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## Implementing a State Lottery in Nevada

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Implementing a State Lottery in Nevada

by

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## **PART ONE**

### **Introduction**

Nevada is only one of seven states within the United States that currently does not have a state lottery; moreover four of the five states bordering Nevada do have lotteries (Schwartz, 2012). Presently, there is a constitutional prohibition in place that prevents the State of Nevada from implementing and operating a state lottery (Legislative Counsel Bureau, 1983). In 1990, the Nevada constitution was amended to allow for charitable lotteries. However, regular lotteries are still currently prohibited (Schwartz, 2012). In the last several decades there have been numerous attempts to pass legislation that would put a lottery in place in Nevada, however, these bills have always resulted in failure largely due to the efforts of the Nevada gaming industry (Schwartz, 2012). There are many within the gaming industry in Nevada that have strong concerns that a state lottery may compete with gaming in Nevada and consequently could diminish gaming revenue. Therefore, many within the Nevada gaming industry have taken a very strong stance against the legalization of a state lottery and work diligently to prevent its legislative passage (Schwartz, 2012).

This paper will briefly review the history of lotteries beginning with their advent in medieval Europe up through current day where lotteries now exist in all but seven states within the United States (Sweeney, 2009). Great attention will be given to examining those states with lotteries that border Nevada and their direct effects they have on the Nevada economy. In addition, this literature review will review previous legislative attempts to implement a lottery in Nevada and study the gaming industry's opposition to a state lottery in Nevada. Ultimately, the merits of a state lottery and the

benefits to the Nevada economy will be discussed and recommendations for effectively implementing a lottery in Nevada will also be included.

### **Purpose**

The purpose of this study is to assess the feasibility of implementing a state lottery in Nevada and to present the benefits of a state lottery for both the Nevada hospitality industry and the Nevada economy. It will compare and contrast the arguments for and the arguments against a lottery by executing a content analysis of existing research literature as well as other relevant publications. It will also examine the history of lotteries, the states that border Nevada and have lotteries and the legislative history of lottery proposals in Nevada.

### **Statement of Problem**

Currently the Nevada constitution prohibits the operation of a lottery within the State of Nevada (Legislative Counsel Bureau, 1983). Presently, 43 states and all but one state that border Nevada have a lottery. For years, Nevada residents have been traveling to neighboring states to spend tremendous amounts of money to purchase lottery tickets. This is evidenced by the fact that the lottery store on the California border adjacent to Primm, Nevada, which is the lottery ticket vendor closest to Las Vegas, sells more lottery tickets than any other lottery vendor in California (Friess, 2009). Additionally, the lottery store at Gold Ranch outside of Reno, Nevada is California's second best performing store (Friess, 2009). This enormous outflow of money from Nevada to neighboring states to purchase lottery tickets represents lost revenue. This lost revenue could be used by the State of Nevada to not only augment education funds but could also provide resources toward promoting Nevada as a business and vacation destination.

### **Justification**

During the recent ‘great recession’ it became apparent that Nevada’s economy needs to be diversified and all sources of possible revenue should be considered. A state lottery in Nevada could potentially provide millions of dollars to Nevada’s struggling economy and could be earmarked toward enhancing marketing efforts promoting Nevada as a tourist and business destination. This would benefit both the state’s hospitality industry and Nevada’s economy.

### **Constraints**

The self-imposed constraint on this project is that it would be very difficult to include an extensive survey of every lottery in the United States. However, this factor will have minimal impact on this study, as there will be a survey of those lotteries that border Nevada and that should give this paper a representative sample.

### **Glossary**

**Annuity** – An annuity payout can occur with lotteries that have very large jackpots and the winnings will typically be paid out over a period of years (Sweeney, 2009).

**Bet** – A transaction where a person pays to select a quick pick or a number of his or her own choosing in exchange for an opportunity to win the lottery (Sweeney, 2009).

**Cash Option** – Sometimes referred to as the lump sum payout. Many lotteries with large jackpots will offer a cash option where the winner can opt to take a reduced cash payout all at once as opposed to an annuity payout over a number of years (Sweeney, 2009).

**Commission** – This is the percentage that a lottery vendor or store acquires from the sale of every ticket sold (Sweeney, 2009).

**Fixed Payout** – A form of payout where the amount is a fixed, set amount that will not change based on the amount of people participating in the game (Sweeney, 2009).

**Gaming** – Engaging in a game of chance with the intent of winning money.

**Instant Games** – These are games that give a player immediate results. A player can purchase a ticket and win and collect their winnings all at one time. One of the most common instant games is the scratch card (Sweeney, 2009).

**Jackpot** – The total prize amount of a lottery game (Kilby, Fox, & Lucas, 2005).

**Lottery** – A lottery is a form of gambling that involves purchasing a chance to win a jackpot, based on a random pick (Clotfelter & Cook, 1989).

**Multi-State Lottery** – A lottery that is accessible in more than one state. The advantage of a multi-state lottery is the jackpots tend to be much larger due to players participating from a number of different states (Sweeney, 2009).

**Pari-Mutuel** – A form of payout of winnings where the winner would win a jackpot based on the total amount of money bet on a particular lottery as apposed to a fixed payout system where the jackpot is a fixed, set amount (Kilby et al., 2005).

**Quick Pick** - A lottery ticket that has randomly computer-generated numbers as opposed to the player selecting the numbers themselves (Sweeney, 2009).

