	1972	General Fund
Delaware	1975	General Fund
Florida	1988	Education Enhancement Trust Fund
Georgia	1993	Education
		Public Schools and State Permanent
Idaho	1989	Building Fund
Illinois	1874	Common School Fund
		Education, License Plate Tax,
Indiana	1989	Pensions
		General Fund and Gambling
Iowa	1985	Treatment Program
Kansas	1987	Economic development, prisons
Kentucky	1989	General Fund and Education
Louisiana	1991	State's Lottery Proceeds Fund
Maine	1974	General Fund
Maryland	1973	General Fund
Massachusetts	1972	Cities and Towns
Michigan	1972	Michigan School Aid Fund
		General Fund and Environmental
Minnesota	1990	Trust Fund
Missouri	1986	Education
Montana	1987	General Fund
		Education, Environment, Gamblers
Nebraska	1993	Assistance
NH	1964	Education
New Jersey	1970	Education
New Mexico	1996	Education
New York	1967	Education
Ohio	1974	Education
		Economic development, State
Oregon	1985	Parks, Education
Pennsylvania	1972	Senior Citizens Programs
		Distressed cities and towns,
Rhode Island	1974	General Fund
		General Fund, Construction,
South Dakota	1987	Property Tax reduce
Texas	1992	Education
Vermont	1978	Education
Virginia	1988	Education
Washington	1982	Education
West Virginia	1986	Education, Senior Citizens, Tourism
Wisconsin	1988	Property Tax Relief

Appendix 2

State	Lottery Agency Name	Independent	If not, what department?
Arizona	Arizona Lottery Comm.	Yes	
California	California Lottery	Yes	
Colorado	Colorado Lottery	No	Revenue
Connecticut	Connecticut Lottery Corp.	Yes	
Delaware	Delaware State Lottery	No	Finance
Florida	Department of the Lottery	Yes	
Georgia	Georgia Lottery Corp.	Yes	
Idaho	Idaho State Lottery	Yes	
Illinois	Illinois Lottery	Yes	
Indiana	Indiana State Lottery	Yes	
Iowa	Iowa Lottery	No	Revenue and Finance
Kansas	Kansas Lottery Corp.	Yes	
Kentucky	Kentucky Lottery Corp.	Yes	
Louisiana	Louisiana Lottery Corp.	Yes	
Maine	Maine State Liquor and Lottery Comm.	No	Administration and Finance
Maryland	Maryland State Lottery Agency	No	Attorney General
Massachusetts	Massachusetts State Lottery Comm.	No	Treasury
Michigan	Michigan Bureau of State Lottery	Yes	
Minnesota	Minnesota State Lottery	Yes	
Missouri	Missouri State Lottery Comm.	No	Revenue
Montana	Montana Lottery Comm.	Yes	
Nebraska	Nebraska Lottery	No	Revenue
New Hampshire	New Hampshire Sweepstakes Comm.	No	Education
New Jersey	Division of State Lottery	No	Treasury
New Mexico	New Mexico Lottery Authority	Yes	
New York	Division of the State Lottery	No	Taxation and Finance
Ohio	Ohio Lottery Comm.	Yes	
Oregon	Oregon Lottery Comm.	Yes	
Pennsylvania	Pennsylvania Lottery	No	Revenue
Rhode Island	Rhode Island Lottery	Yes	
South Dakota	South Dakota Lottery	Yes	
Texas	Texas Lottery Commission	Yes	
Vermont	Vermont Lottery Comm.	Yes	
Virginia	State Lottery Department	Yes	
Washington	Washington State Lottery	Yes	
West Virginia	West Virginia Lottery	No	Taxation and Revenue
Wisconsin	Wisconsin Lottery	No	Revenue

