

**STATE LOTTERY**

**Report of the  
State Lottery Subcommittee  
to  
The House General Laws Committee**



**House Document 22**

**COMMONWEALTH OF VIRGINIA  
Department of Purchases and Supply  
Richmond  
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January, 1975

**I. INTRODUCTION**

Pursuant to House Resolution No. 15, which directed the House General Laws Committee to conduct a study on the desirability of establishing a State lottery, Chairman Thomas W. Moss, Jr. appointed a Subcommittee to undertake this study. Ira M. Lechner, Arlington, was appointed Chairman of the Subcommittee. Other members serving on the Subcommittee were Warren E. Barry, Fairfax, Kenneth B. Rollins, Loudoun, and Thomas J. Rothrock, Fairfax.

Public hearings were held in Richmond, Roanoke, Norfolk and Alexandria for the purpose of receiving testimony. Private citizens, State legislators, lottery consulting firms and various civic organizations spoke to the Subcommittee. Staff assistance was provided by the Division of Legislative Services. The Subcommittee also received valuable research from Robert Griffis, State Planning and Community Affairs. A summary of Mr. Griffis' data is appended hereto. (See Appendix I)

Lotteries have been associated with the United States since the Virginia Company in London held a lottery to finance its colony in Jamestown. All of the original colonies used lotteries to finance public works projects, institutions of higher education and the militia. During the late 1890's, these privately-operated lotteries were affected by a wave of corruption and states eventually prohibited them. In 1964 New Hampshire began a well-run, tightly regulated lottery for the benefit of school districts. Since that time, twelve other states have passed lottery legislation. New York, New Jersey, Maine, Massachusetts, Connecticut, Pennsylvania, Rhode Island, Maryland, Michigan, Ohio, Illinois and New Hampshire are operating lotteries; Delaware's is about to become operational.

**II. RECOMMENDATION**

This Subcommittee is of the opinion that a State lottery is a viable and desirable method of raising revenues for the Commonwealth and its political subdivisions. During this difficult period of economic uncertainty, the citizens of the Commonwealth

can ill afford further tax increases. Other states' experiences have proven that lotteries are good revenue producers and have minimal adverse effects on citizens.

### **III. LOTTERY ORGANIZATION**

Organizational structure varies considerably in those states which operate lotteries. New Jersey, Ohio, Maine, Rhode Island, Maryland and Massachusetts have commissions vested with executive power overseeing the conduct of lotteries. Illinois, Pennsylvania and New York have commissions which are solely advisory. Michigan operates its lottery under a director appointed by and responsible to the Governor.

The Subcommittee recommends the establishment of a director to be appointed by and serve at the pleasure of the Governor. Experiences in Michigan show such an organizational structure to be the best method of managing this consumer-oriented activity without political interference. It is interesting to note Michigan has the greatest participation of its citizens in the lottery.

### **IV. OPERATION OF A STATE LOTTERY**

Consumer-orientation is the key to the success of any lottery. Other factors states have found to be relevant to the operation of a successful lottery which Virginia should consider include: (1) low priced tickets (\$.50); (2) frequent drawings; (3) easy access to tickets; (4) continuous promotion; (5) variety of games; (6) large number of winners in proportion to the number of tickets sold (In Virginia it would be reasonable to provide for 7,000 winners per week for each million tickets sold or, on the average, 20,000 separate winners per week if three million weekly tickets are sold as is estimated by some experts.); (7) chances to win large prizes; and (8) reasonable proportions of revenues returned in prizes.

The Subcommittee advises gross receipts be divided in the following manner: (1) 45% of receipts for winnings; (2) 10% to 15% of receipts for administrative costs and commissions for vendors and banks; and (3) 40% to 45% of receipts to be returned to the State as revenue. The revenue could be divided so that 50% would be placed in the general fund and 50% would return to the localities according to population. Experience in other states has shown this to be a reasonable and workable formula for winnings, administrative costs and net revenues. Strict licensing procedures for vendors and banks would be maintained.