**Rollover** – If a lottery is not won, the jackpot will carry over to the next lottery drawing until there is a winner, which ultimately makes the jackpot amount larger (Sweeney, 2009).

**Ticket** – The printed receipt given to the lottery player that has the numbers they selected or quick pick numbers on it. The player must present this ticket to redeem any winnings (Sweeney, 2009).

## **PART TWO**

### **Literature Review**

#### **Introduction**

This section of the paper will discuss a definition of the lottery, a history of the lottery, a national lottery history and a discussion of Nevada lottery history, including details of legislative attempts to implement a lottery in Nevada for the past 100 years. Additionally, the opposing perspective of the powerful gaming industry in Nevada will be examined. This will also include an overview of lotteries of bordering states to Nevada that have a definite impact on our economic gaming revenue. Nevada's economy is extremely unique in that its economy is primarily dependent on the gaming industry and thus makes it difficult to compare to any other state in the union. Therefore, an overview of bordering state's lotteries will be included as their economic impact is the greatest on the state of Nevada.

#### **Definition of a Lottery**

A lottery is a form of gambling that involves purchasing a chance to win an extremely large sum of taxable money, based on either random or chosen variety of numbers (Clotfelter & Cook, 1989). A lottery is a game of chance with an extremely high probability of not winning (Sweeney, 2009). However, what differentiates it from many other forms of gambling is the lack of skill required to participate in the game.

#### **History of the Lottery**

Lotteries originally emerged during the Middle Ages in Italy and were typically a tactic used by merchants as a way to increase sales of goods and products (Seville, 1999). At that time prizes weren't money but rather merchandise. The first known recorded

instance of a lottery offering a money prize was in Florence Italy, in 1530, with the revenue going to the state (Seville, 1999).

### **National Lottery History**

The history of the lottery in America dates back to 1612 when the Virginia Company used a lottery to help fund the Jamestown settlement (Gribbin & Bean, 2006). Taxes were exceptionally unpopular during the colonial America period of history so lotteries were utilized as a means to fund a variety of public projects (Clotfelter & Cook, 1989). Projects funded by lotteries included a variety of different public works such as roads, bridges and schools to name just a few (McAuliffe, 2006). Even some of the most reputable institutions of higher education in America at that time, such as Harvard and Yale, used lotteries to fund various capital projects on their campuses (McAuliffe, 2006).

Lotteries also served an important role in funding wars. In 1754 the Virginia colony authorized a lottery to finance a militia when the French and Indian War began (Sweeney, 2009). During the American Revolution lotteries were used extensively to finance the war effort. The first actual “American” lottery was authorized by the Continental Congress in January 1777 to raise much-needed funds to support the Continental army in the field (Sweeney, 2009). Increasingly, it was becoming apparent that many lotteries operators were very unscrupulous and there was much fraud and abuse in lottery operations (Gribbin & Bean, 2006).

By the early nineteenth century public opinion began to turn against lotteries (Sweeney, 2009). This negative public opinion toward lotteries eventually developed into a movement to prohibit lotteries altogether. At that time, opponents of lotteries rejected lotteries based on several primary reasons. First and foremost, it was felt that

lotteries were not being operating honestly and citizens were being cheated out of their money. Second, it was believed there were a host of social problems that were associated with lotteries such as addiction to gambling and financial distress (McAuliffe, 2006). Finally, it was thought that engaging in lotteries eroded people's morals and work ethic (Gribbin & Bean, 2006). Coinciding with the anti-lottery movement was the founding of many new banks during this period, which provided alternate sources of capital to help fund various public projects (Sweeney, 2009). This further diminished the need for lotteries.

In the 1830's many states began banning lotteries and most of those states that entered the union thereafter specifically prohibited lotteries in their constitutions (Sweeney, 2009). Ultimately, the last remaining lottery standing, which also was the largest up to that time and perhaps the most corrupt, was the Louisiana Lottery. In response to the corrupt practices by many lottery operators and specifically, the Louisiana Lottery, the United States congress passed legislation that completely shut down the Louisiana Lottery by 1894 (Gribbin & Bean, 2006).

In 1964 New Hampshire legalized a lottery, which was the first legal, government-sponsored lottery in 70 years (Gribbin & Bean, 2006). After New Hampshire legalized the lottery many other states began following suit as a popular alternative to raising or implementing taxes. However, the real game changer for lotteries came in the late 1970s when the United States Congress passed legislation that effectively reversed many of the restrictions that had been previously placed on lotteries at the federal level (Legislative Counsel Bureau, 1983). This development had broad

impact on facilitating and improving state lottery operations and contributed largely to accelerating the number of states opting to legalize lotteries.

### **Nevada Lottery History**

In Nevada, the very first bill, which legalized gambling, was passed in 1869 when Nevada had been a state for just five years (Kilby, Fox, & Lucas, 2005). In 1909, the Nevada Legislature then passed legislation that effectively prohibited all forms of gambling. This prohibition stayed in place until 1911 when further legislation was enacted which amended the existing law allowing various “social” games as long as the casino didn’t take a percentage portion of the winnings (Kilby et al., 2005). A further modification occurred in 1915 when legislation was passed that allowed nickel slot machines. The real game changer for Nevada occurred in 1931 when Assembly Bill 98, or sometimes referred to as the “Wide Open Gambling Bill”, was passed which legalized casino gambling, however the prohibition on lotteries remained in place (Kilby et al., 2005).

