

**GEORGIA STATE SENATE
BUDGET AND EVALUATION OFFICE**

Chairman's Column

October 2, 2009

WHERE DOES THAT LOTTERY DOLLAR GO?

Over the past few weeks this column has discussed the Lottery for Education expenditures and reserves for both the HOPE Scholarship and Pre-Kindergarten Program. Last week's column explored possibilities for limiting the expenditure side of the Lottery for Education finances by further restricting the HOPE Scholarship. This week we'll examine the operations of the Georgia Lottery and explore the revenue side of this issue.

It is widely publicized that Georgia's Lottery helps support educational programs within the state. Last year alone, the lottery sold \$3.5 billion in gross lottery receipts, yet only \$868 million of that was deposited in the Lottery for Education account. Where did the rest of those lottery funds go? For each one dollar ticket sold:

- Twenty-five cents is deposited in the lottery for education account to spend on educational programs. In 1995, two years after the lottery's inception, 35 cents was deposited for every dollar and that percentage has steadily declined every year except for 2001.
- Sixty-five cents is paid in prizes. Of this, seven cents is paid out immediately for instant win tickets and is never realized by the Georgia Lottery. The proportion spent on prizes has steadily increased since the lottery first began in 1994.
- Six cents is paid to retailers for commissions and one cent is awarded as bonuses for selling winning tickets. Retailers are compensated a set percentage of ticket sales, a ticket cashing bonus for validating and paying prizes up to \$600, and a winning jackpot ticket incentive for certain online games.
- Lastly, four cents is spent on operating and gaming expenses. Operating expenses include advertising, marketing, merchandising, personnel services, depreciation, rent, professional fees, and bad debt expenses. The Georgia lottery also has contracts with private corporations to provide gaming products, services, instant ticket printing, and licensing. Payments to the two major suppliers, Online Gaming Systems and Services and Instant Ticket Printing and Associated Services, are determined based on a percentage of gross sales.

STATE LAW

Georgia statute states that "as nearly as practical," net proceeds should equal 35 percent of lottery proceeds. At the end of each quarter, all net proceeds should be deposited by the Georgia Lottery into the Lottery for Education account established by the Treasury. The statute also says "as nearly as practical" 45 percent of actual lottery sales should be made available as prize money. But since the lottery first began selling tickets in 1994, it has only deposited more than 35 percent of lottery proceeds in FY95, one of the two years it was only required to deposit 30 percent. Since then, the Georgia Lottery has not met the 35 percent mandate established by the legislature. While the actual amount

deposited into the Lottery for Education account has increased every year except FY98, the percent deposited compared to total proceeds has steadily declined. At the same time, the percent spent on prize money has steadily increased.

OTHER STATE LOTTERIES

In 1964, the first state lottery, originally called the "Sweepstakes," was created by the New Hampshire legislature. Since then, state-run lottery programs have been established in forty-three states across the nation. Of southern states, only Alabama, Mississippi, and Arkansas do not have a state lottery. Unlike Georgia, many states use lottery funds to supplant state general funds for education, making Georgia's practice of funding only new educational programs truly unique. For example, Florida uses their lottery funds to supplement the state's education system, but also finances a scholarship program and a Pre-K program as well.

The US Census regularly collects data from all state lottery programs, including the amount paid in prizes, the amount remitted to the state, and the amount spent on administration. The total reported to the US Census does not include commissions paid to retailers, or in Georgia's case, the amount immediately paid out for instant win tickets. So while the Georgia Lottery reports it only spent 58 percent on prizes, if the amount awarded in instant win tickets is added to that total, the proportion increases to 65 percent. The amounts reported to the US Census were then compared to the gross sales reported by the National American Association of State and Provincial Lotteries to get more accurate proportions.

With the available data from FY07, only a handful of states pay a higher percentage in prizes than Georgia, with the national average at 59 percent. In terms of the proportion remitted to the state, Georgia has one of the lowest rates, 25 percent, and falls below the national average of 28 percent. With regards to lottery administration costs, Georgia spends only 4 percent of gross lottery sales on general operating expenses and 6 percent on commissions to retailers. This is below other states which spend an average of 6 percent on general operating expenses and 7 percent on other expenses, which includes but is not limited to commissions to retailers. Below is a comparison of Georgia, Florida and the national average as it relates to how lottery funds are expended.

	Georgia	Florida	National Average
Prizes	65%	60%	59%
Remitted to State	25%	30%	28%
Operating Expenses	4%	4%	6%
Other (including Commissions)	6%	6%	7%

Lacking new growth of some magnitude, and as Georgia's lottery matures, decisions will have to be considered by policymakers for the future stability of HOPE and Pre-K.