The preservation of a secure system has been possible in all lottery states. No person has been successful in "breaking" the security of the system and claiming prize money. Modern computerized techniques have greatly aided the security of the game, making such forgeries impossible. Scandal has been totally absent.

Testimony received by the Subcommittee from the National Gambling Commission shows that increased criminal activity cannot be linked with state lotteries. Likewise, there is no evidence of infiltration of lotteries by organized crime. No adverse affects on person, family or work behavior have been uncovered.

It should be noted that state lotteries do not appear to have been successful in reducing the wagering in the illicit numbers game. Testimony of police officers in Arlington and Norfolk indicated that the illicit numbers game produced \$3 million and \$8 million in the respective communities. A lottery could be designed to compete with the numbers game. It is estimated, however, that only 10% to 30% of the illegal numbers game would be affected.

Several misconceptions about lottery players should be dispelled. According to evidence provided by the National Gambling Commission and Mathematica, Inc., participants are generally middle income, urban dwellers. Men and women participate equally often; participation is proportionally higher among whites than blacks. Experience in lottery states shows that 80-85% of the adult population has participated. Due to the passive nature of the game, little time or money is spent on lotteries. The average purchasing family spends approximately \$1.50 per week. Few persons spend more than three dollars weekly.

## V. ECONOMIC IMPACT

Revenue estimates may be measured by the per capita expenditures of participants in other states (see Appendix II). Conservative estimates project net revenue gain to the State at \$12 million yearly. Average participation would net \$19 to \$23 million. Additional factors which could increase revenues have not been included in these projections. They include: (1) 1.8 million persons living in counties of non-lottery states touching Virginia's boundaries who might participate; (2) unclaimed prize money (4-6%) which would revert to the State; (3) tourists traveling to or through Virginia who would play; and (4) the probable changes in federal law (such bills passed both houses of Congress in December, 1974) regarding the use of the mails, media and banks, all of which presently limit the promotion of the games and increase administrative costs.

It is estimated that three to four months will be required to establish the lottery in Virginia once enabling legislation is enacted. Approximately \$1,000,000.00 will be needed to cover start-up costs. This money could be loaned from the general fund and repaid in one to four weeks after the sale of tickets commences. Approximately one hundred employees would be required to staff the operation. Appendix III is an analysis of lottery revenues in five of the thirteen states.

It has been argued that lotteries produce small amounts of revenue in proportion to the total State budget. However, they can be a significant new source of revenue. Increases in tobacco and

alcohol taxes have been suggested as alternatives to the lottery. Potential revenue would be minimal if these taxes were increased (see Appendix IV).

The majority of opponents questioned whether lotteries were in the best interest of the Commonwealth. Doubts concerning the State's promotion of a lottery were expressed. These persons also questioned the ability of the citizens of the Commonwealth to withstand the threat to their moral fiber that the lottery would produce. The Subcommittee does not agree that a lottery would affect the moral consciousness of the citizenry.

The Subcommittee agrees and urges the Committee to pursue a course of action to implement legislation authorizing a State lottery. An indication of the opinion of the citizens of the Commonwealth was expressed in the 1970 constitutional referendum when they repealed the prohibition on lotteries by 491,944 to 290,430. Another indication was the General Assembly approval of bingo in the 1972 Session. The State can no longer afford to overlook the lottery as a source of funds to finance the many worthwhile projects and programs it conducts for the benefit of its citizens.

Respectfully submitted,

Ira M. Lechner, Chairman

Warren E. Barry

Kenneth B. Rollins

Thomas J. Rothrock

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**APPENDIX I**  
**SUMMARY OF RESEARCH**  
**STATE PLANNING AND COMMUNITY AFFAIRS**

Based upon a study of state lotteries funded by the National Science Foundation and discussions with state lottery officials, several general observations on state lotteries can be made.