Nevada’s gaming history and the history of legislative attempts to initiate a lottery in Nevada are inextricably intertwined. Gambling is an established part of the culture in Nevada and an integral part of the overall state economy. The long history of legislative failed attempts to pass a lottery is due to the strong opposition of the casino operators in the state that feel the existence of a lottery may diminish their gaming profits (Kanigher, 2012).

### **Legislative Attempts to Implement Lottery**

Nevada is one of a number of states that had a prohibition on lotteries placed in its constitution when it achieved statehood in 1864. This was no doubt in response to the

unethical practices of the many lottery operators during the 19<sup>th</sup> century. Article 4, Section 24 of the Nevada Constitution states that “no lottery shall be authorized by this state nor may lottery tickets be sold” (Legislative Counsel Bureau, 1983). Therefore, because the Nevada Constitution specifically and clearly prohibits the existence of any form of lottery in the state of Nevada, legalizing a lottery can only be accomplished by either amending or repealing the constitutional prohibition on lotteries contained within the Nevada Constitution (Legislative Librarian, 2012).

There are two different alternative methods to implementing a lottery in Nevada. The first would involve a proposed amendment to the Nevada Constitution being initiated in the Nevada Legislature as a joint resolution. This resolution would have to be approved with no alterations in two successive legislative sessions by both houses of the state legislature. In addition, the proposed amendment would then have to be put before the citizens of Nevada for a vote in the following general election. If the amendment makes it through these three steps it would then become law. The alternative approach to amending the Nevada Constitution would involve a direct ballot initiative. There would have to be a petition process including the appropriate number of signatures before it would be placed on the ballot at the next general election. If approved, the proposed amendment, with no alternations, would then be placed on the ballot at the next successive general election. If the proposed amendment receives an affirmative vote in both general elections then it will become law (Legislative Librarian, 2012).

Nevada’s history of legislative attempts to amend or repeal the constitutional prohibition on lotteries in the Nevada Constitution can be traced back to 1887 when both houses of the Nevada Legislature passed a bill, which would establish a lottery

corporation. However, then Governor Stevenson vetoed the bill (Legislative Counsel Bureau, 1983). The next attempt to install a lottery in Nevada occurred in 1899 when a proposed amendment to the constitutional prohibition passed both houses of the Nevada Legislature, however the bill was defeated in the next legislative session in 1901 (Legislative Counsel Bureau, 1983). The next effort at bringing a lottery to Nevada occurred in 1968 when a sweepstakes corporation attempted to initiate a lottery by utilizing the provision that allows for a direct ballot initiative, however the citizens of Nevada voted down the measure (Legislative Counsel Bureau, 1983).

In 1975 two separate proposals were brought before the 58<sup>th</sup> Session of the Nevada Legislature. The first proposal introduced was Assembly Joint Resolution (A.J.R.) 33, which was an attempt to repeal the constitutional prohibition on lotteries to allow for the operation of a state lottery in Nevada (A. 33, 1975). The second proposal was A.J.R. 34, which was a proposed amendment that would allow for the operation of lotteries by charitable organizations for the purpose of raising funds for worthy causes. Both measures died in the Assembly Judiciary Committee (A. 34, 1975)

In the next legislative session in 1977 there were two more attempts to amend the constitutional prohibition on lotteries. A.J.R. 24 proposed to amend the constitution to allow a state lottery with the revenue allocated toward property tax relief and for support of senior citizens (A. 24, 1977). The other proposal was A.J.R. 33, which proposed to amend the Nevada Constitution to grant legislative authorization of lotteries by religious or charitable organizations (A. 33, 1977). Neither proposal made it out of the Assembly Commerce Committee.

In 1981 during the 61<sup>st</sup> legislative session there were several measures brought before the Nevada Legislature. A.J.R. 24 proposed to amend the Nevada Constitution to allow lotteries for nonprofit and charitable organization. This bill passed both houses of the legislature and would have to be voted on in the next successive legislative session before it would be put before the citizens of Nevada (A.24, 1981). Senate Joint Resolution (S.J.R.) 23 sought to amend the Nevada Constitution to allow lotteries with the revenue benefiting education and senior citizens. This bill died in the Senate Judiciary Committee (S. 23, 1981). Senate Bill (S.B.) 312 proposed to repeal the statutes that contained penalties for anyone engaging in lottery activities. This proposal was defeated in the Senate Judiciary Committee (S. 312, 1981).

In the 1983, 62<sup>nd</sup> Legislative session A.J.R. 24 was brought back for a second successive legislative session. This proposal would have amended the constitution to allow lotteries for nonprofit and charitable organizations and had passed in the 1981 legislative session however it stalled in the Senate Government Affairs Committee (A.24, 1981). Additionally, there were three other proposals pertaining to lotteries during this session. A.J.R. 23 attempted to amend the constitutional prohibition on lotteries to allow a state lottery that would benefit education, law enforcement and senior citizens. This bill was killed in the Senate Government Affairs Committee (A.23, 1983). Assembly Bill 239 attempted to change the definition of “lottery” within the statutes to make an exception for free drawings. This bill failed to make it out of the Assembly Judiciary Committee (A. 239, 1983). S.J.R. 1 sought to completely repeal the constitutional prohibition that would allow for a lottery in Nevada. This proposal died in the Senate Government Affairs Committee (S. 1, 1983).

