



**Representative Paul Stam
Speaker Pro Tempore**

The 2014 Dispute over Lottery Advertising Raises Some Eyebrows

Representative Paul Stam¹

During the budget development process, the House proposed to double the quantity of Lottery advertising (from 1% to 2% of revenue), but add the restrictions the House had passed 99-12 in the Honest Lottery Act (HB 156)². The Senate Appropriations Committee met on June 12, 2014 to discuss lottery advertising. A transcript is attached.

Executive Director, Alice Garland, stated (page 16) that the Lottery Commission was not consulted when the fiscal note for HB 156 (Honest Lottery Act) was put together. On page 3 of the attached fiscal note the Fiscal Research Division (FRD) states, "The Lottery Commission does not anticipate any costs from incorporating the changes to statistical probability disclaimers provided in lottery advertisements. No fiscal impact is anticipated."

A fiscal memorandum dated June 20, 2014 states that the Lottery Commission claimed that \$3.6 million would be needed to fix billboards. But the spokeswoman for the NC Lottery "told Dylan Finch on March 13, 2013 that the onetime cost would be \$300,000. His memo is attached.

Would restrictions on the contents of advertising restrict sales? The Commission's position on this has been twofold. 1) That bettors are so attuned to the odds that they know where to look it up on the website and that restrictions would have no impact, or 2) that bettors care nothing about the odds and thus the truth about the odds would have no impact (page 13). Attached is an email from the General Counsel of the Lottery in September 2013 in which he states that "we really do not know what the impact on sales would be." Most of the discussion

¹ Dylan Finch, intern for Representative Paul Stam, contributed to research for this article. He is a student at North Carolina State University in its Economics program.

² See <http://www.ncga.state.nc.us/Sessions/2013/Bills/House/PDF/H156v3.pdf>

by the Commission and others about supposed loss of sales is due to the “confusion” associated with having two numbers on billboards for PowerBall and Mega Millions (first, the nominal payment if taken over 20 years and second, the real present value of a lump sum payment. But ad restrictions in the Honest Lottery Act do not require that two numbers be posted, only the true number. The bill does not prohibit the Lottery Commission from putting the higher fanciful number on the billboard. There is no reason to confuse the public with the higher but deceptive number.

Some Senators argued that the House was “gambling on gambling” to pay teachers. The lottery produces about 4% of the education budget for the State (about 2% of the general fund budget and less than 1% of the total State budget). Without raising the advertising rate and without the advertising restrictions, the estimate from the FRD was that \$520 million would come in next year (14-15) for education. FRD estimates that raising the advertising rate to 2% in conjunction with the advertising restrictions would bring in \$550 million for education. So the question is not whether you are “gambling on gambling” to pay teachers. The state has used lottery money to pay teachers for almost a decade. The question is whether you will have more but accurate ads, or instead, have fewer ads that are false and deceptive.

The lottery is the only operation of State government that puts out false and deceptive information on a daily basis to its own citizens. As Senator Tillman said:

Fools will play the lottery and now if we can attract more fools to play the lottery and they choose that, I’m not sticking a gun to their head. We’re talking about will it produce enough revenue to put something like teacher raises...(page 8).³

Senator Robinson asked Ms. Garland (page 12), “do you have statistics on that in terms of who, you know, what segment of the population, or what area...but can you tell us who plays

³ This article does not address the deceptive nature of NC lottery advertising. For a full report on this topic, please see the attached summary and the corresponding advertisements.

the most?" Ms. Garland's answer was "I don't have statistics." I would be shocked if she does not have statistics since they are voluminous and easily accessible. The report attached that is entitled, "State Lotteries at the Turn of the Century: Report to the National Gambling Impact Study Commission," provides the statistics that Ms. Garland says the Lottery Commission does not have. It shows without a doubt that the people who play the most are poor and uneducated. Government should not have them in their sights to exploit.

Recently a lottery winner was praised for donating \$25,000 to Shaw University after she won \$2,000,000. Her contribution was only 1.25% of her winnings and it went to her own employer. What about all the losers that created the prize Ms. Fields won? Other lottery participants lost \$2,000,000 to establish a \$25,000 scholarship and provide money in the bank for Ms. Fields.⁴ The July 11, 2014 News and Observer article quoted her, "I talk to people in line and tell them that the lottery is my fun because I'm helping education while I play." If the lottery were not in place today, the same amount of funds that the lottery produces would be available for education. Studies show that lotteries provide no net new money for education.⁵ Using the term "education" to sell lottery tickets is an advertising ploy. It is not true.

There is a huge discrepancy between the gambling habits of eastern North Carolina and western North Carolina. Eastern gamblers are heavily subsidizing the rest of the state. I estimate that on a yearly basis several hundreds of millions of dollars of wealth are transferred from the East to the West by the Lottery. Attached is a chart that shows the figures for each county. The counties in bold in the chart are donor counties. Some are extreme donor counties such as Nash, Halifax, Vance, Edgecombe, Wilson and Lenoir counties, which all have lottery sales per capita

⁴ For more information on how the NC Lottery uses lottery scholarship recipients to deceive players, please see <http://paulstam.info/2014/02/lottery-newsletter-spreads-irrelevant-information/>.

⁵ See <http://www.johnlocke.org/acrobat/spotlights/Spotlight405LotteryNotWorthGamble.pdf>

that more than double the State average. Eastern legislators could spend some time calculating for themselves the losses to the East occasioned by this scheme to redistribute wealth.

We will continue to debate the lottery for years. It is important that we know the facts.