First, state lotteries are not large revenue producers in terms of total state tax revenues. In states currently operating lotteries, the lottery revenue ranged from 0.7% to 3.4% of total tax revenues in 1973.

Based on various assumptions of per capita participation as experienced in lottery operating states, the estimated net lottery revenues in Virginia would range from \$12 million (0.9% of total tax revenues in fiscal 1972-73) to \$32 million (2.4% of total tax revenues in fiscal 1972-73).

Second, although potential lottery revenues are small in terms of total revenues, they can be significant sources of new or discretionary funds.

Third, the national study found that earmarking of lottery revenues for special purposes did not appreciably increase net spending in these designated areas.

Fourth, it has been the experience of each of the state lotteries that constant promotion and/or the addition of new "gimmicks" in terms of prizes or prize structures is necessary to maintain interest, participation levels, and revenues.

Fifth, the national study found that state lotteries did not have adverse moral consequences in terms of effects on the average bettor or his family.

Sixth, the national study found little relationship between income levels or race and bettor participation in state lotteries.

Seventh, the national study and the operating state lotteries have found that the lotteries have had little impact on illegal gambling.

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## APPENDIX II

State	Avg Amt Spt Wkly Per Capita	Avg Ann Expend Per Capita	Gr Ann Rev* in Va at ea Expend Lev (\$ Value in Thousands)	Net Ann Rev in Va at ea Expend Lev (\$ Value in Thousands)
N. J.	\$.32	\$16.64	\$80,055	\$32,022
Mich.	.30	15.60	75,051	30,020
Mass.	.24	12.48	60,041	24,016
Conn.	.23	11.96	57,539	23,015
Pa.	.23	11.96	57,539	23,015
N. H.	.17	8.84	42,529	17,011
N. Y.	.12	6.24	30,020	12,008

**\*Represents total receipts at each per capita expenditure level.**

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**APPENDIX III**  
**LOTTERY REVENUE ANALYSIS**  
**(\$ VALUES IN THOUSANDS)**

	Mass.	Pa.	Mich.	Md.	Ill.
GR ANN REV	\$55,000	\$132,824	\$140,000	\$38,750	\$117,360
% Revenue Allocation:					
Winners	47.2%	43.3%	45.0%	45.0%	44.9%
Opr Exp	5.7%	4.1%	1.6%	9.3%	2.4%
Advertis	2.1%	1.7%	.8%		1.1%
Sales Cost	5.0%	6.1%	6.0%	5.5%	5.9%
% Net to St	40.0%	44.7%	46.6%	41.3%	45.7%
\$ Net to St	\$22,000	\$59,372	\$65,240	\$16,003	\$53,633
Gr Rev/Cap	\$9.67	\$11.26	\$15.59	\$9.75	\$10.11
St-Up-Costs	\$1,000*	\$1,000*	\$1,600	\$4,500*	\$2,000*
Tot St Pers		245	130		

\*Appropriated

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**APPENDIX IV**  
**ESTIMATED ADDITIONAL TOBACCO AND ALCOHOL TAX**  
**REVENUES**  
**FROM SELECTED RATE INCREASES**

Tobacco

Current tax & \$.025 per pack. Produces \$17 million. If doubled to \$.05 per pack additional tax revenues & \$14 million; if raised \$.01 to \$.035 per pack additional tax revenues & \$5.5 million.

Alcohol

Revenues produced from ABC profits are already divided by statute to return two-thirds to the localities based on population. The remaining third is placed in the general fund. These are comparatively small amounts of revenue. The excise tax on alcohol produces the major portion of revenue.

Excise Tax

Currently 14% & \$27 million in tax revenue; if raised to 15% & additional \$2 million in tax revenue.

Beer and Beverage Tax

Currently \$6 per barrel & \$12 million in tax revenue. If raised to \$7 per barrel (16% increase) & \$3 million additional tax revenue.

Wine and Spirits Tax

Currently raises \$2.5 million in tax revenue at \$.35 per gallon. Represents an insignificant additional source of tax revenue.