In the 63<sup>rd</sup> session of the legislature in 1985 there were two proposals put before the legislature pertaining to the constitutional prohibition on lotteries. A.J.R. 8 sought to amend the constitution to authorize a state lottery with revenues benefiting education and senior citizens. This proposal was defeated in the Assembly Judiciary Committee (A. 8, 1985). Assembly Concurrent Resolution (A.C.R.) 32 proposed an interim study on the establishment of a lottery in Nevada to be conducted by the legislative commission. This proposal never made it out of the Assembly Legislative Functions Committee (A. 32, 1985).

In 1987 during the 64<sup>th</sup> legislative session there were two proposals brought before the legislature to amend the constitutional prohibition on lotteries. A.J.R. 1 sought to amend the constitution to allow legislative authorization of lotteries in Nevada with revenues benefiting nonprofit and charitable organizations. This passed both houses of the legislature and was returned in the 1989 legislative session to be voted on again by legislature (A.1, 1987). S.J.R. 12 sought to amend the constitution to allow a state lottery with revenues benefiting education and senior citizens. It was killed in the Senate Judiciary Committee (S. 12, 1987).

In 1989 A.J.R. 1, which had passed in the 64<sup>th</sup> legislative session, was brought back to be voted on by both houses in the 65<sup>th</sup> legislative session. The measure was approved by the legislature and was placed on the ballot during the 1990 general election where it passed (A. Joint Res. 1, 1987). The 66<sup>th</sup> legislative session in 1991 had a couple of measures brought before the legislature that would set guidelines how nonprofit and charitable organizations could operate lotteries. A.B. 449 provided clarification on the regulation of charitable lotteries. This bill passed both houses of the legislature and was

passed into law (A. Bill 449, 1991). A.B. 532 sought to restrict the circumstances under which nonprofit and charitable organization could conduct lotteries. This bill died in the Assembly Judiciary Committee (A. 532, 1991). The 64<sup>th</sup> legislative session also saw another attempt, S.J.R. 10, to completely repeal the constitutional prohibition on lotteries in Nevada. This proposal was killed in the Senate Judiciary Committee (S. 10, 1991)

There were a couple of measures brought before the 67<sup>th</sup> legislative session in 1993. S.J.R. 9, the fourth attempt to completely repeal the constitutional prohibition on lotteries in Nevada, died in the Senate Judiciary Committee (S. 9, 1993). S.B. 99 sought authorization of an annual statewide lottery to be operated by veterans with revenue being used to fund veteran's homes. This bill also died in the Senate Judiciary Committee (S. 99, 1993).

Only one measure was proposed during the 69<sup>th</sup> legislative session in 1997. A.B. 364 proposed to increase the maximum prize amount allowed by charitable lotteries within a calendar year from \$200,000 to \$500,000. This bill was passed into law under Chapter 136 of the Statutes of Nevada (A. Bill 364, 1997). The 71<sup>st</sup> legislative session in 2001 also only saw one proposal put forward. A.J.R. 11 sought to amend the constitution to grant legislative authorization of a state lottery with the revenue benefiting education and senior citizens. This proposal was defeated in the Senate Government Affairs Committee (A. 11, 2001).

Two proposals were introduced in the 72<sup>nd</sup> legislative session in 2003. A.J.R. 1 proposed an amendment to the constitution to permit the Nevada legislature to authorize the operation of a state lottery (A. 1, 2003). A.J.R. 2 proposed to amend the constitution to allow the state to participate in select governmental nonprofit lotteries (A. 2, 2003).

Both bills were killed in the Assembly Constitutional Amendments Committee. The 2005, 73<sup>rd</sup> legislative session saw only one measure brought before the legislature. A.J.R. 2 proposed to amend the constitution to allow a statewide lottery with revenues going to classroom supplies, class-size reduction and textbooks. This proposal didn't make it out of the Senate Judiciary Committee (A. 2, 2005).

In the 2007 the 74<sup>th</sup> legislative session saw two measures brought before the legislature. A.J.R. 5 sought to amend the constitution to enable the legislature to allow a statewide lottery that would benefit education, specifically computers and other technology for classrooms and textbooks. A.J.R. 5 died in the Senate Judiciary Committee (A. 5, 2007). Senate Concurrent Resolution (S.C.R.) 15 would authorize the Legislative Commission to execute an interim study pertaining to the establishment of a state lottery in Nevada in the event an amendment to the constitution authorizing a state lottery was approved. This proposal died in the Legislative Operations and Elections Committee (S. 15, 2007).

The 2009, 75<sup>th</sup> legislative session saw only one proposal put before the legislature. A.J.R. 7 proposed to completely repeal the constitutional prohibition on lotteries. The proposal was killed in the Senate Government Affairs Committee (A. 7, 2009). The last measure to be brought before the legislature pertaining to lotteries was S.J.R. 1 in 2011 during the 76<sup>th</sup> legislative session. This proposed an amendment to the constitution to authorize the operation of a state lottery with the revenues to support education. S.J.R. 1 was defeated in the Senate Legislative Operations and Elections Committee (S. 1, 2011).

