

POLICY NOTES

Georgia's Lottery Ranks High on Measures of State Lottery Revenues and Operations

By Richard W. Campbell and William Gillespie

Dismissed as “fiscal gimmicks of state finance for the 1980s” by public finance scholars, state lotteries have become standard components of state revenue systems. In 1998, 37 states and the District of Columbia operated lotteries, generating \$48.5 billion in gross wagering and \$12.2 billion in net proceeds. Despite research (Mikesell and Zorn 1986) indicating that the lottery is not a significant revenue source for state governments and is more expensive to administer than traditional state revenue sources such as taxes, the lottery remains a popular and important nontax revenue source.

From a policy and management perspective, it is useful to know how Georgia's lottery compares with those of other states. As disclosed in a recent study of state lotteries, the Georgia lottery ranks high relative to other state lotteries on various revenue measures, including sales, net proceeds, and overall contribution to the state's finances. On measures of administrative costs and lottery operations, however, Georgia's lottery is much closer to the national average (Mikesell 2001).

In FY 1998, Georgia's gross lottery sales totaled over \$1.6 billion, making it 1 of 13 states with lottery sales of more than \$1 billion. Georgia ranked 7th in per capita sales, with the average Georgia resident spending \$220 per year on lottery tickets, noticeably higher than the U.S. average (\$162). State lottery sales in Georgia represent slightly less than 1 percent (0.85) of state personal income, 5th highest of the 37 lottery states (see table).

While gross sales are an important measure of overall performance, net proceeds (e.g., the amount remaining after prizes have been paid and administrative costs deducted) are a better indicator of a lottery's contribution to state government finances (Mikesell 2001, 91). Using this measure, Georgia's lottery contributed nearly \$552 million to state government in FY 1998—\$72 per Georgia resident, considerably higher than the national average (\$57 per capita). In Georgia, 0.28 percent of state personal income was spent on the lottery (ranked 7th), well above the median percentage of 0.16 percent.

A major fiscal concern for state lotteries is the extent to which they contribute to own-source general revenue. In Georgia, the lottery accounts for 3.81 percent of own-source revenue (ranked 6th), well above the median percent (1.75). Nonprize resources (gross lottery revenue minus the cost of lottery prizes) account for 5.35 percent of the state's own-source revenue, 4th highest in the United States. These measures indicate that the lottery is a more important revenue source in Georgia than in most other lottery states.

On various measures of administrative costs and lottery operations, Georgia ranks in the middle (20th) of states with lotteries. In comparing administrative costs with net lottery proceeds generated for state use, there is considerable variation among the 37 states. While the cost in Delaware was only 6.2 cents per dollar, it exceeded \$1 in six states (Mikesell 2001, 95). In Georgia, 40.4 cents of each dollar of lottery net proceeds are used to cover administrative costs, close to the median amount (41.4 cents) and slightly lower than the national average (50.6 cents). Using a slightly different measure, “tax comparable” administrative costs, 28.8 cents of every gross lottery dollar is used to cover administrative costs plus vendor commissions, slightly lower than the national average (30.9 cents).

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Revenues and Costs of Georgia's Lottery Compared with the U.S. Average, FY 1998

Variables	Georgia		United States	
	Dollars/Percent	Rank	Mean	Median
Lottery sales				
Sales in thousands	\$1,676,939			
Sales per capita	\$219.59	[7]	\$162.41	\$131.68
Percentage of personal income	0.85%	[5]	0.59%	0.51%
Net proceeds				
Sales in thousands	\$551,506			
Sales per capita	\$72.22	[11]	\$56.71	\$40.27
Percentage of personal income	0.28%	[7]	0.21%	0.16%
Contributions to state government finances				
Proceeds as a percentage of own-source general revenue	3.81%	[6]	2.30%	1.75%
Nonprize resources as a percentage of own-source general revenue	5.35%	[4]	3.09%	2.72%
Administrative costs of lottery operation				
Administrative costs as a percentage of net lottery proceeds	40.43%	[20]	50.63%	41.43%
"Tax comparable" administrative costs ^a as a percentage of state resources	28.79%	[20]	30.86%	29.29%
Implicit excise rate ^b	49%	[16]	60.90%	43.40%
Payout rate ^c	53.80%	[18]	52.80%	53.40%

^aAdministrative costs plus vendor commission relative to gross lottery resources

^bExcise tax rate implicit in the net proceeds from lottery sales

^cPrizes paid as a percentage of total ticket sales (i.e., reported sales plus commissions paid)

Source: Mikesell (2001), based on data from U.S. Bureau of the Census, *State Government Finances*, 1998

Georgia also ranks in the middle of lottery states on two other important measures of revenue efficiency of lottery operations: implicit excise rates (16th) and payout rates (18th). The implicit excise rate (net proceeds divided by total ticket sales minus net proceeds) is intended to serve as a measure that is comparable to any sales or excise tax rate applied to transaction value (Mikesell and Zorn 1988, 44). States vary widely on this measure, from 20.1 percent in Minnesota to 385.1 percent in South Dakota (Mikesell 2001, 96). Georgia's implicit excise rate is 49 percent, slightly higher than the median rate (43.4 percent). According to Mikesell, these rates are high compared with rates on excised commodities (e.g., cigarettes, alcohol), for which the rates generally are set high to discourage consumption (Mikesell 2001, 96). At 53.8 percent, Georgia's payout rate—prizes paid as a percentage of total ticket sales—is slightly higher than both the mean (52.8) and median (53.4) payout rates.

This comparative analysis reveals that the Georgia lottery ranks high on measures of revenue performance (e.g., sales and net proceeds) and is among the leaders in contributing resources to state government finances. Its administrative costs and revenue efficiency are close to the national average on several measures, including the implicit excise and payout rates.

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Note

In 2001, the Vinson Institute conducted a comprehensive and detailed analysis of the operations of the Georgia lottery. For the results of this study, see McCrary et al. 2001.

Selected Resources

McCrary, Joseph, Stephen E. Condrey, Myra Moore, Christopher Cornwell, David Mustard, Jack Hamilton, Tom Tanner, and Jason Fleury. 2001. *The Georgia lottery: Participation, revenue generation, and benefit distribution*. Athens: Carl Vinson Institute of Government, University of Georgia.

Mikesell, John L. 2001. Lotteries in state revenue systems: Gauging a popular revenue source. *State and Local Government Review* 33, no. 2: 86–100.

Mikesell, John L., and C. Kurt Zorn. 1988. State lotteries for public revenue. *Public Budgeting and Finance* 8, no. 1: 38–47.

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