

97-2 Wisconsin Lottery, Department of Revenue

Summary

The Wisconsin Lottery originated in 1987, when voters approved a constitutional amendment authorizing the creation of a state lottery, the net proceeds of which were to be used for property tax relief. Since selling its first game in September 1988, the Lottery has provided approximately \$1.1 billion for property tax relief. The Wisconsin Lottery has been managed since August 1995 by the Department of Revenue; before that time, it had been managed first by the Lottery Board (until October 1992) and then by the Gaming Commission.

Although its history has been punctuated by controversy and administrative reorganizations and turnover, the Wisconsin Lottery's sales increased annually through fiscal year (FY) 1994-95, when total sales reached \$518.9 million. This placed Wisconsin among neither the most nor the least successful lotteries, when compared to other jurisdictions. However, in FY 1995-96, the Lottery's total sales decreased by 7.1 percent, to \$482.1 million. The decline in sales affected both on-line games (those in which consumers pick numbers through a computer terminal and wait for scheduled drawings to learn of the winning numbers) and instant games (those in which consumers purchase a ticket that reveals a prize when scratched or when a pull-tab is opened). Except in the case of Powerball, an on-line multi-state game for which Wisconsin sales declined 25.1 percent in FY 1995-96, the deterioration in sales was not part of a national trend.

In addition, sales have continued to decline through the current fiscal year. Although a new multi-state on-line game, Daily Millions, was introduced in September 1996, sales have not been sufficient to reverse the overall decline in on-line game sales. Instant-ticket sales for July 1996 through January 1997 have been approximately \$10.3 million below the amount needed to meet the Department's instant-ticket sales estimates for this fiscal year. Finally, the proposed 1997-99 biennial budget does not project any significant recovery in lottery sales. During the next biennium, lottery sales are expected to reach approximately \$440.5 million in each year, even with proposed budget initiatives intended to support sales.

The decline in sales, coupled with continuing debate over the advisability of legal gambling in general and an October 1996 court decision that found the method of distributing lottery credits in violation of the state constitution, has raised new doubts among some as to the value of the Wisconsin Lottery. At its peak in 1992, when the distribution included some lottery sales proceeds held over from prior years, the Lottery provided an average per-household property tax credit of \$168. Under the Department's current projections for lottery sales in FY 1997-98, the 1997 credit would be approximately \$95 to \$97 if the old distribution method were in effect. However, this amount could be more or less depending upon the amount of 1996 tax relief funds distributed in a later year and the Legislature's decision on whether to approve a budget proposal that would allow businesses and out-of-state property owners to share in the distribution.

Possible reasons for declining sales can be identified in factors both within and outside the control of the Legislature and administrators. Among external factors are the constitutional options available to counteract naturally waning consumer interest as the Lottery ages. Because lottery tickets are entertainment products purchased largely on impulse, their purchase is a discretionary consumer decision vulnerable to diminishing interest as novelty fades. Legal gambling is also susceptible to increasing consumer resistance as personal experience gives consumers a realistic perception of the odds of winning. To counteract waning consumer interest, some states have introduced casino-style electronic gaming machines or increased promotional activities, options which are constitutionally prohibited to the Wisconsin Lottery.

The attractiveness of multi-state games is also largely outside the control of the Wisconsin Lottery. New games attract some sales based on their novelty, but later interest is largely a function of the size of the jackpots and the frequency of winners, both of which are controlled by chance. Neither of the multi-state games in which Wisconsin participates have recently benefited from chance; Powerball sales have been suffering because of a lack of very high jackpots, and no

players won the newer game, Daily Millions, until early February 1997, more than 20 weeks after its introduction in September 1996.

Casino gambling has often been cited as a cause of declining lottery sales; we found no evidence that clearly establishes or disproves a link between casino development and lottery sales. Some studies and evidence from other states have indicated a link between casinos and lottery revenue; however, during the years when Wisconsin casinos were opening, lottery sales were increasing annually. Since lottery sales started to decline, no new casinos have opened.

Lottery sales have also suffered from policies and decisions that were within the control of the Legislature and state administrators. The Legislature has in the past denied some initiatives, such as increasing the Lottery's advertising budget, that might have helped to sustain sales. In addition, since early 1995, administration of the Wisconsin Lottery has been impaired by largely unsuccessful attempts to privatize: that is, to obtain operating contracts with private firms. During 1995 and 1996, when privatization was being planned and attempted, large numbers of staff left or were re-assigned to positions outside the Lottery before their jobs were assumed by private firms. Although the Department awarded only two of the three major lottery contracts put up for bids in April 1996, and the new services to be provided under those two contracts will not be in operation until June 1997, 63.5 percent of authorized lottery positions were vacant in January 1997. As a result, certain basic lottery functions, including informing retailers about available products, providing retailers with support and guidance on marketing lottery products, and publicizing lottery winners, have been performed minimally or have not been performed at all. The Department has now identified hiring for vacant positions as a top priority, but it is likely that lottery sales were diminished by staffing shortages over the past two years.

Restoring lottery sales will not be easily accomplished considering the constitutional restrictions on the Wisconsin Lottery. However, if there is interest in increasing sales, options are available to the Department and the Legislature. The Department needs to re-staff those functions that will be performed by state employees and to determine promptly whether remaining functions, particularly telemarketing, warehousing, and field marketing, will be contracted or performed by state employees.

The Legislature will need to consider its overall intentions for the Wisconsin Lottery when deliberating the Department's budget initiatives. Although there is no specific action that can guarantee improved sales, stopping the decline or restoring sales to previous levels will require providing the Department with resources and authority it does not now have. Some actions that could be taken if a recovery in lottery sales is intended are included in the proposed 1997-99 biennial budget:

- \$5.3 million over the biennium to increase retailer sales commissions for instant tickets from 5.5 to 6.0 percent and provide for a new incentive bonus of 0.5 percent of sales to retailers who meet certain sales goals to be set by the Department;
- \$1,222,700 over the biennium to purchase and place 239 vending machines for the projected sale of approximately \$6.4 million in instant lottery tickets over the biennium;
- \$1,176,000 over the biennium to provide funding for development, production, and broadcasting of a new television game show;
- \$760,000 over the biennium for market research, development, production, and broadcasting of the drawings of winning numbers for in-state on-line games;
- \$200,000 over the biennium for market research relating to the development of new in-state on-line games or the enhancement of old in-state on-line games; and
- \$100,000 over the biennium for payments to the Multi-state Lottery Association to support the development of new multi-state games.

However, the proposed state budget also cuts the base budget for the Wisconsin Lottery and does not address several other methods that could be useful in maintaining or improving lottery sales. If sales are to recover, measures in

addition to those included in the proposed budget will be needed.

If there is no interest in providing additional resources, the Legislature may want to consider proposals to end the Lottery or, at a minimum, provide the Department with direction regarding the acceptable levels of sales and property tax relief that could be accomplished with the resources and authority provided.