### **Gaming Industry Opposition to Lottery in Nevada**

Many within the gaming industry in Nevada strongly oppose the legalization of a state lottery primarily because they feel it would compete with other forms of gaming in Nevada and diminish the amount of casino gaming revenue (Kanigher, 2012). There is some evidence that might suggest that spending on lottery tickets could supplant other spending on gaming in Nevada (Walker & Jackson, 2008). However, advocates for a state lottery believe this to be very minimal. Many within the gaming industry believe it is very unfair for the State of Nevada, which would operate a lottery if legalized, should be in direct competition with the state's number one industry, gaming. They feel a state operated lottery would have an unfair advantage over private enterprise gaming industry (Schwartz, 2012). Those within the gaming industry in Nevada point out that gaming is an integral component of the state's economy. Gaming is one of the largest employers in the state and it contributes 6.75% tax on the gross gaming win and contributes a substantial amount of money to the State of Nevada's general fund (Schwartz, 2012). Additionally, gaming operations bring in other taxes to state and local coffers, such as room taxes, tobacco taxes, property taxes, sales taxes, liquor and other non-gaming taxes collected by Nevada tourism and gaming industries (Schwartz, 2012).

Those in the gaming industry also point out that Nevada's number one industry in the state is also one of the primary employers in Nevada and these employees support numerous other non-gaming businesses such as grocery stores, gas stations and various retail stores just to name a few. Therefore, between direct taxes on gaming, other non-gaming taxes collected by gaming operations, and the thousands of employees that are on the gaming payroll, those within the gaming industry feel gaming is already making a

huge contribution to the state's economy and legalizing a lottery in the state could have a detrimental effect on gaming and the state economy (Schwartz, 2012).

### **Overview of Lotteries**

Nevada's journey toward legalizing a lottery within the state is unique compared to most of the states that have legalized lotteries. Unlike most other states, Nevada has a well-established gaming industry that is a key component of the state's economy. This section will review the lotteries of bordering states to Nevada as they have the greatest economic impact on the Nevada economy. These bordering states could possibly be used as a model for structuring a Nevada lottery.

The lottery in Oregon was established in 1984. The Oregon lottery is completely self-funded and operates solely off revenue generated by lottery ticket sales. Oregon law mandates that a minimum of 84% of the total annual revenues must be given back to the public. At least 50% of the annual revenues must be comprised of prize money with the remainder of the funds being directed into various public entities. Those entities would include education at 59%, economic development at 25%, state parks and natural resources at 15% and problem gambling treatment programs would receive one percent. Over seven billion dollars has been contributed to these public entities since the inception of the Oregon lottery. Administrative expenses for the Oregon lottery are capped at 16% of the total annual revenues. Oregon is a member of the Multi-State Lottery Association participating in both Mega Millions and Powerball (Oregon Lottery, n.d.).

The Idaho lottery was established in 1989. Sixty percent of the annual lottery revenue is returned to the public in the form of prize money. Twenty five percent of lottery revenue is divided between the department of education for school building and

maintenance with the remainder being used to improve and renovate buildings on college campuses, state parks and administrative state buildings. Seven percent of lottery revenues cover administrative and operational expenses to operate the lottery. Six percent of the lottery revenues are distributed as commissions to retailers that sell tickets in the state of Idaho. In 2011, the Idaho lottery contributed \$17 million to education, \$17 million toward the permanent building fund and nine million dollars distributed to retailer commissions. Idaho is a member of the Multi-State Lottery Association participating in both Mega Millions and Powerball (Idaho Lottery, n.d.).

The Arizona lottery was established in 2002 through a direct state ballot initiative. The Arizona lottery was initiated with a legal clause stipulating after 10 years of operation, the citizens of Arizona many vote in a general election to continue or discontinue the lottery. Arizona law stipulates that a minimum of 50% of the total annual revenue will be allocated for prizewinners. No more than 18.5% of lottery revenue can be utilized for operating or administrative expenses. Presently 17.5% of total revenue is dedicated to education. 13% of lottery revenue is directed towards environmental causes with 13.9% going towards health and public welfare programs. Arizona is a member is a member of the Multi-State Lottery Association participating in both Mega Millions and Powerball (Arizona Lottery, n.d.).

The California lottery was established in 1984 through direct state ballot initiative with the majority of voters supporting a state lottery. California's state law stipulates that no less than 87% of annual revenues should be returned to the public in the form of prizes and distributions to public entities. California state law also stipulates that lottery operating and administrative expenditures may not exceed 16% of annual lottery

revenues. From the initiation of the California state lottery in 1984 until the present time over \$24 billion has been contributed to public education within the state. Fifty percent of annual lottery revenues are distributed as prize money. Thirty four percent of annual revenues are distributed toward public education and 16% is directed toward lottery operation and administrative expenses. California is a member of the Multi-State Lottery Association participating in both Mega Millions and Powerball (California Lottery, n.d.).

### **Overview of Different Types of Lottery Games**

There are a number of different variations of lottery games that are utilized by the 43 states that operate lotteries; however there are four primary games. They are instant games, passive drawing, daily numbers game and the lotto (McAuliffe, 2006).

Instant games or scratch tickets are the most popular and best selling lottery product even surpassing the lotto. Scratch tickets are more popular because they offer better odds than most games, usually around one in four, of winning some prize even if it is only a couple of dollars. Additionally, this game involves a little more participation when a customer scratches off the ticket. Also, scratch tickets offer immediate gratification because the customer knows immediately if they won or lost. In most states the customer can collect their scratch ticket winnings right from their place of purchase as long as it falls under a certain dollar amount (Sweeney, 2006).

A passive drawing is structured similarly to a raffle. Typically, prenumbered tickets are sold to customers and a drawing is usually held weekly. Many of the early state lotteries in the twentieth century, starting with New Hampshire in 1964, used passive drawing games due to their simplicity. However, it was discovered that customers enjoy games that involve a little more participation, such as picking their own

numbers or scratching a ticket. Therefore, these passive drawing games have diminished in their popularity, but in recent years have been repackaged and are making a resurgence (Sweeney, 2006).

Typically, the daily numbers game involves the customer selecting either a three or four digit number and if that number is drawn then the customer wins. Most states adhere to a pari-mutuel system of prize payout where all the winners with the same number will share the prize money (Sweeney, 2006).

The lotto game permits customers to select their own numbers when purchasing a lotto ticket from ticket retail outlets that are connected with all other outlets via a computer network. A couple of classic lotto games are Mega Millions and Powerball. These are multi-state games and usually have extremely large jackpots when there are multiple successive drawings with no winners. These huge jackpots usually get wide media attention thus fueling even more ticket sales (Sweeney, 2006).

### **Conclusion**

In conclusion, Nevada's economy is based upon gaming. A state lottery would supplement the revenue generation of the gaming industry if implemented in Nevada. Numerous legislative attempts have been made in the State of Nevada to establish such a lottery. However, the powerful, established gaming industry in Nevada has worked diligently to thwart all attempts to implement such a lottery. States bordering Nevada have successfully utilized lotteries to compliment their state revenues to provide additional funding for essential programs. Hopefully, it will be realized in the State of Nevada that a state lottery is beneficial for the economic prosperity of the state.

## **PART THREE**

### **Introduction**

The review of literature has identified themes across all groups of information sources and has shown there has been a consistent attempt by the Nevada Legislature spanning more than a century to legalize a lottery within the state of Nevada (Legislative Counsel Bureau, 2011). The literature review has also shown that the gaming industry has consistently presented stiff opposition to the acceptance of a Nevada state lottery, as their perspective is that moneys invested in lottery tickets represent lost revenue for the gaming industry (Schwartz, 2012).

The Nevada economy loses a substantial amount of money every year due to its residents purchasing lottery tickets from neighboring states. This has been shown to be the case by the fact that the two stores that sell the most lottery tickets in California are the stores near Primm, Nevada outside of Las Vegas, Nevada and the other is Gold Ranch outside of Reno, Nevada (Friess, 2009). Additionally, it has been shown that a Nevada state lottery would not only be supported by a majority of Nevadans but would also generate a significant amount of revenue for the state (Friess, 2009). This section will compare and contrast the arguments for and against the legalization of a lottery in Nevada. This section will also present a legislative proposal to legalize a lottery in Nevada that would distribute lottery revenue fairly among education, those entities in Nevada that promote and facilitate tourism, Nevada Department of Transportation (NDOT) and the Nevada gaming industry.

**Results**

The literature review has clearly demonstrated that the gaming industry within Nevada wields a lot of power and has been able to successfully thwart the many legislative attempts at legalization of a state lottery in Nevada (Schwartz, 2012). The literature also shows that there have been numerous attempts to legalize a lottery in Nevada. Previously legislation has usually contained language that earmarked funds for programs that would have benefited public education, programs for senior citizens and in one instance it would have provided funds for veteran’s homes (Legislative Counsel Bureau, 2011). These are all very worthy causes, however from the perspective of many of those from within the gaming industry, none of these programs would be a significant benefit to the gaming industry. Table I summarizes the arguments for and against a lottery.

<b>Arguments for a Lottery</b>	<b>Arguments Against a Lottery</b>
<b>Journal Articles</b>	
<p>Lotteries can produce a substantial amount of revenue for a state government (Walker &amp; Jackson, 2010).</p> <p>Many view a lottery as a “painless tax” because participation in a lottery is completely voluntary and therefore it provides a viable alternative to raising or implementing taxes (Gribbin &amp; Bean, 2006).</p> <p>Some consider a lottery an inexpensive form of entertainment that a person can engage in for a nominal amount of money (Mercer, Duvall, Hart, Sofley, &amp; Waite, 2004).</p>	<p>A lottery may act as a regressive tax (Mercer, et al., 2004). People in lower income brackets tend to spend disproportionately more on lottery tickets than do people from other income brackets (Blalock, Just, &amp; Simon, 2007).</p> <p>It is argued that lotteries are an inefficient “tax” because there are a multitude of costs associated with operating a lottery, such as administrative, promotional and advertising costs (McAuliffe, 2006).</p> <p>In states that have an existing casino industry, lotteries may supplant some gaming revenue (Walker &amp; Jackson, 2008).</p>

As with any form of legalized gambling, a lottery may lead to gambling addiction (Mercer, et al., 2004). In some instances, it has been found that some people suffer from a form of depression called lottery fantasy syndrome, which occurs with people who purchase lottery tickets and don't win (Anonymous, 2007).

There is an extremely high statistical probability of losing your money by investing in a lottery ticket (Ariyabuddhiphongs, 2011).

**Newspapers and Television News**

One study conducted in 2007 by Applied Analysis, an economic analysis firm in Las Vegas, concluded that a lottery could generate in the area of \$51 million dollars annually in Nevada (Kanigher, 2012). A legislative analysis conducted in 2005 found that a lottery in Nevada could generate between \$30 million and \$50 million in revenue annually (Schwartz, 2012).

The odds of winning the lottery are exceptionally long. When the multi-state lottery Mega Millions climbed over \$500 million in April 2012, the odds of winning were one in 176 million (Sylvester, 2012).

Opinion polls indicate that over 70% of Nevada residents support the legalization of a lottery, therefore a lottery would be a much more popular way to raise revenue rather than implementing another tax (Friess, 2009).

**Legislative Counsel Bureau**

A lottery would benefit a multitude of businesses that may provide materials or services to support a lottery such as advertising, technical support and particularly ticket vendors that actually sell lottery tickets (Legislative Counsel Bureau, 1983).

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Table 1  
Arguments for and Against a State Lottery

There are many within the gaming industry believe the purchase of lottery tickets could supplant some customer's spending on gaming activities and thus lead to a loss of revenue. Therefore, it is essential that any legislation proposing the legalization of a lottery in Nevada should be crafted in such a way that is conducive with the needs and concerns of the Nevada gaming industry and at the same time benefit the Nevada economy. A legislative proposal for a state lottery taking these considerations in mind would be different from all other previous legislative attempts in that it would focus on directing revenues toward those entities that promote and facilitate tourism in Nevada. It would also direct revenue toward building and maintaining the road infrastructure within the state and would provide some funds toward public education.

### **Proposal**

It should be recognized that the gaming industry is critical to the overall well being of the Nevada economy with a substantial amount of the state's employment, particularly in Clark County, being tied to gaming either directly or indirectly. The following outlined legislative proposal contains several components that would comprise legislation to legalize a lottery. This legislative proposal would benefit the Nevada economy and would hopefully meet with the approval of the Nevada gaming industry, thus strengthening the chances of its passage.

- 1) Tickets should only be sold within casinos. Based on the literature review that examined the different lotteries in neighboring states, the typical amount that is received by the vendors that sell tickets in those states is around 6%. Therefore, a 6% ticket sales commission would be recommended for those casinos selling tickets. These ticket sales commissions would be extremely beneficial to casinos

- because they would not only stand to make 6% from every ticket sale but they would benefit tremendously from the amount of foot traffic through their facilities and all of the ancillary spending that would occur. What constitutes a casino would have to be examined and defined for each county due to the fact that some of the less populated counties may not have large style casinos but rather small tavern type of establishments. For those smaller counties the definition of casinos could include establishments on a much smaller scale.
- 2) The majority of the revenue from every lottery ticket sold should be earmarked for distribution to the largest convention and visitor's authority within the county where the ticket was purchased. Revenue from ticket sales would be based proportionally on the amount of tickets sold within their county. In those counties that do not have a convention and visitor's authority, the revenue from the sale of tickets would go to the organization within that county that promotes tourism, typically a chamber of commerce. For those few counties that have multiple convention and visitor's authorities, revenue would be further proportionally distributed based on the amount of ticket sales within the municipal area where each convention and visitors authority is located. The convention and visitor's authority or chamber of commerce in all 17 counties in Nevada would stand to receive 20% of lottery sales revenue in their counties from this proposal. Each convention and visitors authority would have the flexibility to utilize their revenue in how they see fit. The biggest beneficiary of revenue distribution in Nevada would be the Las Vegas Convention and Visitor's Authority (LVCVA) located in Clark County, due to most of the state's population being concentrated

- in this County. Additionally, Clark County would see the highest sale of tickets due to the majority of visitors to Nevada coming to Las Vegas. The flexible use of revenue for each individual county would be an additional benefit to the gaming industry in Nevada. Each county entity that promotes tourism for their particular county and city could potentially bring in substantially more visitors to Nevada which would benefit both the gaming industry and the overall state economy.
- 3) The Nevada Commission on Tourism (NCOT) would receive the next largest portion of revenue. This organization promotes the entire State of Nevada to facilitate more tourism in all 17 counties in Nevada. NCOT would receive 5% portion of the sale of every single lottery ticket sold in Nevada regardless of which county the ticket was sold.
  - 4) The next largest recipient of lottery revenue would be public education, which would receive a 5% commission of lottery revenue. The funds should ultimately be distributed to the county school districts based proportionally on in which counties the tickets were purchased. Public education is an extremely important and popular cause for many voters and therefore should be included as part of any proposed legislation for the legalization of a lottery to gain more broad based support among the populace. A study by Landry & Price (2007) suggests that per capita lottery revenue increases when money is earmarked for education.

Therefore, it is imperative to earmark some of the lottery revenue in a legislative proposal legalizing a lottery in Nevada for public education. An additional long-term benefit to providing funds to education would be a better educated and more

- efficient and diverse workforce, which could ultimately contribute to the state's economy.
- 5) (NDOT) would receive 3% of lottery revenue. NDOT builds and maintains the road infrastructure throughout Nevada, which is absolutely vital for the smooth flow of traffic in and around the state. Having an efficient road network throughout the state would facilitate the smooth flow of traffic for both the residents and visitors in Nevada. Part of any visitor's overall experience also involves their experience traveling to and from the destination and their travel while at the destination. Therefore minimal traffic issues for visitors while they are in Nevada would create a much more pleasant and memorable experience for the visitor. Hopefully, this would encourage more visitors to return to the State of Nevada.
  - 6) Based on the literature review examining neighboring state's lotteries, prize amounts are typically around 50% and administrative costs usually range anywhere from 7% to 18.5%. Therefore, a prize amount of 50% and an administrative cost of 11% would be legislatively proposed for a lottery in the state of Nevada. Figure I illustrates the proposed distribution of lottery revenue for a state lottery in Nevada.

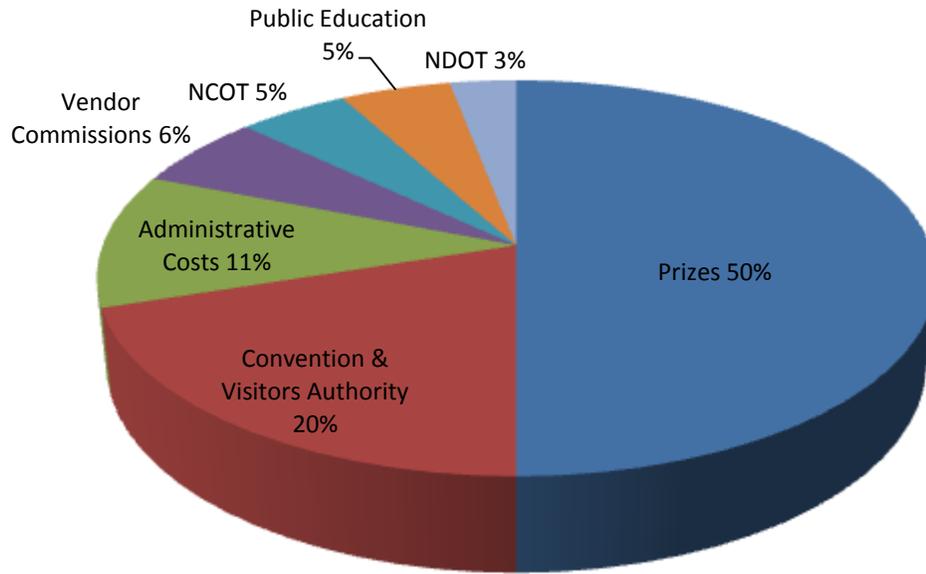


Figure I  
Proposed Lottery Revenue Distribution

- 7) Based on other state lotteries, the following lottery games could be considered for implementation if a lottery is legalized in Nevada. One of the most popular lottery games is the instant game, such as scratch cards, due to the fact that they provide immediate gratification. Another popular lottery game, which provides large prize money and generates excitement are the multi-state games such as Powerball and Mega Millions. Another option for a lottery game is the standard daily numbers lottery game. Any or all of these options could be utilized in a lottery for the State of Nevada.

Full implementation of a state lottery in Nevada should be able to occur in no less than six months of its passage. There would be numerous logistical details to be ironed out, such as putting in place the administrative component of the lottery operation as well coordinating advertising and promotion and joining the Multi-State Lottery Association

so Nevada could participate in Mega Millions and Powerball. Standard operating procedure for state governments implementing a lottery is to enlist the services of companies, such as Gaming Technologies (GTECH) and Scientific Games, that have technological expertise pertaining to lotteries. These companies specialize in assisting states with both the starting up and operation of lotteries. In addition to providing expertise, they provide a variety of lottery products, such as computer terminals and software that are necessary for a state to efficiently operate a lottery. Scratch tickets could be sold immediately because they don't require being tied into shared network system and they are one of the most popular and lucrative lottery games. Subsequently, all the other lottery games could be brought up one at a time as all the logistical requirements are met for each game (Sweeney, 2009).

### **Conclusions**

These results show that many within the Nevada gaming industry strongly oppose legalization of a lottery because they believe the existence of a lottery will cause a reduction in gaming revenue (Walker & Jackson, 2008). However, this paper shows that there is a definite interest by the majority of Nevadans to create a state lottery not only for recreation but to generate additional state funds and this has been consistently demonstrated by the fact that there has been over 100 years of legislative attempts in Nevada to create a state lottery (Friess, 2009). In addition, not only would the State of Nevada benefit from revenue generated by a lottery but also each individual county would benefit from revenue generated by a state lottery. Casinos, education, travel and tourism, NDOT, NCOT and visitor and convention authorities would all benefit from revenues distributed by a state lottery.

### **Recommendations**

Certain proposed items would need to be included in legislation for a state lottery to increase the likelihood of successful passage. One of those items would be to restrict the sale of tickets to casinos. Casinos would benefit from this by making approximately 6% from the ticket sales. This would dramatically increase the number of people entering casinos and there would be a corresponding increase in ancillary spending within casinos.

A substantial portion of the revenue should be earmarked toward agencies that facilitate and promote tourism within Nevada. This would not only include NCOT a state agency, but would also include each county agency that promotes tourism within Nevada. A portion of the revenue for every ticket sold should be earmarked for the school district in the county in which the ticket was purchased. In addition, NDOT would also receive a small amount of revenue generated by lottery ticket sales.

This proposal recognizes that some supplanting of gaming revenue may occur by the existence of a state lottery. However, structuring legislation that would legalize a lottery in Nevada by including a number of concessions to the gaming industry would hopefully make the gaming industry more amenable to accepting a state lottery in Nevada. This can be achieved by restricting the sale of tickets to casinos only and by directing lottery revenue to entities that promote tourism in Nevada and by directing revenue to NDOT, which maintains the road infrastructure in Nevada, which enhances the visitors experience while they are in Nevada. The other major component of this proposal is providing some funds to public education because providing funds toward education is popular and it is believed this would help increase broad based support

throughout the Nevada populace. Crafting a proposal with all of these elements is a radical departure from all previous attempts to legalize a lottery in Nevada. By both providing multiple incentives for the Nevada gaming industry and by providing support for public education, it is felt that this proposal is the perfect balance to gain support from both the general public and the Nevada gaming industry.

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